Castlewood Holdings LTD
Form S-4/A
September 20, 2006

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As filed with the Securities and Exchange Commission on September 20, 2006
Registration No. 333-135699

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

AMENDMENT NO. 1
to
Form S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CASTLEWOOD HOLDINGS LIMITED
(Exact name of registrant as specified in its charter)

Bermuda	**6331**	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

P.O. Box HM 2267
Windsor Place, 3rd Floor
18 Queen Street
Hamilton HM JX
Bermuda
(441) 292-3645
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Richard J. Harris
Chief Financial Officer
Castlewood Holdings Limited
P.O. Box HM 2267

Windsor Place, 3rd Floor
18 Queen Street
Hamilton HM JX
Bermuda
(441) 292-3645
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Robert F. Quaintance, Jr., Esq. **Debevoise & Plimpton LLP** **919 Third Avenue** **New York, New York 10022** **(212) 909-6000**	**John J. Oros** **President and Chief Operating Officer** **The Enstar Group, Inc.** **401 Madison Avenue** **Montgomery, Alabama 36104** **(334) 834-5483**	**Robert C. Juelke, Esq.** **Drinker Biddle & Reath LLP** **One Logan Square** **18th & Cherry Street** **Philadelphia, Pennsylvania 19103** **(215) 988-2700**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective and the satisfaction or waiver of all other conditions to the merger of a direct wholly-owned subsidiary of the registrant with and into The Enstar Group, Inc., or Enstar, pursuant to the Agreement and Plan of Merger, dated as of May 23, 2006, or the merger agreement, attached as Annex A to the proxy statement/prospectus forming part of this registration statement.

If any of the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box: o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this proxy statement/prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement/prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION DATED SEPTEMBER 20, 2006

THE ENSTAR GROUP, INC.
PROXY STATEMENT
FOR ANNUAL MEETING OF SHAREHOLDERS
To Be Held on , 2006

MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

This proxy statement/prospectus is being furnished to the shareholders of The Enstar Group, Inc., or Enstar, in connection with the solicitation of proxies by the board of directors of Enstar for use at the Annual Meeting of Shareholders to be held on , 2006, or the Annual Meeting, at Flowers Hall, Huntingdon College, at 1500 East Fairview Avenue, Montgomery, Alabama 36106, at 9:00 a.m., local time, and at any adjournment thereof.

Enstar and Castlewood Holdings Limited, or Castlewood, have agreed on a merger transaction involving the two companies. In order to consummate the merger, Enstar s shareholders must approve the merger agreement and the transactions contemplated by the merger agreement. As of May 23, 2006, Enstar s directors and executive officers owned 1,904,753 shares of Enstar common stock, representing approximately 33.19% of the voting power of Enstar common stock on that date. Three of those directors, who owned Enstar common stock representing 30.1% of the voting power on that date, have entered into a support agreement with Castlewood pursuant to which such directors have agreed to vote their shares of Enstar common stock in favor of the merger agreement and the transactions contemplated by the merger agreement. All other Enstar directors and officers have also indicated that they intend to vote their shares of Enstar common stock in favor of the merger agreement and the transactions contemplated by the merger agreement.

Enstar s annual meeting, at which shareholders were to elect directors and ratify the appointment of Enstar s independent registered public accounting firm, was originally scheduled for June 2, 2006. On May 21, 2006, Enstar s board of directors voted to postpone the June 2, 2006 annual meeting so that the merger transaction could be described to Enstar shareholders and voted on by them at the same meeting. This proxy statement/prospectus describes the merger transaction. Enstar s board of directors is asking shareholders of Enstar to vote in favor of the merger agreement and the transactions contemplated by the merger agreement.

If the merger agreement and the transactions contemplated by the merger agreement are approved and the merger is consummated:

- Castlewood, which will be renamed Enstar Group Limited and which we sometimes refer to in this proxy statement/prospectus as New Enstar, will be a publicly-traded company engaged in the acquisition and management of insurance and reinsurance companies in run-off and the provision of management, consultancy and other services to the insurance and reinsurance industry;

Enstar shareholders as of the applicable record date will receive a $3.00 per share cash dividend on their Enstar common stock, which will be paid immediately prior to the merger;

immediately before the effective time of the merger, Castlewood will complete a recapitalization in which, among other things, all of Castlewood s issued shares will be exchanged for newly-created ordinary shares; and

after the merger, current shareholders of Enstar will own approximately 48.7% of New Enstar s issued ordinary shares, and current Castlewood shareholders, other than Enstar, will own the remaining approximately 51.3% of New Enstar s issued ordinary shares.

Castlewood will apply to have the New Enstar ordinary shares listed on the NASDAQ Global Select Market under the ticker symbol ESGR.

After careful consideration, Enstar s board of directors has determined that the merger agreement and the transactions contemplated by the merger agreement are fair and in the best interest of Enstar and its

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shareholders. Enstar s board of directors, with all of Enstar s directors present and voting, has unanimously approved the merger agreement and the transactions contemplated by the merger agreement and unanimously recommends that you vote for the approval of the merger agreement and the transactions contemplated by the merger agreement.

Enstar s board of directors also recommends that you vote for T. Whit Armstrong and T. Wayne Davis to hold office as directors of Enstar until the 2009 annual meeting of shareholders of Enstar, or until their successors are duly elected and qualified, and to vote for the proposal to ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of Enstar for 2006. If the merger is consummated, New Enstar, as the sole shareholder of Enstar, will be able to determine the composition of the board of directors of Enstar in accordance with the merger agreement and select the independent auditors of Enstar in the future.

All shareholders of Enstar are invited to attend the Annual Meeting. **Your participation at the Annual Meeting, in person or by proxy, is very important.** Even if you only own a few shares, we want your shares to be represented at the Annual Meeting. The merger cannot be consummated without the approval of the holders of a majority of the outstanding voting power of the common stock of Enstar.

The affirmative vote of a plurality of the shares of Enstar common stock present in person or by proxy at the Annual Meeting and entitled to vote is required to elect directors. The affirmative vote of the majority of the shares of Enstar common stock represented at the Annual Meeting and entitled to vote on the subject matter is required with respect to the ratification of the appointment of Deloitte & Touche LLP as Enstar s independent registered public accounting firm and any other matter that may properly come before the Annual Meeting.

Whether or not you plan to attend the Annual Meeting, please take the time to vote by completing, signing, dating and returning the enclosed proxy card in the enclosed postage-prepaid envelope. If you sign, date and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote for approval of the merger agreement and the transactions contemplated by the merger agreement, for the election of T. Whit Armstrong and T. Wayne Davis as directors and for the ratification of the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of Enstar for 2006. If you fail to return your card, the effect will be a vote against the merger. Each proxy is revocable and will not affect your right to vote in person in the event you attend the Annual Meeting.

This document is a prospectus of Castlewood relating to the issuance of its ordinary shares in connection with the merger and a proxy statement for Enstar to use in soliciting proxies for its Annual Meeting. It contains answers to frequently asked questions beginning on page Q-1 and a summary description of the merger beginning on page 1, followed by a more detailed discussion of the merger and related matters. **You should also consider the matters discussed under RISK FACTORS commencing on page 18 of the enclosed proxy statement/prospectus.** We urge you to review the entire document carefully.

Nimrod T. Frazer
Chairman of the Board and Chief Executive Officer
The Enstar Group, Inc.

None of the Securities and Exchange Commission, any state securities regulators, the Registrar of Companies in Bermuda or the Bermuda Monetary Authority has approved or disapproved of these securities or passed on the adequacy or accuracy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.

This proxy statement/prospectus is dated , 2006, and is first being mailed to shareholders on or about , 2006.

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THE ENSTAR GROUP, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held on , 2006

To the Shareholders of The Enstar Group, Inc.:

The Annual Meeting of Shareholders of The Enstar Group, Inc., or Enstar, will be held on , 2006 at Flowers Hall, Huntingdon College, at 1500 East Fairview Avenue, Montgomery, Alabama 36106, at 9:00 a.m., local time, for the following purposes:

(i) to consider and vote upon a proposal to approve the Agreement and Plan of Merger, or merger agreement, dated as of May 23, 2006, by and among Castlewood Holdings Limited, CWMS Subsidiary Corp. and Enstar, and the transactions contemplated by the merger agreement;

(ii) to elect two directors for three-year terms expiring at the annual meeting of shareholders in 2009 or until their successors are duly elected and qualified;

(iii) to ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of Enstar to serve for 2006; and

(iv) to transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

Enstar will not be able to consummate the merger unless its shareholders approve the merger agreement and the transactions contemplated by the merger agreement.

The board of directors of Enstar has fixed the close of business on September 28, 2006 as the record date for the determination of shareholders entitled to receive notice of, and to vote at, the Annual Meeting and any adjournment thereof. A list of shareholders as of the record date will be open for examination during the Annual Meeting.

The board of directors of Enstar, with all of Enstar s directors present and voting, has unanimously approved the merger agreement and the transactions contemplated by the merger agreement and unanimously recommends that the shareholders of Enstar vote for the approval of the merger agreement and the transactions contemplated by the merger agreement. The board of directors of Enstar also recommends that you vote for T. Whit Armstrong and T. Wayne Davis to hold office until the 2009 annual meeting of shareholders, or until their successors are duly elected and qualified, and that you vote for the proposal to ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of Enstar for 2006.

Your attention is directed to the proxy statement/prospectus submitted with this notice. This notice is being given at the direction of the board of directors of Enstar.

By Order of the Board of Directors

Cheryl D. Davis
Chief Financial Officer, Vice-President of
Corporate Taxes and Secretary

Montgomery, Alabama
, 2006

WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN AND DATE THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE. IF YOU ATTEND THE MEETING, YOU MAY REVOKE THE PROXY AND VOTE IN PERSON IF YOU WISH, EVEN IF YOU HAVE PREVIOUSLY RETURNED YOUR PROXY.

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NOTE ON REFERENCES TO ADDITIONAL INFORMATION

THIS PROXY STATEMENT/PROSPECTUS INCORPORATES IMPORTANT BUSINESS AND FINANCIAL INFORMATION ABOUT THE ENSTAR GROUP, INC. THAT MAY NOT BE INCLUDED IN OR DELIVERED WITH THE DOCUMENT. THIS INFORMATION IS AVAILABLE WITHOUT CHARGE TO SHAREHOLDERS OF ENSTAR AT A WEBSITE MAINTAINED BY THE SECURITIES AND EXCHANGE COMMISSION AT HTTP://WWW.SEC.GOV, AS WELL AS UPON WRITTEN OR ORAL REQUEST TO:

THE ENSTAR GROUP, INC.
CORPORATE SECRETARY
401 MADISON AVENUE
MONTGOMERY, ALABAMA 36104

(334) 834-5483

IF YOU WOULD LIKE TO REQUEST DOCUMENTS, PLEASE DO SO BY , 2006 IN ORDER TO RECEIVE THEM BEFORE THE ANNUAL MEETING.

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE ANNUAL MEETING

The following are some questions that you, as a shareholder of The Enstar Group, Inc., or Enstar, may have regarding the merger and the other matters being considered at the Annual Meeting of Enstar s shareholders and the answers to those questions. You are urged to read carefully the remainder of this proxy statement/prospectus because information in this section does not provide all the information that might be important to you with respect to the merger and the other matters being considered at the Annual Meeting. Additional important information is contained in the remainder of this proxy statement/prospectus, the annexes to this proxy statement/prospectus and the documents referred to or incorporated by reference in this proxy statement/prospectus.

Q: When is the Annual Meeting?

A: Enstar s Annual Meeting of shareholders will take place on , 2006, at 9:00 a.m., local time, at Flowers Hall, Huntingdon College, at 1500 East Fairview Avenue, Montgomery, Alabama 36106.

Q: What am I being asked to vote upon?

A: You are being asked to approve the merger agreement entered into among Enstar, Castlewood Holdings Limited, or Castlewood, and CWMS Subsidiary Corp., or Merger Sub, and the transactions contemplated by that agreement. Castlewood, after the merger, is sometimes referred to in this proxy statement/prospectus as New Enstar. You are also being asked to vote for T. Whit Armstrong and T. Wayne Davis to hold office as directors of Enstar until the 2009 annual meeting of shareholders of Enstar, or until their successors are duly elected and qualified, and to vote for the proposal to ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of Enstar for 2006. If the merger is consummated, the composition of the board of directors of New Enstar will be different from the current composition of Enstar s board of directors. Following the merger, New Enstar s board of directors will consist of ten members. Four of these individuals Messrs. T. Whit Armstrong, Paul J. Collins, Gregory L. Curl and T. Wayne Davis are current directors of Enstar, three of these individuals Messrs. J. Christopher Flowers, Nimrod T. Frazer and John J. Oros are current directors of both Enstar and Castlewood, and the other three individuals Messrs. Nicholas A. Packer, Paul J. O Shea and Dominic F. Silvester are current directors and/or executive officers of Castlewood. In addition, New Enstar, as the sole shareholder of Enstar following the merger, will be able to determine the composition of Enstar s board of directors in accordance with the merger agreement and select the independent auditors of Enstar after the merger.

Q: Does the Enstar board of directors support the merger?

A: Yes. The Enstar board of directors has determined that the merger agreement and the transactions contemplated by the merger agreement are fair and in the best interests of Enstar and its shareholders and that the merger agreement is advisable. The Enstar board of directors, by unanimous vote, has approved the merger agreement and the transactions contemplated by the merger agreement and recommends that the Enstar shareholders vote FOR the approval of the merger agreement and the transactions contemplated by the merger agreement. Some of Enstar s directors and executive officers have interests in the merger that are different from, or in addition to, yours. These interests are discussed in Interests of Certain Persons in the Merger beginning on page 52.

Q: Will I be able to trade New Enstar ordinary shares that I receive in connection with the merger?

A:

Yes. The New Enstar ordinary shares issued in connection with the merger will be freely tradeable, unless you are an affiliate of Enstar. Generally, persons who are deemed to be affiliates of Enstar must comply with Rule 145 under the U.S. Securities Act of 1933, as amended, if they wish to sell or otherwise transfer any of the New Enstar ordinary shares received in connection with the merger. You will be notified if you are an affiliate of Enstar.

Q: Can I dissent and require appraisal of my shares of Enstar common stock?

A: No. Enstar shareholders have no dissenters rights under Georgia law in connection with the merger.

Q: When should I send in my Enstar share certificates?

A: After the merger is consummated, the exchange agent for the merger will send written instructions to Enstar shareholders that explain how to exchange Enstar share certificates for New Enstar share

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certificates. The exchange agent will also send a letter of transmittal that must be executed by Enstar shareholders in order to obtain New Enstar share certificates. Please do not send in any share certificates until you receive these written instructions and the letter of transmittal.

Q: What will happen at the Annual Meeting?

A: At the Annual Meeting, holders of Enstar common stock will vote on whether to approve the merger agreement and the transactions contemplated by the merger agreement. Approval of the merger agreement and the transactions contemplated by the merger agreement requires the affirmative vote of the holders of a majority of the outstanding voting power of Enstar s common stock on September 28, 2006, or the Record Date.

As of May 23, 2006, Enstar s directors and executive officers owned 1,904,753 shares of Enstar common stock, representing approximately 33.19% of the voting power of Enstar common stock on that date. Three of those directors, who owned Enstar common stock representing 30.1% of the voting power on that date, have entered into a support agreement with Castlewood pursuant to which such directors have agreed to vote their shares of Enstar common stock in favor of the merger agreement and the transactions contemplated by the merger agreement. All other Enstar directors and officers have also indicated that they intend to vote their shares of Enstar common stock in favor of the merger agreement and the transactions contemplated by the merger agreement. For a more detailed description of the support agreement, see Material Terms of Related Agreements Support Agreement beginning on page 67.

The holders of Enstar common stock will also vote at the Annual Meeting on the election of T. Whit Armstrong and T. Wayne Davis to hold office as directors of Enstar until the 2009 annual meeting of Enstar s shareholders, or until their successors are duly elected and qualified, and on the proposal to ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of Enstar for 2006.

Q: What do I need to do to vote?

A: Mail your signed and dated proxy card in the enclosed return envelope as soon as possible so that your shares may be represented at the Annual Meeting. In order to assure that Enstar obtains your vote, please follow the voting instructions on your proxy card even if you currently plan to attend the Annual Meeting in person. The Enstar board of directors recommends that Enstar s shareholders vote FOR the approval of the merger agreement and the transactions contemplated by the merger agreement. The Enstar board also recommends that Enstar s shareholders vote FOR T. Whit Armstrong and T. Wayne Davis to hold office as directors until the 2009 annual meeting of Enstar s shareholders, or until their successors are duly elected and qualified, and that Enstar s shareholders vote FOR the proposal to ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of Enstar for 2006.

Q: How do I vote my shares of Enstar common stock if they are held in the name of a bank, broker or other fiduciary?

A: Your bank, broker or other fiduciary will vote your shares of Enstar common stock with respect to the merger agreement and the transactions contemplated by the merger agreement only if you provide written instructions to them on how to vote, so it is important that you provide them with instructions. Your bank, broker or other fiduciary has the discretion to vote your shares of Enstar common stock in favor of the election of T. Whit Armstrong and T. Wayne Davis as directors and the ratification of the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of Enstar for 2006. If you wish to vote in person at the Annual Meeting and hold your shares of Enstar common stock in the name of a bank, broker or other fiduciary, you must contact your bank, broker or other fiduciary and request a legal proxy. You must bring this legal proxy

to the Annual Meeting in order to vote in person.

Q: May I change my vote even after returning a proxy card?

A: Yes. If you are a record holder, you can change your vote by:

completing, signing and dating a new proxy card and returning it by mail so that it is received before the Annual Meeting;

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sending a written notice to Enstar s Secretary that is received before the Annual Meeting stating that you revoke your proxy; or

attending the Annual Meeting and voting in person or by legal proxy.

If your shares of Enstar common stock are held in the name of a bank, broker or other fiduciary and you have directed such person(s) to vote your shares of Enstar common stock, you should instruct such person(s) to change your vote or obtain a legal proxy to do so yourself.

Q: What if I do not vote, abstain from voting or do not instruct my broker to vote my shares of Enstar common stock?

A: If you do not vote your shares, it will have the same effect as a vote against the merger agreement and the transactions contemplated by the merger agreement, but will not affect the outcome of the voting on any other matter presented to Enstar s shareholders at the Annual Meeting assuming that a quorum for the transaction of business at the Annual Meeting has been achieved.

If you return your proxy card, but mark it that you wish to ABSTAIN from the vote on the proposal to approve the merger agreement and the transactions contemplated by the merger agreement it will also have the same effect as a vote against the merger agreement and the transactions contemplated by the merger agreement. Similarly, if you mark your proxy card ABSTAIN on the proposal to ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of Enstar for 2006, it will have the same effect as a vote against that proposal. If you ABSTAIN on these proposals, your shares will still be counted for purposes of determining the presence of a quorum for the transaction of business at the Annual Meeting.

Broker non-votes are proxies from brokers or nominees indicating that those persons have not received instructions from the beneficial owners of the shares as to certain proposals on which the beneficial owners are entitled to vote, but with respect to which the brokers or nominees have no discretionary power to vote without instructions. Broker non-votes will be counted for purposes of determining the presence of a quorum for the transaction of business at the Annual Meeting but will not be counted for purposes of determining the number of votes cast with respect to the particular proposal on which the broker has expressly not voted. Consequently, if you do not instruct your broker to vote your shares, it too will have the same effect as a vote against the merger agreement and the transactions contemplated by the merger agreement. Brokers or nominees, however, can exercise their discretion to vote your shares in favor of T. Whit Armstrong and T. Wayne Davis to hold office as directors until the 2009 annual meeting of Enstar s shareholders, or until their successors are duly elected and qualified, as well as in favor of the ratification of the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of Enstar for 2006.

If you sign your proxy card but do not indicate how you want to vote, your shares of Enstar common stock will be voted FOR the approval of the merger agreement and the transactions contemplated by the merger agreement, FOR T. Whit Armstrong and T. Wayne Davis to hold office as directors until the 2009 annual meeting of Enstar s shareholders, or until their successors are duly elected and qualified, and FOR the proposal to ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of Enstar for 2006.

Q: Where can I find more information about Enstar and Castlewood?

A: Business and financial information about Enstar and Castlewood is contained in this proxy statement/prospectus. You can also find more information about Enstar and Castlewood from various sources described under Where You Can Find More Information on page 214.

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SUMMARY

This summary highlights selected information from this proxy statement/prospectus and may not contain all of the information that is important to you. To understand the merger agreement and the transactions contemplated by the merger agreement fully and for a more complete description of the legal terms of the merger agreement, you should carefully read this entire document and the documents to which we refer you. See Where You Can Find More Information on page 203. See also the Glossary of Selected Insurance and Reinsurance Terms beginning on page G-1 for an explanation of terms related to the insurance industry.

The Companies (see Information About Castlewood on page 72 and Information About Enstar on page 144)

Castlewood Holdings Limited
P.O. Box HM 2267
Windsor Place, 3rd Floor
18 Queen Street
Hamilton HM JX
Bermuda
(441) 292-3645

Castlewood Holdings Limited, or Castlewood, is a Bermuda company that acquires and manages insurance and reinsurance companies in run-off and provides management, consultancy and other services to the insurance and reinsurance industry. Castlewood currently is privately owned, and its shares do not trade on any stock exchange or other quotation system. After the merger of CWMS Subsidiary Corp. with and into The Enstar Group, Inc., or Enstar, with Enstar surviving as a direct wholly-owned subsidiary of Castlewood, or the merger, Castlewood will change its name to Enstar Group Limited and will continue to engage in the business of acquiring and managing insurance and reinsurance companies in run-off and providing management, consultancy and other services to the insurance and reinsurance industry. Castlewood will apply to have New Enstar s ordinary shares listed on the NASDAQ Global Select Market, or Nasdaq, under the symbol ESGR. The listing will take effect at the effective time of the merger. As of August 21, 2006, Castlewood had approximately 44 shareholders of record.

The terms New Enstar, we, us and our generally refer to Castlewood following the merger.

CWMS Subsidiary Corp.
401 Madison Avenue
Montgomery, Alabama 36104
(334) 834-5483

CWMS Subsidiary Corp., or Merger Sub, is a recently-formed Georgia corporation that is a direct wholly-owned subsidiary of Castlewood. At the time of the merger, Merger Sub will have conducted no business other than in connection with the Agreement and Plan of Merger, dated as of May 23, 2006, among Castlewood, Merger Sub and Enstar, or the merger agreement. After the merger of Merger Sub with and into Enstar, Enstar will be the surviving entity and will change its name to Enstar USA, Inc.

The Enstar Group, Inc.
401 Madison Avenue
Montgomery, Alabama 36104
(334) 834-5483

Internet address: www.enstargroup.com

Enstar is a Georgia corporation engaged in the operation of partially-owned affiliates in financial services businesses, including principally the acquisition and management, through Castlewood and another such affiliate, of insurance and reinsurance companies in run-off (insurance and reinsurance companies that have ceased the underwriting of new policies). Enstar s common stock trades on Nasdaq under the symbol ESGR. As of August 21, 2006, Enstar had 2,627 shareholders of record.

Currently, Enstar owns a 32.03% economic interest and 50% voting interest in Castlewood. Nimrod T. Frazer, John J. Oros, Cheryl D. Davis and J. Christopher Flowers, current officers and/or directors of Enstar, serve on Castlewood s board of directors. Certain of Castlewood s officers and directors own, directly or indirectly, shares of Enstar s common stock.

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The Proposed Merger (see page 41)

Under the terms of the proposed merger, Merger Sub, a direct wholly-owned subsidiary of Castlewood, will merge with and into Enstar with Enstar surviving as a direct wholly-owned subsidiary of Castlewood. The merger agreement is attached as Annex A to this proxy statement/prospectus. We encourage you to read the merger agreement carefully and fully as it is the legal document that governs the merger.

The following charts depict (1) the organizational structures of Castlewood and Enstar, prior to the merger, and (2) the organizational structure of New Enstar upon consummation of the merger.

Prior to the Merger

* Percentages are not calculated on a fully-diluted basis. Unless otherwise indicated, percentages reflect voting and economic interest. Inactive subsidiaries of The Enstar Group, Inc. are omitted.

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Upon Consummation of the Merger

* Percentages are not calculated on a fully-diluted basis. Unless otherwise indicated, percentages reflect voting and economic interest, except that the ownership percentages of New Enstar may, in some cases, be subject to the limitations on voting power that will be set forth in New Enstar s bye-laws. Inactive subsidiaries of Enstar USA, Inc. are omitted.

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Recommendation of Enstar s Board of Directors Relating to the Merger (see page 46)

Enstar s board of directors, including all of its independent directors, has determined that the merger agreement and the transactions contemplated by the merger agreement are fair and in the best interests of Enstar and its shareholders and that the merger agreement is advisable. Enstar s board of directors, by unanimous vote, including all of its independent directors, has approved the merger agreement and the transactions contemplated by the merger agreement and recommends that Enstar shareholders vote FOR the approval of the merger agreement and the transactions contemplated by the merger agreement. Messrs. Oros and Flowers and Ms. Davis, officers and/or directors of Enstar who also serve on Castlewood s board of directors, negotiated the terms of the merger on behalf of Enstar, and some of Enstar s directors and executive officers have interests in the merger that are different from, or in addition to, yours. Enstar s board of directors considered these interests in making its recommendation and concluded that such interests could be appropriately addressed through disclosure and that no director should recuse himself from the deliberations of the board regarding the merger. These interests are discussed in Interests of Certain Persons in the Merger beginning on page 52.

Reasons for the Merger (see page 44)

The boards of directors of Castlewood and Enstar believe that the merger will result in potential increased revenues and enhanced shareholder value for New Enstar. Specifically, Enstar s board of directors believes that the merger will:

- enhance the existing and proven close working relationship between Enstar and Castlewood management and further align the incentives of Castlewood management with the interests of Enstar s shareholders;
- provide a positive economic result for Enstar s shareholders, as a result of a one-time $3.00 per share dividend, the one-for-one exchange ratio contemplated by the merger agreement and the opportunity for Enstar s shareholders to participate in approximately 48.7% (on an undiluted basis) of the earnings and cash flows of New Enstar;
- simplify the ownership and management structure of Castlewood, Enstar and B.H. Acquisition Ltd., or B.H. Acquisition, a company they partially own with an affiliate of Trident II, L.P., or Trident, by forming one public company with one board of directors and a consolidated management team;
- consolidate the financial and management resources and thereby expand the capabilities of Castlewood and Enstar to pursue additional acquisitions in the insurance and reinsurance run-off business;
- enhance New Enstar s access to capital as a result of both its larger asset base and simplified ownership structure;
- expand the opportunities for New Enstar to deploy its capital in attractive investments; and
- increase the focus of the time and energy of the directors and management of New Enstar on identifying and consummating attractive acquisitions and managing existing businesses.

What Enstar Shareholders Will Receive in the Merger

If the merger is consummated, as an Enstar shareholder you will receive one New Enstar ordinary share in exchange for each share of Enstar common stock, including the associated rights issued under the Enstar shareholder rights plan,

that you own.

The Enstar Dividend

If the merger is consummated, Enstar shareholders as of the applicable record date will receive a one-time $3.00 per share dividend on their Enstar common stock, payable immediately prior to the merger.

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Treatment of Enstar Stock Options and Restricted Stock Units (see page 54)

Each outstanding option to purchase shares of Enstar common stock granted under the Enstar stock plans will be assumed by New Enstar and converted into an option to purchase ordinary shares of New Enstar. The per share exercise price of each new option will be set at a ratio to the trading price of the ordinary shares of New Enstar immediately following the closing of the merger that equals the ratio of the exercise price of the corresponding Enstar stock option to the trading price of the shares of Enstar common stock immediately prior to the closing of the merger. The number of New Enstar ordinary shares underlying the new option will be set so that the aggregate spread value of the new option approximately equals the spread value of the former Enstar stock option.

Each restricted stock unit issued under Enstar s Deferred Compensation and Stock Plan for Non-employee Directors that is outstanding immediately prior to the closing of the merger will automatically convert from a right in respect of a share of Enstar common stock into a right in respect of one ordinary share of New Enstar.

Ownership of New Enstar after the Merger

Immediately following the consummation of the merger, New Enstar will have approximately 11.8 million ordinary shares issued, of which current Enstar shareholders will own approximately 48.7% and current Castlewood shareholders, other than Enstar, will own the remaining approximately 51.3%.

As a result of the merger, the non-affiliated public shareholders of Enstar will own a direct 33% interest in New Enstar rather than a direct 67% interest in Enstar. As shareholders of New Enstar, the non-affiliated public shareholders will hold a direct interest in the assets of New Enstar, which will include all of the assets of Enstar and Castlewood and each of their direct and indirect subsidiaries. As of June 30, 2006, New Enstar had assets of $1,629.4 million and total shareholders equity of $315.8 million (each determined on a pro forma basis). As of the same date, Enstar had total assets of $195.9 million and total shareholders equity of $177.3 million.

Also, following the merger, directors, officers and certain employees of New Enstar and their affiliates will own approximately 49.8% of the outstanding ordinary shares of New Enstar.

Unless otherwise indicated, the ownership percentage calculations set forth above and throughout this proxy statement/prospectus treat the non-voting convertible shares of New Enstar owned by Enstar as if they were treasury shares and not outstanding because Enstar will be a wholly-owned subsidiary of New Enstar.

Listing of New Enstar Ordinary Shares

Castlewood will file an application to have New Enstar s ordinary shares listed on Nasdaq under the ticker symbol ESGR.

Effects of the Merger on the Rights of Enstar Shareholders

If the merger is consummated, New Enstar will be governed by its memorandum of association and second amended and restated bye-laws. The memorandum of association and form of the second amended and restated bye-laws have been filed by Castlewood as exhibits to the registration statement of which this proxy statement/prospectus is a part. The memorandum of association and second amended and restated bye-laws of New Enstar differ from Enstar s current articles of incorporation, as amended, and amended and restated bylaws. In addition, while Enstar is presently governed by Georgia corporate law, New Enstar will be governed by Bermuda corporate law.

Risk Factors (see page 18)

Shareholders voting on the merger should consider, among other things, the risks associated with ownership of New Enstar ordinary shares and the other risks set forth in the Risk Factors section of this proxy statement/prospectus.

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Conditions to the Consummation of the Merger (see page 59)

Castlewood s and Enstar s respective obligations to consummate the merger are subject to the satisfaction or, to the extent legally permissible, the waiver of the following conditions:

the receipt of all governmental and regulatory consents, clearances, approvals and actions necessary for the merger and the other transactions contemplated by the merger agreement unless failure to obtain those consents, clearances, approvals and actions would not reasonably be expected to have a material adverse effect on New Enstar;

the absence of any law, order or injunction prohibiting consummation of the merger in the United States, Bermuda or the European Union;

the U.S. Securities and Exchange Commission, or the Commission, having declared effective the Castlewood registration statement of which this proxy statement/prospectus is a part;

the approval for listing by Nasdaq of the New Enstar ordinary shares to be issued in the merger, subject to official notice of issuance;

the approval of the merger agreement and the transactions contemplated by the merger agreement by the Enstar shareholders;

the approval of the Recapitalization Agreement, dated as of May 23, 2006, among Castlewood, Enstar, Trident II, L.P. and certain of its affiliates, or Trident, J. Christopher Flowers, Dominic F. Silvester and certain other shareholders of New Enstar, or the recapitalization agreement, and certain actions contemplated by the recapitalization agreement by the Castlewood shareholders;

the completion of the recapitalization of Castlewood pursuant to the recapitalization agreement (see Material Terms of Related Agreements Recapitalization Agreement beginning on page 63);

no event having occurred which would trigger a distribution under Enstar s shareholders rights plan;

the receipt by Enstar and Castlewood of an opinion of Enstar s tax counsel to the effect that the merger should qualify as a reorganization within the meaning of section 368(a) of the U.S. Internal Revenue Code of 1986, as amended, or the Code;

the representations and warranties of the parties contained in the merger agreement which are qualified as to material adverse effect being true and correct as of the date of the merger agreement and as of the closing date of the merger, except to the extent that such representation or warranty speaks as of another date, and the representations and warranties of the parties which are not qualified as to material adverse effect being true and correct (disregarding materiality qualifiers), except where the failure to be true and correct, individually or in the aggregate, would not have a material adverse effect on the party making the representation, as of the date of the merger agreement and as of the closing date of the merger as if they were made on that date, except to the extent that such representation or warranty speaks as of another date; and

the parties having performed or complied in all material respects with all agreements or covenants required to be performed by them under the merger agreement (other than such party s covenants regarding the issuance of

securities, and Enstar s covenant regarding dividends and changes in share capital, which must be complied with in all respects), in each case, on or before the closing date.

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Termination of Merger Agreement (see page 61)

The merger agreement may be terminated at any time before the consummation of the merger in any of the following ways:

by mutual written consent of Enstar and Castlewood;

by either Enstar or Castlewood:

if the merger has not been consummated by January 31, 2007; except that a party may not terminate the merger agreement if the cause of the merger not being consummated is that party s failure to fulfill its material obligations under the merger agreement;

if a governmental authority or a court in the United States or European Union permanently enjoins or prohibits the consummation of the merger, except that a party that seeks to terminate the merger agreement upon such an event must have used its reasonable best efforts to obtain the government approvals required for the consummation of the merger; or

if Enstar s shareholders fail to approve the merger agreement and the transactions contemplated by the merger agreement.

by Castlewood:

if Enstar has breached in any material respect any of its representations or warranties, or has failed to perform in any material respect any of its covenants or other agreements under the merger agreement and such breach:

is incapable of being cured by or remains uncured prior to January 31, 2007; or

would result in the failure of certain closing conditions to the merger being satisfied; or

if:

Enstar or Enstar s board of directors materially breaches the covenant regarding no solicitation of competing acquisition proposals and such breach is not cured within five business days after receiving notice of such breach;

Enstar s board of directors changes its recommendation to the Enstar shareholders to approve the merger agreement and the transactions contemplated by the merger agreement; or

Enstar fails to call the annual meeting of shareholders to vote on the merger by November 23, 2006; or

by Enstar:

if Castlewood or Merger Sub has breached in any material respect any of its representations or warranties, or has failed to perform in any material respect any of its covenants or other agreements under the merger agreement and such breach:

is incapable of being cured by or remains uncured prior to January 31, 2007; or

would result in the failure of certain closing conditions to the merger being satisfied; or

if there has been a change in the recommendation by Enstar s board of directors in respect of the merger agreement and the transactions contemplated by the merger agreement and:

Enstar notifies Castlewood in writing that it intends to approve and enter into an agreement concerning a different business combination transaction that constitutes a superior proposal, attaching the most current version of such agreement or a description of its material terms; and

Castlewood, within five business days of receiving such notice from Enstar, does not make an offer that Enstar s board of directors determines is at least as favorable to the Enstar shareholders as the superior proposal Enstar received from the third party.

Termination of the merger agreement also terminates certain obligations under the support agreement described below.

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Support Agreement (see page 67)

Castlewood and Messrs. Flowers, Oros and Frazer, three of Enstar s largest shareholders, have entered into the Support Agreement, dated as of May 23, 2006, or the support agreement, pursuant to which such shareholders have agreed to vote all of their shares of Enstar common stock in favor of the approval of the merger agreement and the transactions contemplated by the merger agreement and against any business combination with a third party.

The support agreement is attached as Annex B to this proxy statement/prospectus.

Recapitalization Agreement (see page 63)

In connection with the merger, Castlewood, Enstar, Trident II, L.P., or Trident, and certain other shareholders of Castlewood entered into a recapitalization agreement which provides, among other things, for:

- a recapitalization of Castlewood in which all issued shares will be exchanged for newly-created ordinary shares;
- the appointment of the board of directors of New Enstar immediately following the merger;
- the repurchase of certain shares of Castlewood from Trident;
- payments to certain officers and employees of Castlewood;
- the purchase by Castlewood or its designee of the shares of B.H. Acquisition beneficially owned by an affiliate of Trident II, L.P.; and
- the adoption of new bye-laws that will include, among other things, certain restrictions on transfers and voting of the ordinary shares.

Castlewood shareholders holding the number of shares required to approve the recapitalization agreement and the transactions contemplated thereby have agreed to vote in favor of such agreement and transactions.

The recapitalization agreement also restricts the transfer by the Castlewood shareholders party thereto of the New Enstar ordinary shares they receive in the recapitalization for one year, subject to certain exceptions. The recapitalization agreement also provides that at the time of the recapitalization, certain shareholders of Castlewood will enter into the Registration Rights Agreement, between and among New Enstar, Trident, J. Christopher Flowers, Dominic F. Silvester and certain other shareholders of New Enstar, or the registration rights agreement, entitling them, after the expiration of one year from the date of the registration rights agreement, to require that New Enstar effect the registration under the U.S. Securities Act of 1933, as amended, or the Securities Act, of their New Enstar ordinary shares, although after the expiration of 90 days from the date of the registration rights agreement and prior to the first anniversary of such date, Trident has the right to require that Castlewood register up to 750,000 of Trident s New Enstar ordinary shares. The directors of Enstar have agreed to similar transfer restrictions on their shares of New Enstar, and will receive registration rights pursuant to the same registration rights agreement.

The recapitalization agreement is attached as Annex C to this proxy statement/prospectus.

Other Related Agreements

Castlewood has agreed, subject to the consummation of the merger agreement, to repurchase from two directors of Enstar, Messrs. T. Whit Armstrong and T. Wayne Davis, upon their request, during a 30-day period commencing January 15, 2007, at the then prevailing market price, such number of ordinary shares as provides an amount sufficient for Mr. Armstrong and Mr. Davis to pay taxes on compensation income resulting from the exercise of options by them on May 23, 2006 for 50,000 shares of Enstar common stock in the aggregate. Castlewood s obligation to repurchase ordinary shares is limited to 25,000 ordinary shares from each of Mr. Armstrong and Mr. Davis.

Castlewood has also entered into a tax indemnification agreement with J. Christopher Flowers, a director and Enstar s largest shareholder, pursuant to which Castlewood will reimburse and indemnify Mr. Flowers for, and hold him harmless on an after-tax basis against, any increase in Mr. Flowers U.S. federal, state or local income tax liability (including any interest or penalties relating thereto), and reasonable attorneys fees, incurred by Mr. Flowers as a result of certain dispositions of shares of Enstar or dispositions of all or substantially all of the Enstar assets by New Enstar, Enstar or any successor or assign of either, within the period beginning immediately after the effective time of the merger and ending five years after the last day of the taxable year that includes the effective time.

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Regulatory Approvals (see page 49)

Castlewood has received the requisite approval of the merger and/or the recapitalization from the insurance regulatory authority in the United Kingdom. In addition, Castlewood has provided notice of the merger and the recapitalization to the insurance regulatory authorities in Switzerland and Belgium. Castlewood has received approval from the Bermuda Monetary Authority to issue the ordinary shares in connection with the recapitalization and the merger.

Material U.S. Federal Income Tax Consequences of the Merger (see page 47)

The merger is intended to qualify as a reorganization for U.S. federal income tax purposes. Accordingly, it is expected that the exchange of Enstar common stock for New Enstar ordinary shares in the merger should not result in the recognition of gain or loss for U.S. federal income tax purposes.

However, this proxy statement/prospectus does not address all tax consequences that may be relevant to persons who exchange Enstar common stock for New Enstar ordinary shares in the merger. In particular, this proxy statement/prospectus does not address any of the tax consequences associated with:

- the exercise of options to purchase Enstar common stock before the effective time of the merger;
- the exchange of options to purchase Enstar common stock for options to purchase New Enstar ordinary shares in the merger; or
- the exchange of Enstar restricted stock units for a right to receive restricted stock units in respect of New Enstar ordinary shares.

Any person who may exchange Enstar common stock for New Enstar ordinary shares in the merger is urged to carefully read the discussions under The Proposed Merger Material U.S. Federal Income Tax Consequences of the Merger and Material Tax Considerations of Holding and Disposing of New Enstar Ordinary Shares beginning on pages 47 and 200, respectively, and to consult his or her tax advisor with respect to the tax consequences of participating in the merger and holding and disposing of New Enstar ordinary shares.

Accounting Treatment of the Merger (see page 47)

New Enstar will account for the merger under the purchase method of accounting for business combinations under accounting principles generally accepted in the United States.

No Dissenters Rights

Under Georgia law, Enstar shareholders are not entitled to dissenters rights in connection with the merger.

Information about the Enstar Annual Meeting and Voting (see page 34)

Enstar s Annual Meeting of Shareholders, or the Annual Meeting, will be held on , 2006, at 9:00 a.m., local time, at Flowers Hall, Huntingdon College at 1500 East Fairview Avenue, Montgomery, Alabama 36106, for the following purposes:

- to consider and vote upon a proposal to approve the merger agreement and the transactions contemplated by the merger agreement;

to elect two directors for three-year terms expiring at the annual meeting of shareholders of Enstar in 2009 or until their successors are duly elected and qualified;

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to ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of Enstar to serve for 2006; and

to transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

Enstar will not be able to consummate the merger unless its shareholders approve the merger agreement and the transactions contemplated by the merger agreement.

If the merger is consummated, the composition of the board of directors of New Enstar will be different from the current composition of Enstar s board of directors. Following the merger, four of these individuals Messrs. T. Whit Armstrong, Paul J. Collins, Gregory L. Curl and T. Wayne Davis are current directors of Enstar, three of these individuals Messrs. J. Christopher Flowers, Nimrod T. Frazer and John J. Oros are current directors of both Enstar and Castlewood, and the other three individuals Messrs. Nicholas A. Packer, Paul J. O Shea and Dominic F. Silvester are current directors and/or executive officers of Castlewood. In addition, New Enstar, as the sole shareholder of Enstar, will be able to determine the composition of Enstar s board of directors and select independent auditors of Enstar after the merger.

Enstar Shareholder Votes Required

Approval of the merger agreement and the transactions contemplated by the merger agreement requires the affirmative vote of the holders of a majority of the outstanding voting power of Enstar s common stock on the close of business on September 28, 2006, or the Record Date.

As of May 23, 2006, Enstar s directors and executive officers owned 1,904,753 shares of Enstar common stock, representing approximately 33.19% of the voting power of Enstar common stock on that date. Three of those directors, who owned Enstar common stock representing 30.1% of the voting power on that date, have entered into a support agreement with Castlewood pursuant to which such directors have agreed to vote their shares of Enstar common stock in favor of the merger agreement and the transactions contemplated by the merger agreement. All other Enstar directors and officers have also indicated that they intend to vote their shares of Enstar common stock in favor of the merger agreement and the transactions contemplated by the merger agreement.

Interests of Certain Persons in the Merger (see page 52)

When you consider the recommendation of Enstar s board of directors that you vote in favor of approval of the merger agreement and the transactions contemplated by the merger agreement, you should be aware that some of Enstar s directors and executive officers have interests in the merger that are different from, or in addition to, yours. These interests include:

a new employment agreement between New Enstar, Castlewood (US) Inc., a subsidiary of Castlewood, and John J. Oros, Enstar s President and Chief Operating Officer, that will take effect at the effective time of the merger;

accelerated vesting of 80,000 options granted to certain Enstar directors and officers pursuant to one of Enstar s equity incentive plans;

a severance payment of $350,000 to Nimrod T. Frazer, Enstar s Chief Executive Officer;

a tax indemnification by Castlewood of J. Christopher Flowers, a director of Enstar, pursuant to which Castlewood will reimburse and indemnify Mr. Flowers for, and hold him harmless on an after-tax basis against, any increase in Mr. Flowers U.S. federal, state or local income tax liability (including any interest or penalties relating thereto), and reasonable attorneys fees, incurred by Mr. Flowers as a result of certain dispositions of shares of Enstar or dispositions of all or substantially all of the Enstar assets by New Enstar, Enstar or any successor or assign of either, within the period beginning immediately after the effective time of the merger and ending five years after the last day of the taxable year that includes the effective time;

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registration rights expected to be granted by New Enstar to Mr. Flowers, pursuant to which Mr. Flowers may request that New Enstar effect the registration under the Securities Act of certain of his ordinary shares of New Enstar, and the registration rights expected to be granted by New Enstar to the other directors of Enstar pursuant to which they may participate in certain registration statements filed by New Enstar under the Securities Act and sell their ordinary shares of New Enstar pursuant to such registration statements;

rights of T. Whit Armstrong and T. Wayne Davis, directors of Enstar, to each sell up to 25,000 ordinary shares of New Enstar to New Enstar;

service of the current Enstar directors on New Enstar s board of directors following the merger; and

indemnification by New Enstar of past and present directors and officers of Enstar for losses in connection with any action arising out of or pertaining to acts or omissions, or alleged acts or omissions, by them in their capacities as such at or before the effective time of the merger.

Enstar s board of directors considered these interests in making its recommendation and concluded that such interests could be appropriately addressed through disclosure and that no director should recuse himself from the deliberations of the board regarding the merger.

Recent Developments (see page 106)

On June 16, 2006, a wholly-owned subsidiary of Castlewood entered into a definitive agreement for the purchase of Cavell Holdings Limited, or Cavell, a U.K. company, from Dukes Place Holdings, L.P., a portfolio company of GSC Partners, for a purchase price of approximately £32 million (approximately $59 million). Cavell owns a U.K. reinsurance company and a Norwegian reinsurer, both of which are currently in run-off. Cavell had total consolidated assets of approximately £101 million at March 31, 2006, as reported in its U.K. regulatory statements. Completion of the transaction is conditioned on, among other things, governmental and regulatory approvals and satisfaction of various other closing conditions. The transaction is expected to close in the third quarter of 2006.

In an unrelated transaction, on June 16, 2006, a wholly-owned subsidiary of Castlewood also entered into a definitive agreement with Dukes Place Holdings, L.P. for the purchase of a minority interest in a U.S. holding company that owns two property and casualty insurers based in the United States, both of which are in run-off. Completion of the transaction is conditioned on, among other things, governmental and regulatory approvals and satisfaction of various other closing conditions. The transaction is expected to close in the fourth quarter of 2006.

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SUMMARY HISTORICAL AND PRO FORMA FINANCIAL DATA

Castlewood and Enstar are providing the following financial data to assist you in your analysis of the financial aspects of the proposed merger. The information is only a summary and should be read in conjunction with each company s historical consolidated financial statements and related notes included or incorporated by reference in this proxy statement/prospectus, as well as the Unaudited Pro Forma Condensed Combined Financial Information for New Enstar beginning on page 152.

Castlewood Summary Historical Financial Data

The following selected historical financial information of Castlewood for each of the past five fiscal years has been derived from Castlewood s audited historical financial statements, which were audited by Deloitte & Touche, an independent registered public accounting firm. The financial information as of June 30, 2006 and 2005, and for each of the three and six month periods then ended, has been derived from Castlewood s unaudited financial statements which include, in management s opinion, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the results of operations and financial position of Castlewood for the periods and dates presented. This information is only a summary and should be read in conjunction with management s discussion and analysis of results of operations and financial condition of Castlewood and the audited and unaudited consolidated financial statements and notes thereto of Castlewood included elsewhere in this proxy statement/prospectus. The selected historical financial information has been revised for the effects of the restatement discussed in Note 24 to the Consolidated Financial Statements on page F-29 of this document.

Since its inception, Castlewood has made several acquisitions which impact the comparability of the information reflected in the Castlewood Summary Historical Financial Data. See Information About Castlewood Business Acquisitions to Date beginning on page 75 for information about Castlewood s acquisitions.

	Three Months Ended June 30,		Six Months Ended June 30,		Year Ended December 31,				
	2006	2005	2006	2005	2005	2004	2003	2002	200
	(in thousands of U.S. dollars, except per share data)								
lting fee e	$ 5,251	$ 3,857	$ 11,600	$ 8,345	$ 22,006	$ 23,703	$ 24,746	$ 20,627	$
vestment e and net d gain duction in d loss ment expense ies	11,066	8,255	20,726	13,283	29,504	10,502	7,072	8,927	
	4,323	3,873	6,780	5,423	96,007	13,706	24,044	48,758	
other expenses	(3,940)	(12,268)	(14,343)	(22,058)	(57,299)	(35,160)	(21,782)	(27,772)	(2
ity interest	(4,974)	(612)	(5,186)	(991)	(9,700)	(3,097)	(5,111)	0	
of income of owned nies	151	32	263	79	192	6,881	1,623	10,079	

come from uing ions	11,877	3,137	19,840	4,081	80,710	16,535	30,592	60,619	
rdinary gain ve goodwill minority st)	0	0	4,347	0	0	21,759	0	0	
come	$ 11,877	$ 3,137	$ 24,187	$ 4,081	$ 80,710	$ 38,294	$ 30,592	$ 60,619	$
hare Data(2):									
e per ordinary before rdinary gain	$ 644.05	$ 171.62	$ 1,075.86	$ 223.26	$ 4,397.89	$ 914.49	$ 1,699.56	$ 3,367.72	$ (2
rdinary gain			235.72			1,203.42			
come per ry share	$ 644.05	$ 171.62	$ 1,311.58	$ 223.26	$ 4,397.89	$ 2,117.91	$ 1,699.56	$ 3,367.72	$ (2

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	Three Months Ended June 30,		Six Months Ended June 30,		Year Ended December 31,				
	2006	2005	2006	2005	2005	2004	2003	2002	2001(1)
	(in thousands of U.S. dollars, except per share data)								
come per dinary are before traordinary ns diluted	$ 633.17	$ 167.32	$ 1,057.68	$ 217.66	$ 4,304.30	$ 906.13	$ 1,699.56	$ 3,367.72	$ (22.6
traordinary n diluted			231.74			1,192.40			
t income r ordinary are diluted	$ 633.17	$ 167.32	$ 1,289.42	$ 217.66	$ 4,304.30	$ 2,098.53	$ 1,699.56	$ 3,367.72	$ (22.6
eighted erage dinary ares tstanding sic	18,441	18,279	18,441	18,279	18,352	18,081	18,000	18,000	18,00
eighted erage dinary ares tstanding uted	18,758	18,749	18,758	18,749	18,751	18,248	18,000	18,000	18,00
sh vidends d per share	$ 1,552.67	$	$ 1,552.67	$	$	$ 645.83	$ 4,483.41	$	$

	As of June 30,	As of December 31,				
	2006	2005	2004	2003	2002	2001
	(in thousands of U.S. dollars, except per share data)					
Summary Balance Sheet Data:						
Cash and cash equivalents	$ 513,893	$ 345,329	$ 350,456	$ 127,228	$ 85,916	$ 71,906
Investments	592,213	539,568	591,635	268,417	258,429	175,068
Reinsurance recoverable	316,571	250,229	341,627	175,091	122,937	238,162
Total assets	1,483,539	1,199,963	1,347,853	632,347	514,597	527,845
Reserves for losses and loss adjustment expenses	1,025,971	806,559	1,047,313	381,531	284,409	419,717

Total shareholder equity	257,760	260,906	177,338	147,616	167,473	63,696
Book Value per Share:						
Basic	13,760.41	14,189.70	9,721.41	8,200.89	9,304.06	3,538.67
Diluted	13,610.73	13,921.67	9,461.05	8,200.89	9,304.06	3,538.67

(1) For the period between August 16, 2001 (date of incorporation) and December 31, 2001.

(2) Earnings per share is a measure based on net earnings divided by weighted average ordinary shares outstanding. Basic earnings per share is defined as net earnings available to ordinary shareholders divided by the weighted average number of ordinary shares outstanding for the period, giving no effect to dilutive securities. Diluted earnings per share is defined as net earnings available to ordinary shareholders divided by the weighted average number of shares and share equivalents outstanding calculated using the treasury stock method for all potentially dilutive securities. When the effect of dilutive securities would be anti-dilutive, these securities are excluded from the calculation of diluted earnings per share.

(3) Basic book value per share is defined as total shareholders equity available to ordinary shareholders divided by the number of ordinary shares outstanding as at the end of the period, giving no effect to dilutive securities. Diluted book value per share is defined as total shareholders equity available to ordinary shareholders divided by the number of ordinary shares and ordinary share equivalents outstanding at the end of the period, calculated using the treasury stock method for all potentially dilutive securities. When the effect of dilutive securities would be anti-dilutive, these securities are excluded from the calculation of diluted book value per share.

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Enstar Summary Historical Financial Data

The following selected historical financial information of Enstar for each of the past five fiscal years has been derived from Enstar s audited historical financial statements, which were audited by Deloitte & Touche LLP, an independent registered public accounting firm. The financial information as of June 30, 2006 and 2005, and for each of the three-month and six-month periods then ended, has been derived from Enstar s unaudited financial statements which include, in management s opinion, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the results of operations and financial position of Enstar for the periods and dates presented. This information is only a summary and should be read in conjunction with management s discussion and analysis of results of operations and financial condition of Enstar and the audited and unaudited consolidated financial statements and notes thereto of Enstar incorporated by reference into this proxy statement/prospectus.

	Three Months Ended June 30,		Six Months Ended June 30,		Year Ended December 31,			
	2006	2005	2006	2005	2005	2004	2003	2002
	(in thousands of U.S. dollars, except per share data)							
ata:								
gain e nge in nciple	$ 1,132	$ 796	$ 2,960	$ 835	$ 19,045	$ 5,977	$ 13,226	$ 21,526
gain, taxes fect of			875			4,415		
nciple, taxes								967
	$ 1,132	$ 796	$ 3,835	$ 835	$ 19,045	$ 10,392	$ 13,226	$ 22,493
ta(1): hare								
mmon gain e nge in nciple	$ 0.20	$ 0.14	$ 0.53	$ 0.15	$ 3.45	$ 1.09	$ 2.42	$ 3.94
gain			0.16			0.80		0.18

fect of								
nciple								
r								
basic	$ 0.20	$ 0.14	$ 0.69	$ 0.15	$ 3.45	$ 1.89	$ 2.42	$ 4.12
age								
ding	5,604,110	5,517,909	5,561,247	5,517,909	5,517,909	5,496,819	5,465,753	5,465,753
hare								
mmon								
gain								
e								
nge in								
nciple	$ 0.19	$ 0.14	$ 0.50	$ 0.14	$ 3.25	$ 1.03	$ 2.25	$ 3.74
gain			0.15			0.76		
fect of								
nciple								0.17
r								
	$ 0.19	$ 0.14	$ 0.65	$ 0.14	$ 3.25	$ 1.79	$ 2.25	$ 3.91
age								
ding	5,930,382	5,845,621	5,906,240	5,847,330	5,856,144	5,800,993	5,881,410	5,753,553
s paid								
t								
	$ 195,854	$ 162,825	$ 195,854	$ 162,825	$ 185,220	$ 158,977	$ 152,620	$ 128,609
s	18,530	15,231	18,530	15,231	20,097	12,803	6,688	8,360
est							11,449	
equity	177,324	147,594	177,324	147,594	165,123	146,174	134,483	120,249

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(1) Income per share is a measure based on net income divided by weighted average shares of common stock outstanding. Basic income per share is defined as net income available to common stockholders divided by the weighted average number of shares of common stock outstanding for the period, giving no effect to dilutive securities. Diluted income per share is defined as net income available to common stock divided by the weighted average number of shares of common stock and common stock equivalents outstanding calculated using the treasury stock method for all potentially dilutive securities. When the effect of dilutive securities would be anti-dilutive, these securities are excluded from the calculation of diluted income per share.

Summary Unaudited Pro Forma Condensed Combined Financial Data

The following summary unaudited pro forma condensed combined financial information was prepared using the purchase method of accounting, with Castlewood treated as the acquirer for accounting purposes. The table below presents summary financial information from the unaudited pro forma condensed combined financial statements as of and for the six months ended June 30, 2006 and for the year ended December 31, 2005 included elsewhere in this proxy statement/prospectus. The unaudited pro forma condensed combined financial information is presented as if the merger and related transactions had occurred on June 30, 2006 for purposes of the unaudited pro forma condensed combined balance sheet data and as of January 1, 2005 for purposes of the unaudited pro forma condensed combined operating data.

The unaudited pro forma condensed combined financial information are based on estimates and assumptions set forth in the notes to such financial information, which are preliminary and have been made solely for the purpose of developing such pro forma information. The unaudited pro forma condensed combined financial information are not necessarily indicative of the financial position or operating results of New Enstar that would have been achieved had the merger and related transactions been consummated as of the dates noted above, nor are they necessarily indicative of the future financial position or operating results of New Enstar. This information should be read in conjunction with the unaudited pro forma condensed combined financial information and related notes and the historical financial statements and related notes included elsewhere or incorporated by reference in this proxy statement/prospectus.

Enstar Group Limited

Summary Unaudited Pro Forma Condensed Combined Financial Information

	Six Months Ended June 30, 2006	Year Ended December 31, 2005
	(in thousands of U.S. dollars)	
Income		
Income before extraordinary gain	$ 19,490	$ 81,859
Cash dividends paid per share		

	At June 30, 2006
Balance sheet data:	

Total assets	$ 1,629,273
Total liabilities	1,252,331
Minority interest	61,212
Shareholders equity	315,730

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Comparative Per Share Information

The following table presents historical per share data for Castlewood and Enstar individually and on a pro forma basis after giving effect to the merger. The pro forma combined amounts are based on using the purchase method of accounting. The pro forma combined per share data of New Enstar was derived from the Unaudited Pro Forma Condensed Combined Financial Statements beginning on page 152. The assumptions related to the preparation of the Unaudited Pro Forma Condensed Combined Financial Statements are described beginning at page 156. The data presented below should be read in conjunction with the historical consolidated financial statements of Enstar incorporated by reference in this proxy statement/prospectus and with the historical consolidated financial statements of Castlewood included in this proxy statement/prospectus. The pro forma data below is presented for informational purposes. You should not rely on the pro forma amounts as being indicative of the operating results or financial position of New Enstar that would have actually occurred had the merger and related transactions been consummated as of the dates noted above, nor are the pro forma amounts necessarily indicative of the future operating results or financial position of New Enstar.

	Castlewood Historical	Enstar Historical	Combined Pro Forma	Equivalent Pro Forma(1)
Net income per ordinary share				
Year ended December 31, 2005				
Basic	$ 4,397.89	$ 3.45	$ 6.95	$ 6.95
Diluted	$ 4,304.30	$ 3.25	$ 6.59	$ 6.59
Six months ended June 30, 2006				
Basic	$ 1,311.58	$ 0.69	$ 1.65	$ 1.65
Diluted	$ 1,289.42	$ 0.65	$ 1.57	$ 1.57
Book value per ordinary share as of June 30, 2006				
Basic	$ 13,760.41	$ 30.90	$ 26.79	$ 26.79
Diluted	$ 13,610.73	$ 29.55	$ 25.43	$ 25.43
Cash dividends per ordinary share				
Year ended December 31, 2005	$	$	$	$
Six months ended June 30, 2006				
Basic(2)	$ 1,552.67	$	$ 3.84	$ 3.84
Diluted(2)	$ 1,552.67	$	$ 3.65	$ 3.65

(1) Equivalent pro forma is equal to the combined pro forma because the share exchange ratio is one-to-one.

(2) Cash dividends in the pro forma column include the proposed $3 per share dividend to be paid by Enstar to its shareholders as of the applicable record date if the merger is consummated and dividends paid by Castlewood to its shareholders in April of 2006.

Per Share Market Price Information

The closing price per share of Enstar common stock on May 23, 2006, the last trading day before the announcement of the execution of the merger agreement, was $76.36. The closing price per share of Enstar common stock as reported on Nasdaq on , the most recent trading day practicable before the printing of this proxy statement/prospectus,

was .

There is no established public trading market for Castlewood s shares. In connection with the merger, New Enstar has applied to have New Enstar s ordinary shares listed for trading on the Nasdaq Global Select Market under the symbol ESGR, subject to official notice of issuance.

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Dividend Information

If the merger is consummated, Enstar shareholders as of the applicable record date will receive a one-time $3.00 per share cash dividend on their Enstar common stock, payable immediately prior to the merger. Enstar has not declared or paid any other cash dividend on any of its securities since 1989. If the merger is not consummated, Enstar currently intends to retain its earnings to finance the growth and development of its future business and does not anticipate paying cash dividends in the foreseeable future. If the merger is not consummated, the payment of cash dividends in the future will depend upon such factors as Enstar earnings, capital requirements, financial condition, contractual restrictions and other factors deemed relevant by Enstar s board of directors.

In March 2003, Castlewood s board of directors declared a dividend of $3,471 per share to holders of Class A Shares and $5,495.83 per share to holders of its Class B Shares, which dividends were paid on March 24, 2003.

In March 2004, Castlewood s board of directors declared a dividend of $500 per share to holders of its Class A Shares and $791.67 per share to holders of its Class B Shares, which dividends were paid on May 10, 2004.

In April 2006, Castlewood s board of directors declared a dividend of $3,356 per share to holders of its Class A Shares, $490.75 per share to holders of its Class B Shares and $811.22 per share to holders of its Class C Shares, which dividends were paid on April 26, 2006. Also in April 2006, Castlewood s board of directors approved the redemption of all of Castlewood s outstanding Class E shares for $22.4 million.

Castlewood paid no dividends during the fiscal years ended December 31, 2001, 2002 and 2005.

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RISK FACTORS

Shareholders of Enstar voting in favor of the merger agreement and the transactions contemplated by the merger agreement will be choosing to invest in New Enstar s ordinary shares and to combine the business of Enstar with that of Castlewood. In deciding whether to vote in favor of the merger and the transactions contemplated by the merger agreement, you should consider the following risks related to the merger, to New Enstar s business and to certain other matters. You should carefully consider these risks along with the other information included in this proxy statement/prospectus, including the matters addressed in the section entitled Forward-Looking Statements beginning on page 32, and the other information incorporated by reference into this proxy statement/prospectus.

Risks Relating to the Merger

The value of the New Enstar ordinary shares that you receive in the merger may be less than the current value of your shares of Enstar common stock.

The value of the New Enstar ordinary shares that you will receive in the merger may be less than the market price of your Enstar common stock on the date of this proxy statement/prospectus or on the date of the Enstar Annual Meeting. If the merger is consummated, each share of Enstar common stock will be converted into one ordinary share of New Enstar. The exchange ratio is a fixed ratio that will not be adjusted as a result of any increase or decrease in the market price of shares of Enstar common stock. The value of the New Enstar ordinary shares that you receive in the merger will depend on the public trading price of the New Enstar ordinary shares after the merger. The New Enstar ordinary shares will not be publicly traded until the merger is consummated. As a result, at the time of the Annual Meeting, you will not know the market value of the New Enstar ordinary shares that you will receive in the merger.

The merger will result in the holders of Enstar s common stock owning a smaller percentage of New Enstar than they currently own of Enstar, which could reduce their ability to affect changes to New Enstar s board of directors, management and policies.

As a result of the merger, the non-affiliated public shareholders of Enstar will own a direct 33% interest in New Enstar rather than a direct 67% interest in Enstar. Given the ownership of New Enstar by its officers, directors and their respective affiliates, this diminution in ownership may result in the former non-affiliated public shareholders of Enstar having a significantly reduced ability to effect changes in New Enstar s board of directors, management and policies. For example, under New Enstar s second amended and restated bye-laws many corporate actions require the approval of the holders of a majority of New Enstar s ordinary shares and such actions may be approved without the approval of New Enstar s non-affiliated public shareholders.

We may not realize the anticipated benefits of the merger.

The success of the merger will depend, in part, on the ability of New Enstar to realize the anticipated growth opportunities, expanded market visibility and increased access to capital that we expect to result from combining the business of Enstar with that of Castlewood. If we fail to realize the anticipated benefits of the merger, holders of New Enstar ordinary shares may receive lower returns.

Regulatory agencies may delay or impose conditions on approval of the merger, which may diminish the anticipated benefits of the merger.

Consummation of the merger is conditioned upon the receipt of required governmental consents, approvals, orders and authorizations, including required approvals from foreign regulatory agencies. Although we intend to pursue vigorously all required governmental approvals and do not know of any reason why we would not be able to obtain the necessary approvals in a timely manner, the requirement to receive these approvals before the merger may delay the consummation of the merger, possibly for a significant period of time after Enstar shareholders have approved the merger agreement and the transactions contemplated by the merger agreement at the Annual Meeting. In addition, these government agencies may attempt to condition their approval of the merger on the imposition of conditions that may have a material adverse effect on our

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operating results or the value of our ordinary shares after the merger is consummated. Any delay in the consummation of the merger may diminish anticipated benefits of the merger or may result in additional transaction costs, loss of revenue or other effects associated with uncertainty about the transaction. Any uncertainty regarding the consummation of the merger may make it more difficult for us to retain key employees or to pursue business strategies. In addition, until the merger is consummated, the attention of Enstar s and Castlewood s management may be diverted from ongoing business concerns and regular business responsibilities to the extent that management is focused on matters relating to the transaction, such as obtaining regulatory approvals.

If the merger does not constitute a reorganization under section 368(a) of the Code, then Enstar shareholders may be responsible for payment of U.S. federal income taxes.

The merger is conditioned upon the receipt by Castlewood and Enstar of an opinion of Debevoise & Plimpton LLP, counsel to Enstar, to the effect that the merger should constitute a reorganization under section 368(a) of the Code. This opinion of counsel will be based on, among other things, current law and certain representations as to factual matters made by Castlewood and Enstar, which, if incorrect, may jeopardize the conclusions reached by such counsel in its opinion. In addition, this legal opinion will not be binding upon the U.S. Internal Revenue Service. If for any reason the merger does not qualify as a tax-free reorganization under section 368(a) of the Code, then each Enstar shareholder would recognize a gain or loss equal to the difference between the fair market value of the New Enstar ordinary shares received by the shareholder in the merger and the shareholder s adjusted tax basis in the shares of Enstar common stock exchanged therefor.

Certain of Enstar s officers and directors have interests in the merger that may have influenced their approval of the merger agreement and the transactions contemplated by the merger agreement.

Certain of Enstar s directors and executive officers have interests in the merger that are different from, or in addition to, yours. These interests include, among others: a new employment agreement between New Enstar, Castlewood (US) Inc., a subsidiary of Castlewood, and John J. Oros; accelerated vesting of 80,000 options granted to certain Enstar directors and officers; a severance payment of $350,000 to Nimrod T. Frazer; tax indemnification by Castlewood of J. Christopher Flowers; registration rights granted to Enstar s directors; rights of two directors of Enstar to each sell up to 25,000 ordinary shares of New Enstar back to New Enstar; service of the current Enstar directors on New Enstar s board of directors; and indemnification by New Enstar of past and present directors and officers of Enstar. See section Interests of Certain Persons in the Merger beginning on page 52 for additional details.

Failure to consummate the merger could negatively impact the share price and the future business and financial results of Enstar.

If the merger is not consummated, the ongoing business of Enstar may be adversely affected and Enstar will be subject to several risks, including the following:

- Enstar may be required to pay certain costs relating to the merger, such as legal, accounting and printing fees; and
- management of Enstar may be focused on the merger instead of pursuing other opportunities that could be beneficial to it.

If the merger is not consummated, Enstar cannot ensure its shareholders that these risks will not materialize and will not materially affect the business, financial results and share price of Enstar.

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Risks Relating to New Enstar s Business

If we are unable to implement our business strategies, our business and financial condition may be adversely affected.

New Enstar s future results of operations will depend in significant part on the extent to which we can implement our business strategies successfully. Our business strategies after the merger include continuing to operate Castlewood s portfolio of run-off insurance and reinsurance companies and related management engagements, as well as pursuing additional acquisitions and management engagements in the run-off segment of the insurance and reinsurance market. We may not be able to implement our strategies fully or realize the anticipated results of our strategies as a result of significant business, economic and competitive uncertainties, many of which are beyond our control.

The effects of emerging claims and coverage issues may result in increased provisions for loss reserves and reduced profitability in New Enstar s insurance and reinsurance subsidiaries. Such adverse business issues may also reduce the level of incentive-based fees generated by New Enstar s consulting operations. Adverse global economic conditions, such as rising interest rates and volatile foreign exchange rates, may cause widespread failure of our insurance and reinsurance subsidiaries reinsurers ability to satisfy their obligations as well as failure of companies to meet their obligations under debt instruments held by our subsidiaries. If the run-off industry becomes more attractive to investors, competition for run-off acquisitions and management and consultancy engagements may increase and, therefore, reduce our ability to continue to make profitable acquisitions or expand our consultancy operations. If we are unable to successfully implement our business strategies, we may not be able to achieve future growth in our earnings and our financial condition may suffer.

Our inability to successfully manage our portfolio of insurance and reinsurance companies in run-off may adversely impact our ability to grow our business and may result in losses.

Castlewood was founded to acquire and manage companies and portfolios of insurance and reinsurance in run-off. Our run-off business differs from the business of traditional insurance and reinsurance underwriting in that our insurance and reinsurance companies in run-off no longer underwrite new policies and are subject to the risk that their stated provisions for losses and loss adjustment expense will not be sufficient to cover future losses and the cost of run-off. Because our companies in run-off no longer collect underwriting premiums, our sources of capital to cover losses are limited to our stated reserves, reinsurance coverage and retained earnings. As of June 30, 2006, our gross reserves for losses and loss adjustment expense totaled $1.0 billion, and our reinsurance receivables totaled $316.6 million.

In order for us to achieve positive operating results, we must first price acquisitions on favorable terms relative to the risks posed by the acquired portfolio and then successfully manage the acquired portfolios. Our inability to price acquisitions on favorable terms, efficiently manage claims, collect from reinsurers and control run-off expenses could result in us having to cover losses sustained under assumed policies with retained earnings, which would materially and adversely impact our ability to grow our business and may result in losses. As of June 30, 2006 our retained earnings were $144.5 million.

Our inability to successfully manage the companies and portfolios for which we have been engaged as a third-party manager may adversely impact our financial results and our ability to win future management engagements.

In addition to acquiring insurance and reinsurance companies in run-off, we have entered into several management agreements with third parties to manage their portfolios or companies in run-off. The terms of these management

engagements typically include incentive payments to us based on our ability to successfully manage the run-off of these companies or portfolios. We may not be able to accomplish our objectives for these engagements as a result of unforeseen circumstances such as the length of time for claims to develop, the extent to which losses may exceed reserves, changes in the law that may require coverage of additional claims and losses, our ability to commute reinsurance policies on favorable terms and our ability to manage run-off expenses. If we are not successful in meeting our objectives for these management engagements, we may not receive incentive payments under our management agreements, which could adversely impact our

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financial results, and we may not win future engagements to provide these management services, which could slow the growth of our business. Consulting fees generated from management agreements amounted to $22.0 million, $23.7 million and $24.7 million for the years ended December 31, 2005, December 31, 2004 and December 31, 2003, respectively,

If our insurance and reinsurance subsidiaries loss reserves are inadequate to cover their actual losses, our insurance and reinsurance subsidiaries net income and capital and surplus would be reduced.

Our insurance and reinsurance subsidiaries are required to maintain reserves to cover their estimated ultimate liability for losses and loss adjustment expenses for both reported and unreported claims incurred. These reserves are only estimates of what our subsidiaries think the settlement and administration of claims will cost based on facts and circumstances known to the subsidiaries. Our commutation activity and claims settlement and development in recent years has resulted in net reductions in provisions for loss and loss adjustment expenses of $96.0 million, $13.7 million and $24.0 million for the years ended December 31, 2005, December 31, 2004 and December 31, 2003, respectively. Although this recent experience indicates that our loss reserves have been more than adequate to meet our liabilities, because of the uncertainties that surround estimating loss reserves and loss adjustment expenses, our insurance and reinsurance subsidiaries cannot be certain that ultimate losses will not exceed these estimates of losses and loss adjustment expenses. If the subsidiaries reserves are insufficient to cover their actual losses and loss adjustment expenses, the subsidiaries would have to augment their reserves and incur a charge to their earnings. These charges could be material and would reduce our net income and capital and surplus.

The difficulty in estimating the subsidiaries reserves is increased because the subsidiaries loss reserves include reserves for potential asbestos and environmental liabilities. At December 31, 2005 our insurance and reinsurance companies recorded gross asbestos and environmental loss reserves of $578.1 million, or 71.7% of the total gross loss reserves. Net Asbestos and Environmental loss reserves at December 31, 2005 amounted to $384.0 million, or 64.7% of total net loss reserves. Asbestos and environmental liabilities are especially hard to estimate for many reasons, including the long waiting periods between exposure and manifestation of any bodily injury or property damage, the difficulty in identifying the source of the asbestos or environmental contamination, long reporting delays and the difficulty in properly allocating liability for the asbestos or environmental damage. Developed case law and adequate claim history do not always exist for such claims, especially because significant uncertainty exists about the outcome of coverage litigation and whether past claim experience will be representative of future claim experience. In view of the changes in the legal and tort environment that affect the development of such claims, the uncertainties inherent in valuing asbestos and environmental claims are not likely to be resolved in the near future. Ultimate values for such claims cannot be estimated using traditional reserving techniques and there are significant uncertainties in estimating the amount of our subsidiaries potential losses for these claims. Our subsidiaries have not made any changes in reserve estimates that might arise as a result of any proposed U.S. federal legislation related to asbestos. We increased our insurance and reinsurance subsidiaries asbestos and environmental gross loss reserves by $32.4 million in 2003 ($38.9 million net increase) primarily as a result of industry-wide adverse claims developments. We reduced these gross loss reserves by $13.7 million in 2004 and $172.3 million in 2005 ($33.4 million net reduction in 2004 and $100.6 million net reduction in 2005) as a result of subsequent successful commutations, policy buybacks and favorable claims settlements. There can be no assurance that the reserves established by our subsidiaries will be adequate to cover future losses or will not be adversely affected by the development of other latent exposures. To further understand this risk, see Information about Castlewood Reserves for Unpaid Losses and Loss Adjustment Expense beginning on page 77.

Our insurance and reinsurance subsidiaries reinsurers may not satisfy their obligations to our insurance and reinsurance subsidiaries.

Our insurance and reinsurance subsidiaries are subject to credit risk with respect to their reinsurers because the transfer of risk to a reinsurer does not relieve our subsidiaries of their liability to the insured. In addition, reinsurers may be unwilling to pay our subsidiaries even though they are able to do so. As at December 31, 2005, the balances receivable from reinsurers amounted to $250.2 million of which

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$164.4 million was associated with a single reinsurer, with a credit rating of A. The failure of one or more of our subsidiaries reinsurers to honor their obligations in a timely fashion may affect our cash flows, reduce our net income or cause us to incur a significant loss. Disputes with our reinsurers may also result in unforeseen expenses relating to litigation or arbitration proceedings.

The value of our insurance and reinsurance subsidiaries investment portfolios and the investment income that our insurance and reinsurance subsidiaries receive from these portfolios may decline as a result of market fluctuations and economic conditions.

The fair market value of the fixed-income securities and equity securities classified as available-for-sale in our subsidiaries investment portfolios, amounting to $216.6 million at December 31, 2005, and the investment income from these assets fluctuate depending on general economic and market conditions. For example, the fair market value of our subsidiaries fixed-income securities generally increases or decreases in an inverse relationship with fluctuations in interest rates. The fair market value of our subsidiaries fixed-income securities can also decrease as a result of any downturn in the business cycle that causes the credit quality of those securities to deteriorate. The net investment income that our subsidiaries realize from investments in fixed income securities will generally increase or decrease with interest rates. The changes in the market value of our subsidiaries securities that are classified as available-for-sale are reflected in their financial statements. Permanent impairments in the value of our subsidiaries fixed income securities are also reflected in their financial statements. As a result, a decline in the value of the securities in our subsidiaries portfolio may reduce their net income or cause them to incur a loss.

Fluctuations in the reinsurance industry may cause our operating results to fluctuate.

The reinsurance industry historically has been subject to significant fluctuations and uncertainties. Factors that affect the industry in general may also cause our operating results to fluctuate. The industry s profitability may be affected significantly by:

- fluctuations in interest rates, inflationary pressures and other changes in the investment environment, which affect returns on invested capital and may affect the ultimate payout of loss amounts and the costs of administering books of reinsurance business;
- volatile and unpredictable developments, which may adversely affect the recoverability of reinsurance from our reinsurers;
- changes in reserves resulting from different types of claims that may arise and the development of judicial interpretations relating to the scope of insurers liability; and
- the overall level of economic activity and the competitive environment in the industry.

The effects of emerging claim and coverage issues on our business are uncertain.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect the adequacy of our provision for losses and loss adjustment expenses by either extending coverage beyond the intent of insurance policies and reinsurance contracts envisioned at the time they were written, or by increasing the number or size of claims. In some instances, these changes may not become apparent until some time after we have acquired companies or portfolios of insurance or reinsurance contracts that are affected by the changes. As a result, the full extent of liability under these insurance or reinsurance contracts may not be known for many years after a contract has been issued. To further understand this risk, see Information about Castlewood Reserves for Unpaid Losses and Loss Adjustment

Expense beginning on page 77.

Insurance laws and regulations restrict our ability to operate, and any failure to comply with these laws and regulations may have a material adverse effect on our business.

We are subject to extensive regulation under insurance laws of a number of jurisdictions. These laws limit the amount of dividends that can be paid to us by our insurance and reinsurance subsidiaries, prescribe

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solvency standards that they must meet and maintain, impose restrictions on the amount and type of investments that they can hold to meet solvency requirements and require them to maintain reserves. Failure to comply with these laws may subject our subsidiaries to fines and penalties and restrict them from conducting business. The application of these laws may affect our liquidity and ability to pay dividends on our ordinary shares and may restrict our ability to expand our business operations through acquisitions. At December 31, 2005, the required statutory capital and surplus of our Bermuda, U.K. and Swiss insurance and reinsurance companies amounted to $48.9 million compared to the actual statutory capital and surplus of $285.6 million. As at December 31, 2005, $1.8 million of our total investments of $539.6 million was not admissible for statutory solvency purposes.

If we fail to comply with applicable insurance laws and regulations, we may be subject to disciplinary action, damages, penalties or restrictions that may have a material adverse effect on our business.

We cannot assure you that our subsidiaries have or can maintain all required licenses and approvals or that their businesses fully comply with the laws and regulations to which they are subject, or the relevant insurance regulatory authority s interpretation of those laws and regulations. In addition, some regulatory authorities have relatively broad discretion to grant, renew or revoke licenses and approvals. If our subsidiaries do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, the insurance regulatory authorities may preclude or suspend our subsidiaries from carrying on some or all of their activities, or impose monetary penalties on them. These types of actions may have a material adverse effect on our business and may preclude us from making future acquisitions or obtaining future engagements to manage companies and portfolios in run-off.

Castlewood has made, and New Enstar expects to continue to make, strategic acquisitions of insurance and reinsurance companies in run-off, and these activities may not be financially beneficial to us or our shareholders.

Castlewood has pursued and, as part of our strategy, we will continue to pursue growth through acquisitions and/or strategic investments in insurance and reinsurance companies in run-off. Castlewood and its subsidiaries have made several acquisitions and investments and we expect to continue to make such acquisitions and investments. See Information About Castlewood Business Acquisition of Insurers or Portfolios in Run-Off beginning on page 75. We cannot be certain that any of these acquisitions or investments will be financially advantageous for us or our shareholders.

The negotiation of potential acquisitions or strategic investments as well as the integration of an acquired business or portfolio could result in a substantial diversion of management resources. Acquisitions could involve numerous additional risks such as potential losses from unanticipated litigation or levels of claims, an inability to generate sufficient revenue to offset acquisition costs and financial exposures in the event that the sellers of the entities we acquire are unable or unwilling to meet their indemnification, reinsurance and other obligations to us.

Our ability to manage our growth through acquisitions or strategic investments will depend, in part, on our success in addressing these risks. Any failure by us to effectively implement our acquisition or strategic investment strategies could have a material adverse effect on our business, financial condition or results of operations.

Future acquisitions may expose us to operational risks such as cash flow shortages, challenges to recruit appropriate levels of personnel, financial exposures to foreign currencies, additional integration costs and management time and effort.

We may in the future make additional strategic acquisitions, either of other companies or selected portfolios of insurance or reinsurance in run-off. Any future acquisitions may expose us to operational challenges and risks, including:

funding cash flow shortages that may occur if anticipated revenues are not realized or are delayed, whether by general economic or market conditions or unforeseen internal difficulties;

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funding cash flow shortages that may occur if expenses are greater than anticipated;

the value of assets being lower than expected or diminishing because of credit defaults or changes in interest rates, or liabilities assumed being greater than expected;

integrating financial and operational reporting systems, including assurance of compliance with Section 404 of the Sarbanes-Oxley Act of 2002;

establishing satisfactory budgetary and other financial controls;

funding increased capital needs and overhead expenses;

obtaining management personnel required for expanded operations; and

the assets and liabilities we may acquire may be subject to foreign currency exchange rate fluctuation.

Our failure to manage successfully these operational challenges and risks could have a material adverse effect on our business, financial condition or results of operations.

Exit and finality opportunities provided by solvent schemes of arrangement may not continue to be available which may result in the diversion of our resources to settle policyholder claims for a substantially longer run-off period and increase the associated costs of run-off of our insurance and reinsurance subsidiaries.

With respect to our U.K. and Bermudian insurance and reinsurance subsidiaries, Castlewood is able to pursue strategies to achieve complete finality and conclude the run-off of a company by promoting solvent schemes of arrangement. Solvent schemes of arrangement have been a popular means of achieving financial certainty and finality, for insurance and reinsurance companies incorporated or managed in the U.K. and Bermuda, by making a one-time full and final settlement of an insurance and reinsurance company s liabilities to policyholders. A solvent scheme of arrangement is an arrangement between a company and its creditors or any class of them. For a solvent scheme of arrangement to become binding on the creditors a meeting of each class of creditors must be called, with the permission of the local court, to consider and, if thought fit, approve the solvent scheme arrangement. The requisite statutory majority of creditors of not less than 75% in value and 50% in number of those creditors actually attending the meeting, either in person or by proxy, must vote in favor of a solvent scheme of arrangement. Once the solvent scheme of arrangement has been approved by the statutory majority of voting creditors of the company it requires the sanction of the local court.

In July 2005, the case of British Aviation Insurance Company, or BAIC, was the first solvent scheme of arrangement to fail to be sanctioned by the English High Court, following opposition by certain creditors. The primary reason for the failure of the BAIC arrangement was the failure to adequately provide for different classes of creditors to vote separately on the arrangement. It was thought at the time that the BAIC judgment may signal the decline of solvent schemes of arrangement. However, since BAIC four solvent schemes of arrangement have been sanctioned, such that the prevailing view is that the BAIC judgment was very fact-specific to the case in question, and solvent schemes generally should continue to be promoted and sanctioned as a viable means for achieving finality for our insurance and reinsurance subsidiaries. Following the BAIC judgment, insurance and reinsurance companies must now take more care in drafting a solvent scheme of arrangement to fit the circumstances of the company including the determination of the appropriate classes of creditors. Should a solvent scheme of arrangement promoted by an insurance or reinsurance subsidiary of New Enstar fail to receive the requisite approval by creditors or sanction by the court, we will have to run off these liabilities until expiry, which may result in the diversion of our resources to settle

policyholder claims for a substantially longer run-off period and increase the associated costs of run-off, resulting potentially in a material adverse effect on our financial condition and results of operations.

We are dependent on our executive officers, directors and other key personnel and the loss of any of these individuals could adversely affect our business.

Our success substantially depends on our ability to attract and retain qualified employees and upon the ability of our senior management and other key employees to implement our business strategy. We believe that

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there are only a limited number of available qualified personnel in the business in which we compete. We rely substantially upon the services of Dominic F. Silvester, our Chief Executive Officer, Paul J. O Shea and Nicholas A. Packer, our Executive Vice Presidents, Richard J. Harris, our Chief Financial Officer, John J. Oros, who will become our Executive Chairman, and our other executive officers and directors to identify and consummate the acquisition of insurance and reinsurance companies and portfolios in run-off on favorable terms and to implement our run-off strategy. Each of Messrs. Silvester, O Shea and Packer has an employment agreement with us. Mr. Oros will also have an employment agreement with us. In addition to serving as our Executive Chairman following the merger, Mr. Oros is a managing director of J.C. Flowers & Co. LLC, an investment firm specializing in privately negotiated equity and equity-related investments in the financial services industry. Mr. Oros will split his time commitment between New Enstar and J.C. Flowers & Co. LLC. J. Christopher Flowers, one of our directors and, following the merger, one of our largest shareholders, is a Managing Director of J.C. Flowers & Co. LLC. We believe that our relationships with Mr. Oros and Mr. Flowers and their affiliates provide us with access to additional acquisition and investment opportunities, as well as sources of co-investment for acquisition opportunities that we do not have the resources to consummate on our own. The loss of the services of any of our management or other key personnel, or the loss of the services of or our relationships with any of our directors, including in particular Mr. Oros and Mr. Flowers, or their affiliates could have a material adverse effect on our business.

Further, if we were to lose any of our key employees in Bermuda, we would likely hire non-Bermudians to replace them. Under Bermuda law, non-Bermudians (other than spouses of Bermudians or holders of permanent resident s certificates) may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. Work permits may be granted or extended by the Bermuda government upon showing that, after proper public advertisement in most cases, no Bermudian (or spouse of a Bermudian or holder of a permanent resident s certificate) is available who meets the minimum standard requirements for the advertised position. The Bermuda government s policy limits the duration of work permits to six years, with certain exemptions for key employees and job categories where there is a worldwide shortage of qualified employees.

Conflicts of interest might prevent us from pursuing desirable investment and business opportunities.

Our directors and executive officers may have ownership interests or other involvement with entities that could compete against us, either in the pursuit of acquisition targets or in general business operations. On occasion, we have also participated in transactions in which one or more of our directors or executive officers had an interest. In particular, we have invested, and expect to continue to invest, in or with entities that are affiliates of or otherwise related to Mr. Oros and/or Mr. Flowers. The interests of our directors and executive officers in such transactions or such entities may result in a conflict of interest for those directors and officers. As a result, we may not be able pursue to all advantageous transactions that we would otherwise pursue in the absence of a conflict. We intend to have the independent members of our board of directors review any material transaction involving a conflict of interest, as well as take other actions as appropriate in particular circumstances.

We may require additional capital in the future that may not be available or may only be available on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to manage the run-off of our assumed policies and to establish reserves at levels sufficient to cover losses. We may need to raise additional funds through financings in the future. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. In the case of equity financings, dilution to our shareholders could result, and, in any case, such securities may have rights, preferences and privileges that are senior to those of our already outstanding securities. If we cannot obtain adequate capital, our business, results of operations and financial condition could be adversely affected.

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We are a holding company, and we are dependent on the ability of our subsidiaries to distribute funds to us.

We are a holding company and conduct substantially all of our operations through subsidiaries. Our only significant assets are the capital stock of our subsidiaries. As a holding company, we are dependent on distributions of funds from our subsidiaries to pay dividends, fund acquisitions or fulfill financial obligations in the normal course of our business. Our subsidiaries may not generate sufficient cash from operations to enable us to make dividend payments, acquire additional companies or insurance or reinsurance portfolios or fulfill other financial obligations. The ability of our insurance and reinsurance subsidiaries to make
distributions to us is limited by applicable insurance laws and regulations, and the ability of all of our subsidiaries to make distributions to us may be restricted by, among other things, other applicable laws and regulations.

Fluctuations in currency exchange rates may cause us to experience losses.

We maintain a portion of our investments, insurance liabilities and insurance assets denominated in currencies other than U.S. dollars. Consequently, we and our subsidiaries may experience foreign exchange losses.

We publish our consolidated financial statements in U.S. dollars. Therefore, fluctuations in exchange rates used to convert other currencies, particularly other European currencies including the Euro and British pound, into U.S. dollars will impact our reported consolidated financial condition, results of operations and cash flows from year to year.

Risks Relating to Ownership of New Enstar Ordinary Shares

There is no existing market for our ordinary shares.

There is no current public trading market for New Enstar ordinary shares. We cannot predict the prices at which our ordinary shares may trade following the merger. Such trading prices will be determined by the marketplace and may be influenced by many factors, including the depth and liquidity in the market for such shares, investor perceptions of us and the industry in which we participate, our dividend policy and general economic and market conditions. Until an orderly market develops, the trading prices for our shares may fluctuate significantly.

The market value of our ordinary shares may decline if large numbers of shares are sold following the merger.

If, following the merger, large amounts of our ordinary shares are sold, the price of our ordinary shares may decline. Enstar s common stock historically has been thinly traded with an average daily trading volume between January 1, 2005 and August 18, 2006 of 4,531 shares. In addition, Enstar generally has not received meaningful analyst coverage. Because Enstar s common stock historically has been thinly traded, we expect that, at least initially, New Enstar s ordinary shares will also be thinly traded because following the merger, 49.8% of our ordinary shares will be held in by certain of our directors and executive officers and their respective affiliates, and, therefore, the public float will be relatively low. Further, we anticipate that initially New Enstar may not attract meaningful analyst coverage. Consequently, if relatively small amounts of our ordinary shares are sold, the price of our ordinary shares may decline. Current shareholders of Castlewood and Enstar may not wish to continue to invest in New Enstar or for other reasons may wish to dispose of some or all of their interests in New Enstar. Actual or potential sales by officers, directors or large shareholders of New Enstar may be viewed negatively by other investors.

Castlewood, Trident, Messrs. Flowers and Silvester and certain other shareholders of Castlewood will enter into a registration rights agreement in connection with the transactions contemplated by the merger agreement and the recapitalization agreement. The registration rights agreement will become effective immediately upon the consummation of the merger. The registration rights agreement will provide that, after the expiration of one year from

the date of the registration rights agreement, Trident, Mr. Flowers and Mr. Silvester may request that New Enstar effect the registration under the Securities Act of certain of such

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holder s New Enstar shares. Notwithstanding the preceding sentence, the registration rights agreement further provides that, after the expiration of 90 days from the date of the registration rights agreement and prior to the first anniversary of such date, Trident has the right to require New Enstar to effect the registration of up to 750,000 of Trident s New Enstar shares.

Our stock price may experience volatility, thereby causing a potential loss of value to our investors.

The market price for our ordinary shares may fluctuate substantially due to, among other things, the following factors:

announcements with respect to an acquisition or investment;

changes in the value of our assets;

our quarterly operating results;

changes in general conditions in the economy;

the financial markets; and

adverse press or news announcements.

There is no current public trading market for New Enstar ordinary shares, and assuming a market develops, that market may be characterized by significant price volatility. Enstar has experienced price volatility in the past. For example, during the period from January 1, 2006 through August 18, 2006, the lowest closing price for shares of Enstar common stock was $65.00 (occurring on January 5, 2006) and the highest closing price for shares of Enstar common stock was $100.91 (occurring on August 17, 2006). During 2005, the lowest closing price for shares of Enstar common stock was $49.40 (occurring on April 20) and the highest closing price for shares of Enstar common stock was $72.58 (occurring on December 15, 2005). In addition, from time to time, the stock market experiences significant price and volume fluctuations. This volatility affects the market prices of securities issued by many companies for reasons unrelated to their operating performance.

A few significant shareholders may influence or control the direction of our business. If the ownership of our ordinary shares continues to be highly concentrated, it may limit your ability and the ability of other shareholders to influence significant corporate decisions.

The interests of Trident and Messrs. Flowers, Silvester, Packer and O Shea may not be fully aligned with your interests, and this may lead to a strategy that is not in your best interest. Following the consummation of the merger, Trident will beneficially own approximately 18% of the outstanding New Enstar ordinary shares, and Messrs. Flowers, Silvester, Packer and O Shea will beneficially own approximately 10%, 19%, 6% and 6%, respectively, of the outstanding New Enstar ordinary shares. Although they do not act as a group, Trident and each of Messrs. Flowers, Silvester, Packer and O Shea will exercise significant influence over matters requiring shareholder approval. Although they do not act as a group, the concentrated holdings of Trident and Messrs. Flowers, Silvester, Packer, and O Shea may delay or deter possible changes in control of New Enstar, which may reduce the market price of New Enstar ordinary shares. For further information on aspects of our bye-laws that may discourage changes of control of New Enstar, see Some aspects of our corporate structure may discourage third-party takeovers and other transactions or prevent the removal of our board of directors and management on page 28.

As a result of the merger, we will be subject to financial reporting and other requirements for which our accounting and other management systems and resources may not be adequately prepared.

Enstar s reporting and control systems are appropriate for that of a public company. However, as a private company, Castlewood has not been directly subject to reporting and other requirements of the U.S. Securities and Exchange Act of 1934, as amended, or the Exchange Act. As a result of the merger, New Enstar will be directly subject to reporting and other obligations under the Exchange Act, including the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which will require annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent auditors addressing these assessments. These reporting and other obligations will place significant demands on our

management, administrative and operational resources, including accounting resources. If we are unable to integrate and upgrade our financial and management controls, reporting systems, information technology and procedures in a timely and effective fashion, our ability to comply with financial reporting requirements and other rules that apply to reporting companies may be impaired. Any failure to achieve and maintain effective internal controls may have a material adverse effect on our business, operating results and stock price.

Some aspects of our corporate structure may discourage third-party takeovers and other transactions or prevent the removal of our board of directors and management.

Some provisions of our bye-laws have the effect of making more difficult or discouraging unsolicited takeover bids from third parties or preventing the removal of our current board of directors and management. In particular, our bye-laws make it difficult for any U.S. shareholder or Direct Foreign Shareholder Group (a shareholder or group of commonly controlled shareholders of New Enstar that are not U.S. persons) to own or control ordinary shares that constitute 9.5% or more of the voting power of all of our ordinary shares. The votes conferred by such shares will be reduced by whatever amount is necessary so that after any such reduction the votes conferred by such shares will constitute 9.5% of the total voting power of all ordinary shares entitled to vote generally. The primary purpose of this restriction is to reduce the likelihood that we will be deemed a controlled foreign corporation within the meaning of the Code, for U.S. federal tax purposes. However, this limit may also have the effect of deterring purchases of large blocks of our ordinary shares or proposals to acquire us, even if some or a majority of our shareholders might deem these purchases or acquisition proposals to be in their best interests. In addition, our bye-laws provide for a classified board, whose members may be removed by our shareholders only for cause by a majority vote, and contain restrictions on the ability of shareholders to nominate persons to serve as directors, submit resolutions to a shareholder vote and request special general meetings.

These bye-law provisions make it more difficult to acquire control of us by means of a tender offer, open market purchase, proxy contest or otherwise. These provisions are designed to encourage persons seeking to acquire control of us to negotiate with our directors, which we believe would generally best serve the interests of our shareholders. However, these provisions may have the effect of discouraging a prospective acquirer from making a tender offer or otherwise attempting to obtain control of us. In addition, these bye-law provisions may prevent the removal of our current board of directors and management. To the extent these provisions discourage takeover attempts, they may deprive shareholders of opportunities to realize takeover premiums for their shares or may depress the market price of the shares.

Because we are incorporated in Bermuda, it may be difficult for shareholders to serve process or enforce judgments against us or our directors and officers.

We are a Bermuda company. In addition, certain of our officers and directors reside in countries outside the United States. All or a substantial portion of our assets and the assets of these officers and directors are or may be located outside the United States. Investors may have difficulty effecting service of process within the United States on our directors and officers who reside outside the United States or recovering against us or these directors and officers on judgments of U.S. courts based on civil liabilities provisions of the U.S. federal securities laws even if we appoint an agent in the United States to receive service of process.

Further, no claim may be brought in Bermuda against us or our directors and officers in the first instance for violation of U.S. federal securities laws because these laws have no extraterritorial jurisdiction under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability, including the possibility of monetary damages, on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

We have been advised by Conyers Dill & Pearman, our Bermuda counsel, that there is doubt as to whether the courts of Bermuda would enforce judgments of U.S. courts obtained in actions against us or our directors and officers, as well as the experts named in this proxy statement/prospectus, predicated upon the civil liability provisions of the U.S. federal securities laws or original actions brought in Bermuda against us or these persons predicated solely upon U.S. federal securities laws. Further, we have been advised by Conyers

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Dill & Pearman that there is no treaty in effect between the United States and Bermuda providing for the enforcement of judgments of U.S. courts, and there are grounds upon which Bermuda courts may not enforce judgments of U.S. courts.

Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal securities laws, may not be allowed in Bermuda courts as contrary to that jurisdiction s public policy. Because judgments of U.S. courts are not automatically enforceable in Bermuda, it may be difficult for you to recover against us based upon such judgments.

Shareholders who own our ordinary shares may have more difficulty in protecting their interests than shareholders of a U.S. corporation.

The Bermuda Companies Act, which applies to us, differs in certain material respects from laws generally applicable to U.S. corporations and their shareholders. As a result of these differences, shareholders who own our shares may have more difficulty protecting their interests than shareholders who own shares of a U.S. corporation. For example, class actions and derivative actions are generally not available to shareholders under Bermuda law. Under Bermuda law and our second amended and restated bye-laws, only shareholders holding 5% or more of our outstanding ordinary shares or numbering 100 or more are entitled to propose a resolution at a New Enstar general meeting. Shareholders of Enstar do not have to satisfy such requirements to propose a resolution at a Enstar shareholders meeting. To further understand this risk, see Description of New Enstar s Share Capital Differences in Corporate Law beginning on page 196 for more information on the differences between Bermuda and Georgia corporate laws.

We do not intend to pay cash dividends on our ordinary shares.

We do not intend to pay a cash dividend on our ordinary shares. Rather, we intend to use any retained earnings to fund the development and growth of our business. From time to time, our board of directors will review our alternatives with respect to our earnings and seek to maximize value for our shareholders. In the future, we may decide to commence a dividend program for the benefit of our shareholders. Any future determination to pay dividends will be at the discretion of our board of directors and will be limited by our position as a holding company that lacks direct operations, significant regulatory restrictions, the results of operations of our subsidiaries, our financial condition, cash requirements and prospects and other factors that our board of directors deems relevant. As a result, capital appreciation, if any, on our ordinary shares may be your sole source of gain for the foreseeable future. In addition, there are regulatory and other constraints that could prevent us from paying dividends in any event.

Our board of directors may decline to register a transfer of our ordinary shares under certain circumstances.

Our board of directors may decline to register a transfer of ordinary shares under certain circumstances, including if it has reason to believe that any non-de minimis adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any of our shareholders may occur as a result of such transfer. Further, our bye-laws provide us with the option to repurchase, or to assign to a third party the right to purchase, the minimum number of shares necessary to eliminate any such non-de minimis adverse tax, regulatory or legal consequence. In addition, our board of directors may decline to approve or register a transfer of shares unless all applicable consents, authorizations, permissions or approvals of any governmental body or agency in Bermuda, the United States or any other applicable jurisdiction required to be obtained prior to such transfer shall have been obtained. The proposed transferor of any shares will be deemed to own those shares for dividend, voting and reporting purposes until a transfer of such shares has been registered on our shareholders register.

Conyers Dill & Pearman has advised us that while the precise form of the restrictions on transfer contained in our bye-laws is untested, as a matter of general principle, restrictions on transfers are enforceable under Bermuda law and

are not uncommon.

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These restrictions on transfer may also have the effect of delaying, deferring or preventing a change in control.

Risks Relating to Taxation

We might incur unexpected U.S. or U.K. tax liabilities if companies in our group that are incorporated outside of those jurisdictions are determined to be carrying on a trade or business there.

We and a number of our subsidiaries are companies formed under the laws of Bermuda or other jurisdictions that do not impose income taxes; it is our contemplation that these companies will not incur substantial income tax liabilities from their operations. Because the operations of these companies generally involve, or relate to, the insurance or reinsurance of risks that arise in higher tax jurisdictions, such as the United States or the United Kingdom, it is possible that the taxing authorities in those jurisdictions may assert that the activities of one or more of these companies creates a sufficient nexus in that jurisdiction to subject the company to income tax there. There are uncertainties in how the relevant rules apply to insurance businesses, and in our eligibility for favorable treatment under applicable tax treaties. Accordingly, it is possible that we could incur substantial unexpected tax liabilities. For further information on these subjects, see Material Tax Considerations of Holding and Disposing of New Enstar Ordinary Shares Taxation of New Enstar and Subsidiaries United Kingdom and Material Tax Considerations of Holding and Disposing of New Enstar Ordinary Shares Taxation of New Enstar and Subsidiaries United States beginning on page 203.

For more information on the tax considerations of holding and disposing of New Enstar ordinary shares, see Material Tax Considerations of Holding and Disposing of New Enstar Ordinary Shares beginning on page 202.

U.S. persons who own our ordinary shares might become subject to adverse U.S. tax consequences as a result of related party insurance income, or RPII, if any, of our non-U.S. insurance company subsidiaries.

If the RPII rules of the Code were to apply to us, a U.S. person who owns our ordinary shares directly or indirectly through foreign entities on the last day of the taxable year would be required to include in income for U.S. federal income tax purposes the shareholder s pro rata share of our non-U.S. subsidiaries RPII for the entire taxable year, determined as if that RPII were distributed proportionately to the U.S. shareholders at that date regardless whether any actual distribution is made. In addition, any RPII that is includible in the income of a U.S. tax-exempt organization would generally be treated as unrelated business taxable income. Although we and our subsidiaries intend to generally operate in a manner so as to qualify for certain exceptions to the RPII rules, there can be no assurance that these exceptions will be available. Accordingly, there can be no assurance that U.S. Persons who own our ordinary shares will not be required to recognize gross income inclusions attributable to RPII. See Material Tax Considerations of Holding and Disposing of New Enstar Ordinary Shares Taxation of Shareholders United States Taxation beginning on page 206.

In addition, the RPII rules provide that if a shareholder who is a U.S. Person disposes of shares in a foreign insurance company that has RPII and in which U.S. Persons collectively own 25% or more of the shares, any gain from the disposition will generally be treated as dividend income to the extent of the shareholder s share of the corporation s undistributed earnings and profits that were accumulated during the period that the shareholder owned the shares (whether or not those earnings and profits are attributable to RPII). Such a shareholder would also be required to comply with certain reporting requirements, regardless of the amount of shares owned by the shareholder. These rules should not apply to dispositions of our ordinary shares because New Enstar will not itself be directly engaged in the insurance business. The RPII rules, however, have not been interpreted by the courts or the IRS, and regulations interpreting the RPII rules exist only in proposed form. Accordingly, there is no assurance that our views as to the inapplicability of these rules to a disposition of our ordinary shares will be accepted by the IRS or a court. See Material Tax Considerations of Holding and Disposing of New Enstar Ordinary Shares Taxation of Shareholders

United States Taxation Dispositions of Ordinary Shares beginning on page 209.

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U.S. persons who own our ordinary shares would be subject to adverse tax consequences if we or one or more of our non-U.S. subsidiaries were considered a passive foreign investment company, or PFIC, for U.S. federal income tax purposes.

We believe that we and our non-U.S. subsidiaries will not be PFICs for U.S. federal income purposes for the current year. Moreover, we do not expect to conduct our activities in a manner that will cause us or any of our non-U.S. subsidiaries to become a PFIC in the future. However, there can be no assurance that the IRS will not challenge this position or that a court will not sustain such challenge. Accordingly, it is possible that we or one or more of our non-U.S. subsidiaries might be deemed a PFIC by the IRS or a court for the current year or any future year. If we or one or more of our non-U.S. subsidiaries were a PFIC, it could have material adverse tax consequences for an investor that is subject to U.S. federal income taxation, including subjecting the investor to a substantial acceleration and/or increase in tax liability. There are currently no regulations regarding the application of the PFIC provisions of the Code to an insurance company, so the application of those provisions to insurance companies remains unclear in certain respects. See Material Tax Considerations of Holding and Disposing of New Enstar Ordinary Shares Taxation of Shareholders United States Taxation Passive Foreign Investment Companies beginning on page 210.

We may become subject to taxes in Bermuda after March 28, 2016.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966, as amended, of Bermuda, has given us and each of our Bermuda subsidiaries an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to us or our Bermuda subsidiaries or any of our or their respective operations, shares, debentures or other obligations until March 28, 2016. See Material Tax Considerations of Holding and Disposing of New Enstar Ordinary Shares Taxation of New Enstar and Subsidiaries Bermuda beginning on page 202. Given the limited duration of the Minister of Finance s assurance, we cannot be certain that we will not be subject to any Bermuda tax after March 28, 2016. In the event that we become subject to any Bermuda tax after such date, it could have a material adverse effect on our financial condition and results of operations.

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FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus and the documents incorporated by reference into this proxy statement/prospectus contain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act with respect to the financial condition, results of operations, business strategies, operating efficiencies, competitive positions, growth opportunities, plans and objectives of the management of each of Enstar, Castlewood and New Enstar, as well as the merger, the markets for Enstar common stock and New Enstar ordinary shares and the insurance and reinsurance sectors in general. Statements that include words such as estimate, project, plan, intend, expect, anticipate, believe, would, should, could, seek, and similar statemen forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise. All forward-looking statements are necessarily estimates or expectations, and not statements of historical fact, reflecting the best judgment of the respective managements of Enstar and Castlewood and, following the merger, New Enstar, and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements should, therefore, be considered in light of various important factors, including those set forth in and incorporated by reference in this proxy statement/prospectus.

Factors that could cause actual results to differ materially from those suggested by the forward-looking statements include:

- risks associated with implementing our business strategies and initiatives;
- the adequacy of our loss reserves and the need to adjust such reserves as claims develop over time;
- risks relating to the availability and collectibility of our reinsurance;
- tax, regulatory or legal restrictions or limitations applicable to Castlewood, Enstar or New Enstar or the insurance and reinsurance business generally;
- increased competitive pressures, including the consolidation and increased globalization of reinsurance providers;
- emerging claim and coverage issues;
- lengthy and unpredictable litigation affecting assessment of losses and/or coverage issues;
- loss of key personnel;
- changes in Castlewood s, Enstar s or New Enstar s plans, strategies, objectives, expectations or intentions, which may happen at any time at management s discretion;
- operational risks, including system or human failures;
- risks that we may require additional capital in the future which may not be available or may be available only on unfavorable terms;

the risk that ongoing or future industry regulatory developments will disrupt our business, or mandate changes in industry practices in ways that increase our costs, decrease our revenues or require us to alter aspects of the way we do business;

changes in Bermuda law or regulation or the political stability of Bermuda;

changes in regulations or tax laws applicable to us or our subsidiaries, or the risk that we or one of our non-U.S. subsidiaries become subject to significant, or significantly increased, income taxes in the United States or elsewhere;

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losses due to foreign currency exchange rate fluctuations;

changes in accounting policies or practices; and

changes in economic conditions, including interest rates, inflation, currency exchange rates, equity markets and credit conditions which could affect our investment portfolio.

The factors listed above should not be construed as exhaustive. Certain of these factors are described in more detail in Risk Factors above. We undertake no obligation to release publicly the results of any future revisions we may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

General

This proxy statement/prospectus is being furnished to the shareholders of Enstar in connection with the solicitation of proxies by the board of directors of Enstar for use at the Annual Meeting to be held on , 2006 at Flowers Hall, Huntingdon College, at 1500 East Fairview Avenue, Montgomery, Alabama 36106, at 9:00 a.m., local time, and at any adjournment thereof.

Record Date

The Enstar board of directors has fixed September 28, 2006 as the Record Date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting. Only holders of common stock, par value $.01 per share, of Enstar, as of the Record Date are entitled to vote at the Annual Meeting. On the Record Date, Enstar had issued and outstanding shares of common stock. Each share of common stock is entitled to one vote on each matter being considered at the Annual Meeting. No cumulative voting rights are authorized, and appraisal rights for dissenting shareholders are not applicable to the matters being proposed. It is anticipated that this proxy statement/prospectus will be first mailed to shareholders of Enstar on or about , 2006.

Voting and Proxies

When the enclosed form of proxy is properly executed and returned, the Enstar common stock it represents will be voted as directed at the Annual Meeting or, if no direction is indicated on an executed proxy, such shares will be voted in favor of the proposals set forth in the notice attached hereto. Any Enstar shareholder giving a proxy has the power to revoke it at any time before it is voted. All proxies delivered pursuant to the solicitation are revocable at any time at the option of the persons executing them by giving written notice to the Secretary of Enstar, by delivering a later-dated proxy or by voting in person at the Annual Meeting. Any beneficial owner of shares of Enstar common stock as of the Record Date who intends to vote such shares in person at the Annual Meeting must obtain a legal proxy from the record owner and present such proxy at the Annual Meeting in order to vote such shares. Votes cast by proxy or in person at the Annual Meeting will be tabulated by the inspector of elections appointed for the meeting who will also determine whether a quorum is present for the transaction of business.

The presence in person or by proxy of holders of a majority of the shares of Enstar common stock outstanding on the Record Date will constitute a quorum for the transaction of business at the Annual Meeting.

Approval of the merger agreement and the transactions contemplated by the merger agreement requires the affirmative vote of the holders of a majority of the outstanding voting power of Enstar s common stock on the Record Date.

As of May 23, 2006, Enstar s directors and executive officers owned 1,904,753 shares of Enstar common stock, representing approximately 33.19% of the voting power of Enstar common stock on that date. Three of those directors, who owned Enstar common stock representing 30.1% of the voting power on that date, have entered into a support agreement with Castlewood pursuant to which such directors have agreed to vote their shares of Enstar common stock in favor of the merger agreement and the transactions contemplated by the merger agreement. All other Enstar directors and officers have also indicated that they intend to vote their shares of Enstar common stock in favor of the merger agreement and the transactions contemplated by the merger agreement.

The affirmative vote of a plurality of the shares of Enstar common stock present in person or by proxy and entitled to vote is required to elect directors. The affirmative vote of the majority of the shares of Enstar common stock represented at the Annual Meeting and entitled to vote on the subject matter is required with respect to the ratification of the appointment of Deloitte & Touche LLP as Enstar s independent registered public accounting firm and any other matter that may properly come before the Annual Meeting.

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At the Annual Meeting, votes cast for or against any matter may be cast in person or by proxy. Shares of Enstar common stock that are voted FOR, AGAINST or WITHHOLD at the Annual Meeting will be treated as being present at such meeting for purposes of establishing a quorum and will also be treated as votes eligible to be cast by the Enstar common stock present in person at the annual meeting and entitled to vote. Abstentions will be counted for purposes of determining both the presence or absence of a quorum for the transaction of business and the total number of votes cast with respect to a particular matter. Broker non-votes will be counted for purposes of determining the presence or absence of a quorum for the transaction of business but will not be counted for purposes of determining the number of votes cast with respect to the particular proposal on which the broker has expressly not voted. As a result, broker non-votes have the effect of reducing the number of affirmative votes required to achieve a particular voting requirement for matters by reducing the total number of shares from which the voting requirement is calculated. Broker non-votes are proxies from brokers or nominees indicating that those persons have not received instructions from the beneficial owners of the shares as to certain proposals on which the beneficial owners are entitled to vote but with respect to which the brokers or nominees have no discretionary voting power to vote without instructions.

As of the date of this proxy statement/prospectus, management of Enstar has no knowledge of any business other than that described herein which will be presented for consideration at the Annual Meeting. In the event any other business is properly presented at the Annual Meeting, the persons named in the enclosed proxy will have authority to vote such proxy in accordance with their judgment on such business.

Expenses of Solicitation

The cost of solicitation of proxies by the Enstar board of directors in connection with the Annual Meeting will be borne by Enstar. As part of its services as Enstar s transfer agent, American Stock Transfer & Trust Company will assist in the solicitation of proxies. In addition, Enstar may engage the services of Georgeson Shareholder Communications Inc. to assist in the solicitation of proxies. Enstar estimates the costs of these solicitation services should be approximately $9,000. Enstar will reimburse brokers, fiduciaries and custodians for reasonable expenses incurred by them in forwarding proxy materials to beneficial owners of common stock held in their names.

Approval of the Merger Agreement and the Transactions Contemplated by the Merger Agreement

On May 23, 2006, Enstar entered into the merger agreement with Castlewood and Merger Sub, pursuant to which Merger Sub will be merged with and into Enstar, and Enstar, which will be renamed Enstar USA, Inc., will become a direct wholly-owned subsidiary of Castlewood. Holders of shares of Enstar common stock will be entitled to receive one ordinary share of Castlewood in the merger for each share of Enstar common stock they own. Immediately following the merger, current shareholders of Enstar will hold approximately 48.7% of the issued ordinary shares of Castlewood, which will be renamed Enstar Group Limited.

At the Annual Meeting, holders of Enstar common stock will be asked to vote to approve the merger agreement and the transactions contemplated by the merger agreement.

THE MERGER WILL NOT BE CONSUMMATED UNLESS ENSTAR S SHAREHOLDERS APPROVE THE MERGER AGREEMENT AND THE TRANSACTIONS CONTEMPLATED BY THE MERGER AGREEMENT.

Recommendation of the Board of Directors of Enstar

THE ENSTAR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT ENSTAR SHAREHOLDERS VOTE FOR THE APPROVAL OF THE MERGER AGREEMENT AND THE TRANSACTIONS CONTEMPLATED BY THE MERGER AGREEMENT.

Details surrounding the proposed merger, including the background of the merger, the reasons for the merger, the accounting treatment of the merger, material U.S. federal income tax consequences of the merger,

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regulatory matters relating to the merger and other matters concerning the New Enstar ordinary shares in connection with the merger, can be found in the following section The Proposed Merger.

Dissenters Rights

Under Georgia law, Enstar shareholders are not entitled to dissenters rights in connection with the merger.

Election of Enstar Directors

In accordance with the bylaws of Enstar, Enstar s board of directors currently consists of seven members. Enstar s articles of incorporation divide Enstar s board of directors into three classes. Directors for each class are elected to serve a term of three years at the annual meeting of shareholders held in the year in which the term for such class expires. Nominees for vacant or newly created director positions stand for election at the next annual meeting following the vacancy or creation of such director positions, to serve for the remainder of the term of the class in which their respective positions are apportioned. The terms of two current directors, T. Whit Armstrong and T. Wayne Davis, expire at the Annual Meeting. At the Annual Meeting, T. Whit Armstrong and T. Wayne Davis will stand for re-election to serve as directors for three-year terms expiring at the 2009 annual meeting of shareholders, or until their successors are duly elected and qualified. In accordance with the bylaws of Enstar, a director who is not also an employee of Enstar may serve as a director only until the next annual meeting following such director s 70th birthday.

Enstar s board of directors has no reason to believe that any of the nominees for the office of director will be unavailable for election as directors. However, if at the time of the Annual Meeting any nominee should be unable or decline to serve, the persons named in the proxy will vote as recommended by Enstar s board of directors either (1) to elect a substitute nominee recommended by Enstar s board of directors, (2) to allow the vacancy created thereby to remain open until filled by Enstar s board of directors or (3) to reduce the number of directors for the ensuing year. In no event, however, can a proxy be voted to elect more than two directors. The election of directors requires the affirmative vote of a plurality of the shares held by shareholders present and voting at the Annual Meeting in person or by proxy.

If the merger is consummated, New Enstar, as the sole shareholder of Enstar following the merger, will be able to determine the composition of Enstar s board of directors in accordance with the merger agreement after the merger.

Recommendation of Enstar s Board of Directors

ENSTAR S BOARD OF DIRECTORS RECOMMENDS A VOTE FOR T. WHIT ARMSTRONG AND T. WAYNE DAVIS TO HOLD OFFICE UNTIL THE 2009 ANNUAL MEETING OF SHAREHOLDERS, OR UNTIL THEIR SUCCESSORS ARE DULY ELECTED AND QUALIFIED.

Nominees for Election Terms Expiring 2009

T. Whit Armstrong was elected to the position of director at Enstar in June of 1990. Mr. Armstrong has been President, Chief Executive Officer and Chairman of the Board of The Citizens Bank, Enterprise, Alabama, and its holding company, Enterprise Capital Corporation, Inc. for more than five years. Mr. Armstrong is also a director of Alabama Power Company of Birmingham, Alabama. Mr. Armstrong is 58 years old.

T. Wayne Davis was elected to the position of director at Enstar in June of 1990. Mr. Davis was Chairman of the Board of General Parcel Service, Inc., a parcel delivery service, from January of 1989 to September of 1997 and was Chairman of the Board of Momentum Logistics, Inc. from September of 1997 to March of 2003. He also is a director of Winn-Dixie Stores, Inc. and MPS Group, Inc. Mr. Davis is 59 years old.

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Continuing Directors Terms Expiring 2008

Nimrod T. Frazer was elected to the position of director of Enstar in August of 1990. Mr. Frazer was named Chairman of the Board, Acting President and Chief Executive Officer of Enstar on October 26, 1990 and served as President of Enstar from May 26, 1992 to June 6, 2001. Mr. Frazer is 76 years old.

John J. Oros has served as a director of Enstar since March of 2000. Mr. Oros was named to the position of Executive Vice President of Enstar in March of 2000 and on June 6, 2001, Mr. Oros was named President and Chief Operating Officer of Enstar. Before joining Enstar, Mr. Oros was an investment banker at Goldman, Sachs & Co. in the Financial Institutions Group. Mr. Oros joined Goldman, Sachs & Co. in 1980 and was made a General Partner in 1986. Mr. Oros resigned from Goldman, Sachs & Co. in March 2000 to join Enstar. In February 2006, Mr. Oros became a Managing Director of J.C. Flowers & Co. LLC, which serves as investment advisor to J.C. Flowers II L.P., a newly formed private equity fund affiliated with J. Christopher Flowers. Mr. Oros splits his time between J.C. Flowers & Co. LLC and Enstar. Mr. Oros is 59 years old.

Continuing Directors Terms Expiring 2007

J. Christopher Flowers was elected to the position of director of Enstar in October of 1996. Mr. Flowers became a general partner of Goldman, Sachs & Co. in 1988 and a Managing Director in 1996. He resigned from Goldman, Sachs & Co. in November 1998 in order to pursue his own business interests. Mr. Flowers was named Vice Chairman of the Board of Enstar in December 1998; Mr. Flowers resigned from such position in July 2003 but remains a member of Enstar s board of directors. He is also a director of Shinsei Bank, Ltd., formerly Long-Term Credit Bank of Japan, Ltd. Mr. Flowers has been a Managing Director of J.C. Flowers & Co., LLC, a financial services advisory firm since 2002. Mr. Flowers has also been a member of the Supervisory Board of NIBC, N.V. since December 2005. Mr. Flowers is 48 years old.

Gregory L. Curl was elected to the position of director of Enstar in July of 2003. Mr. Curl has been Director of Corporate Planning and Strategy for Bank of America since December 1998. Previously, Mr. Curl was Vice Chairman of Corporate Development and President of Specialized Lending for Bank of America from 1997 to 1998. Mr. Curl is 57 years old.

Paul J. Collins was elected to the position of director of Enstar in May of 2004. Mr. Collins retired as a Vice Chairman and member of the Management Committee of Citigroup Inc. in September 2000. From 1985 to 2000, Mr. Collins served as a director of Citicorp and its principal subsidiary, Citibank; from 1988 to 1998 he also served as Vice Chairman of such entities. Mr. Collins currently serves as a director of Nokia Corporation and BG Group, as a member of the supervisory board of Actis Capital LLP and as a trustee of the University of Wisconsin Foundation and the Glyndebourne Arts Trust. He is also a member of the Advisory Board of Welsh, Carson, Anderson & Stowe, a private equity firm. Mr. Collins is 69 years old.

Enstar s Code of Conduct and Code of Ethics

Enstar has a Code of Conduct which is applicable to all directors, officers and employees of Enstar. Enstar has an additional Code of Ethics for Senior Executive and Financial Officers, or the Code of Ethics, which contains provisions specifically applicable to its chief executive officer, chief financial officer, chief accounting officer and persons performing similar functions. The Code of Ethics is attached as an exhibit to Enstar s Annual Report on Form 10-K for the year ended December 31, 2003. Upon request to the following address, Enstar will furnish without charge a copy of the Code of Conduct and the Code of Ethics:

THE ENSTAR GROUP, INC.
401 Madison Avenue
Montgomery, Alabama 36104
Attention: Amy M. Dunaway
Treasurer and Controller

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Enstar s Board of Directors

Enstar s board of directors has determined that each of T. Whit Armstrong, T. Wayne Davis, Gregory L. Curl, and Paul J. Collins is an independent director as such term is defined in Nasdaq Marketplace Rule 4200(a)(15).

During 2005, Enstar had an Audit Committee that was comprised of T. Whit Armstrong, Chairman, T. Wayne Davis, Gregory L. Curl and Paul J. Collins. Enstar s board of directors has determined that each Audit Committee member meets the independence standards for audit committee members, as set forth in the Sarbanes-Oxley Act of 2002 and the Nasdaq listing standards, and the Nasdaq s financial knowledge requirements. Enstar s board of directors has determined that Mr. Curl is an audit committee financial expert, as such term is defined in Commission regulations, and that Mr. Curl and Mr. Armstrong meet the Nasdaq s professional experience requirements. Enstar s Audit Committee is responsible for, among other things, appointing (subject to shareholder ratification) the accounting firm that will serve as the independent registered public accounting firm of Enstar and reviewing and pre-approving all audit and non-audit services provided to Enstar by its independent auditors. Enstar s Audit Committee is also responsible for overseeing Enstar s financial reporting and accounting practices and monitoring the adequacy of internal accounting, compliance and control systems. Enstar s board of directors has adopted a written charter for the Audit Committee which complies with the applicable requirements of the Sarbanes-Oxley Act of 2002 and related rules of the Commission and the Nasdaq.

During 2005, Enstar had a Compensation Committee that was composed of T. Wayne Davis, Chairman, T. Whit Armstrong and Gregory L. Curl. In addition, J. Christopher Flowers served on Enstar s Compensation Committee until Mr. Curl was appointed to the Compensation Committee in June 2005. Other than Mr. Flowers, each director who served on Enstar s Compensation Committee during fiscal 2005 qualifies as a non-employee director as such term is defined in Rule 16b-3 promulgated under the Exchange Act, and an independent director as such term is defined in Nasdaq Marketplace Rule 4200(a)(15). Enstar s Compensation Committee is responsible for, among other things, reviewing, determining and establishing, upon the recommendation of the Chief Executive Officer (with the exception of the compensation of the Chief Executive Officer) salaries, bonuses and other compensation for Enstar s executive officers and for administering Enstar s stock option plans.

Enstar does not have a nominating committee or a nominating committee charter. It is the position of Enstar s board of directors that, given the small size of the board, it is appropriate for the independent directors, rather than a separate committee comprised of most or all of such independent directors, to recommend director candidates. In November 2003, Enstar s board of directors adopted a resolution regarding the nomination of directors. Pursuant to such resolution, director nominees must be recommended to Enstar s board of directors by a majority of the independent directors as such term is defined in Nasdaq Marketplace Rule 4200(a)(15). Enstar s board of directors has determined that each of T. Wayne Davis, T. Whit Armstrong, Paul J. Collins and Gregory L. Curl is an independent director. When identifying and reviewing director nominees, the independent directors consider the nominees personal and professional integrity, ability and judgment and other factors deemed appropriate by the independent directors. For incumbent directors, the independent directors review each director s overall service to Enstar during such director s term, including the number of meetings attended, level of participation and quality of performance. The independent directors considered and nominated the candidates proposed for election as directors at the Annual Meeting, with Enstar s board of directors unanimously agreeing on all actions taken in this regard.

During 2005, Enstar s board of directors held a total of five meetings, Enstar s Audit Committee held a total of four meetings and Enstar s Compensation Committee held one meeting. In addition, the independent directors met in an executive session of Enstar s board of directors a total of four times. All directors attended all of the meetings of Enstar s board of directors and all committees on which they served during 2005, except for Gregory L. Curl, who did not attend two meetings of the board of directors of Enstar, and Paul J. Collins, who did not attend one meeting of the

Audit Committee. Directors are encouraged but are not required to attend Enstar s annual meetings. Except for Gregory L. Curl, all directors attended the 2005 annual meeting of shareholders.

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Communications with Enstar s Board of Directors

Shareholders may communicate with Enstar s board of directors by sending an email to *treasurer@enstargroup.com* or by sending a letter to Enstar board of directors, c/o the Treasurer, 401 Madison Avenue, Montgomery, Alabama 36104. Enstar s Treasurer will receive the correspondence and forward it to Enstar s Chairman of the Audit Committee or to any individual director or directors to whom the communication is directed. Enstar s Treasurer has the authority to discard or disregard any inappropriate communications or to take other appropriate actions with respect to such inappropriate communications.

Compensation of Enstar Directors

Directors who are not employees of Enstar receive a quarterly retainer fee of $6,250 and per meeting fees as follows: (1) $2,500 for each board meeting attended other than a telephone board meeting; (2) $1,000 for each telephone board meeting attended; (3) $1,000 for each committee meeting attended; and (4) $1,500 for each committee meeting attended by a committee chairperson. In addition, each committee chairperson receives a quarterly retainer fee of $500. Such outside directors fees are payable in cash. Until May 23, 2006, such fees to Enstar s outside directors were payable at the election of the director either in cash or in stock units under Enstar s Deferred Compensation and Stock Plan for Non-Employee Directors, as amended. If a director elected to receive stock units instead of cash, the stock units were payable only upon the director s termination. The number of shares to be distributed in connection with such termination would be equal to one share of common stock for each stock unit, with cash paid for any fractional units. The distribution of stock units was also subject to acceleration upon certain events constituting a change in control of Enstar. All current non-employee directors, other than Gregory L. Curl, had elected to receive 100% of their compensation in stock units in lieu of cash payments. Mr. Curl had elected to receive a portion of his compensation in cash. As of December 31, 2005, a total of $853,000 in retainer and meeting fees had been deferred under this deferred compensation plan. In addition, directors are entitled to reimbursement for out-of-pocket expenses incurred in attending all meetings.

In April 2005, Paul J. Collins was granted options to purchase 5,000 shares of common stock at an exercise price of $57.81 per share (which was the market price of the common stock at that time). During 2005, no other options to purchase shares of common stock were granted to directors for their service as directors.

Ratification of Appointment of the Independent Registered Public Accounting Firm of Enstar

Enstar s Audit Committee has appointed the firm of Deloitte & Touche LLP to serve as the independent registered public accounting firm of Enstar for the year ending December 31, 2006, subject to ratification of this appointment by the shareholders of Enstar. Deloitte & Touche LLP has served as the independent registered public accounting firm of Enstar from 1990 through 2005 and is considered by management of Enstar to be well qualified. Enstar has been advised by Deloitte & Touche LLP that neither it nor any member thereof has any financial interest, direct or indirect, in Enstar or any of its subsidiaries in any capacity. One or more representatives of Deloitte & Touche LLP will be present at the Annual Meeting, will have an opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions.

If the merger is consummated, New Enstar, as the sole shareholder of Enstar following the merger, will be able to select the independent auditors of Enstar after the merger.

Recommendation of Enstar s Board of Directors

ENSTAR S BOARD RECOMMENDS A VOTE FOR THE PROPOSAL TO RATIFY THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF

ENSTAR FOR 2006.

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Principal Accounting Firm Fees and Services for Enstar

The following table sets forth the aggregate fees billed to Enstar for the fiscal years ended December 31, 2005 and December 31, 2004 by Enstar s principal accounting firm, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates, or collectively, Deloitte.

Type of Fees	**2005**	**2004**
Audit Fees	$ 227,000	$ 245,355
Audit-Related Fees	0	1,500(1)
Tax Fees	40,500(2)	68,123(2)
All Other Fees	0	0
Total	$ 267,500	$ 314,978

(1) Represents fees related to financial accounting and Commission advisory services arising in connection with matters outside the scope of the audit.

(2) Represents fees related to the preparation of Enstar s federal and state income tax returns, consultation on federal tax planning and other income tax issues.

Pre-Approval of Audit and Permissible Non-Audit Services

The amended and restated charter of the Audit Committee, adopted on May 29, 2003, charges Enstar s Audit Committee with review of all aspects of Enstar s relationship with Deloitte, including the provision of and payment for all services. All audit and non-audit services provided by Deloitte are pre-approved by Enstar s Audit Committee, which concluded that the provision of non-audit services was compatible with maintaining the accountants independence in the conduct of its auditing functions.

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THE PROPOSED MERGER

General

On May 23, 2006, Enstar entered into the merger agreement with Castlewood and Merger Sub, pursuant to which Merger Sub will be merged with and into Enstar, and Enstar, which will be renamed Enstar USA, Inc., will become a direct wholly-owned subsidiary of Castlewood. Holders of shares of Enstar common stock will be entitled to receive one ordinary share of Castlewood, or New Enstar, in the merger for each share of Enstar common stock they own. Immediately following the merger, current shareholders of Enstar will hold approximately 48.7% of the issued ordinary shares of New Enstar. Also following the merger, management and members of the boards of directors of New Enstar and their respective affiliates will own 49.8% of the outstanding ordinary shares of New Enstar.

Enstar s board of directors is using this proxy statement/prospectus to solicit proxies from the holders of Enstar common stock for use at the Annual Meeting. Castlewood s board of directors has approved the merger agreement and the transactions contemplated by the merger agreement and Castlewood s shareholders have approved the recapitalization agreement and the transactions contemplated by the recapitalization agreement.

Enstar Proposal

At the Annual Meeting, holders of Enstar common stock will be asked to vote to approve the merger agreement and the transactions contemplated by the merger agreement.

THE MERGER WILL NOT BE CONSUMMATED UNLESS ENSTAR S SHAREHOLDERS APPROVE THE MERGER AGREEMENT AND THE TRANSACTIONS CONTEMPLATED BY THE MERGER AGREEMENT.

Background of the Merger

In 1993, Mr. Silvester, who was joined by Mr. Packer and Mr. O Shea in 1993 and 1994, respectively, began a business venture in Bermuda to provide run-off services to the insurance and reinsurance industry. In 1995 this business was assumed by Castlewood Limited.

In 1996, Castlewood Limited formed a wholly-owned subsidiary, Castlewood (EU) Ltd., based in Guildford and London in the United Kingdom, to extend the services provided by Castlewood Limited.

In 2000, Castlewood Limited entered into a joint venture with Enstar and an affiliate of Trident II, L.P. to acquire, and for Castlewood Limited to manage, B.H. Acquisition. In connection with the formation of the joint venture, Castlewood, Enstar and an affiliate of Trident II, L.P. acquired 45%, 33% and 22% economic interests, respectively, in B.H. Acquisition.

In November 2001, Enstar, together with Trident and senior management of Castlewood Limited, completed the formation of a new venture, Castlewood, to acquire and manage insurance and reinsurance companies, including companies in run-off, and to provide management, consulting and other services to the insurance and reinsurance industry. Enstar owns 50% of the voting stock of Castlewood and Castlewood s senior management and Trident each own 25% of Castlewood voting stock. Enstar owns a 32.03% economic interest in Castlewood.

Since the formation of Castlewood, senior management of Enstar and Castlewood have discussed a potential business combination between Castlewood and Enstar from time to time in connection with the ordinary course discussions

about the business of Castlewood.

On August 29, 2005, Mr. Flowers, on behalf of Enstar, provided to Mr. Silvester a letter outlining a proposal for the merger of Enstar into Castlewood. Mr. Flowers proposed that should Castlewood and Enstar be able to reach an agreement with respect to a merger, then a joint presentation should be made to Trident.

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During a regular meeting of Enstar s board of directors held on September 20, 2005, Mr. Oros reported to Enstar s board of directors that Enstar and Castlewood were considering a possible merger and briefly discussed the overall approach to the transaction.

On September 13, 2005, Mr. Silvester met with Mr. Flowers and Mr. Oros to discuss Mr. Flowers letter of August 29, 2005 and to consider various options and alternatives to the proposal made by Mr. Flowers.

On November 6, 2005, Mr. Silvester, responding to Mr. Flowers letter of August 29, 2005 and the discussions held on September 13, 2005, wrote to Mr. Flowers, with copies to Messrs. Oros and Frazer, to provide certain suggestions and amendments to Mr. Flowers original proposal. Mr. Silvester s letter also outlined certain other key considerations such as the proposed name of the combined entity, key executives, board composition and future compensation.

During November and December 2005, discussions continued between Mr. Flowers and Mr. Oros, on behalf of Enstar, and Mr. Silvester and Mr. O Shea, on behalf of Castlewood. Mr. Oros updated Enstar board members on the discussions at a meeting on December 7, 2005. In early December, Mr. Flowers called, and on December 12, 2005 met with Mr. Charles A. Davis and Mr. James D. Carey, Chief Executive Officer and Principal, respectively, of Stone Point Capital LLC, on behalf of Trident, to determine Trident s interest in such a transaction as proposed. During this time, Mr. Silvester and Mr. O Shea also spoke with Mr. Carey and Mr. Davis about Trident s possible interest in such a transaction.

During January 2006, Messrs. Flowers, Oros and Frazer and Messrs. Silvester, O Shea and Packer reached a general consensus regarding the terms of a possible merger transaction. On January 25, 2006, Messrs. Flowers, Oros and Frazer met with Messrs. Silvester, O Shea, Packer and Richard J. Harris, Chief Financial Officer of Castlewood, and Mr. Carey and David J. Wermuth, the General Counsel of Stone Point Capital LLC, on behalf of Trident. During this meeting, Mr. Silvester presented the key terms of a possible merger transaction to the Stone Point Capital LLC representatives.

During February and March 2006, discussions between Mr. Silvester, Mr. O Shea and Mr. Carey continued and a non-binding agreement to the key terms of the merger of Enstar into Castlewood was reached.

At a meeting on February 16, 2006, Mr. Oros provided an update to the Enstar board members regarding the possible merger.

On April 5, 2006, Enstar s board of directors held a special meeting, during which the directors reviewed at length the proposed economic terms of a transaction with Castlewood and the status of the negotiations. The directors considered, among other things, the following factors: payments that would be made to members of Castlewood, including Enstar, pursuant to the waterfall distribution provisions of Castlewood s bye-laws; a cash dividend to be paid to Enstar s stockholders with a portion of the waterfall distributions prior to consummating the transaction; the proposed allocation of equity ownership of Castlewood following the transaction, and the bases therefore; value to be attributed to the stockholders of Enstar in consideration of other businesses owned by Enstar; value to be attributed to all stockholders of Enstar in consideration of value added to the combined entity from its association with Mr. Flowers; other payments proposed to be made among Castlewood, Enstar and the other Castlewood members; the proposed repurchase of certain Class B shares from Trident; and the proposed purchase of a minority interest in a partially-owned affiliate of Enstar from Trident. The directors reviewed a comparison of the net asset values of Castlewood and Enstar both before and after payments that would be made to members of Castlewood pursuant to the waterfall distribution provisions of Castlewood s bye-laws. Such net asset value comparison was a financial metric on which the parties relied in negotiating the allocation of equity ownership of Castlewood and the other economic terms of the proposed transaction. At the same meeting, representatives of Enstar s outside legal counsel, Parker, Hudson, Rainer & Dobbs, and special legal counsel, Debevoise & Plimpton LLP, or Debevoise, reviewed in detail the board s

fiduciary duties, both generally and in the specific context of the proposed transaction. The board discussed the advisability of engaging an outside financial adviser and determined that it would not be in the best interests of Enstar and its stockholders to do so. The directors considered various factors, including Enstar s detailed familiarity with Castlewood from its years of ownership of an interest in Castlewood and the presence of Enstar directors on the board of Castlewood, Messrs. Oros and Flowers investment banking experience and financial expertise, the

financial expertise of the other directors and the cost of retaining an outside financial adviser. The board also considered whether it was advisable to designate a special committee of the board to consider the transaction on behalf of Enstar. Following discussion, the directors decided not to designate a special committee. The directors noted that the directors had and would continue to disclose potentially conflicting interests and that all the directors would be well informed regarding the terms of a proposed transaction and other relevant factors. The directors agreed that Enstar and its stockholders would be best served by the continued participation of Messrs. Frazer, Flowers and Oros in the negotiation of the transaction as well as in the deliberations of the board. However, the board also decided that any proposed transaction with Castlewood should be conditioned on approval by a majority of the four directors who do not serve on the Castlewood board, in addition to approval by a majority of the entire board.

On April 24, 2006, representatives of Castlewood and Enstar, along with their respective special legal counsel, Drinker Biddle & Reath LLP, or Drinker, and Debevoise, met in person and by telephone to discuss the material terms of the recapitalization and the merger. These discussions included a review of the recapitalization transaction, including the allocation of Castlewood s ordinary shares in exchange for its existing outstanding shares, and the consideration to be issued to the shareholders of Enstar.

On April 26, 2006, Enstar s board of directors held a special meeting, during which the directors reviewed in detail the financial and other aspects of the proposed transaction. Management presented a financial analysis that included, among other things, an evaluation of the separate balance sheets and anticipated combined, pro forma balance sheet of Castlewood and Enstar; a review of cash payments, including dividends and other payments, proposed to be made both prior to and in connection with the proposed transaction; an estimate of changes in book value and tangible book value per share as a result of the proposed transaction; a review of changes in ownership of Castlewood as a result of the proposed transaction; an evaluation of the relative net asset values of Castlewood and Enstar, and the relationship between such net asset values and the proposed ownership percentages; a review of the assets that Enstar stockholders would be contributing to a combined entity as a result of the proposed transaction and of the proportionate interest in the earnings of the combined entity that the Enstar stockholders would be receiving, and a discounted return analysis based on such contribution and proportionate interest; an evaluation of the implied fair value of the Castlewood assets based on public market prices of Enstar s shares and a comparison of the aggregate market value of the Enstar shares versus such implied asset value; and an evaluation of the expected earnings of Castlewood following the proposed transaction. The Enstar board of directors also discussed different alternatives for listing the shares of New Enstar after the merger and reviewed the proposed principal transaction documents and the status of negotiations respecting such documents.

On May 5, 2006, Castlewood and Enstar entered into a confidentiality agreement, after which both parties began providing requested due diligence materials, and due diligence investigations by executives and legal advisors for both companies began and continued through May 22, 2006.

The due diligence investigations by both parties included the reciprocal exchange of information and documents regarding the two companies businesses, including: historical financial information and financial forecasts; tax records; descriptions of properties; human resources and employee benefits information, including benefit plans and employment agreements; pending and settled litigation matters; material contracts, including contracts relating to acquisitions and dispositions of businesses; and general corporate matters, including corporate governance documents, material governmental filings, auditor response letters, real estate documents and descriptions of securities. Such investigations also included interviews of some of the executive officers of Castlewood and Enstar.

From the beginning of April 2006 to the beginning of May 2006, Debevoise provided drafts of the principal transaction documents to Drinker. The draft merger agreement contained customary representations, warranties and covenants with no post-closing indemnification by either party. Specifically, on April 8, 2006, Debevoise delivered initial drafts of the form of merger agreement and support agreement, which Castlewood and Drinker reviewed. On

April 13, 2006, Debevoise delivered an initial draft of the recapitalization agreement, which Castlewood and Drinker reviewed. On April 27 and 28 of 2006, Debevoise delivered drafts of the merger agreement, the recapitalization agreement and the support agreement to Skadden, Arps, Slate,

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Meagher & Flom LLP, or Skadden, special outside counsel to Trident II, L.P. in connection with the recapitalization, and a conference call was held among Drinker, Debevoise and Skadden to discuss issues related to the recapitalization and merger. During the week of May 1, 2006, Castlewood, Enstar and their legal representatives held several telephone conferences to discuss preliminary comments and issues raised in the merger agreement, support agreement and recapitalization agreement.

From the beginning of May 2006 through May 21, 2006, the parties, together with their respective legal advisors, negotiated the principal terms of the transaction documents, including valuation and the proposed exchange ratio, and continued to conduct due diligence. The negotiations regarding the terms of a proposed transaction were conducted on an arm s-length basis. During the week of May 8, 2006, Castlewood sought the advice of its local counsel in foreign jurisdictions concerning the nature of any regulatory consents or filings that may be required in connection with the proposed merger. During the week of May 15, 2006, the parties and their respective counsel held several conference calls to discuss outstanding due diligence items and their respective comments to the transaction documents. During this week, the parties also exchanged their respective disclosure schedules for review. The negotiation of the merger agreement and other transaction documents was handled primarily by Mr. Oros and Cheryl D. Davis, Chief Financial Officer of Enstar, and Mr. Flowers, on behalf of Enstar, and Messrs. Silvester, O Shea and Harris, on behalf of Castlewood, together with each party s legal advisors.

On May 20, 2006, Castlewood s board of directors met to consider the merger agreement and the proposed transactions related to the merger agreement and voted unanimously to approve the merger agreement and the other transaction documents.

On May 21, 2006, Enstar s board of directors met to consider the merger agreement and the proposed transactions related to the merger agreement. The directors reviewed the results of negotiations since their last meeting, including the proposed share allocation among the Enstar and Castlewood shareholders, and discussed the continued validity of the financial analysis of the proposed transaction presented at their last meeting. Enstar s board of directors, with all of Enstar s directors present and voting, voted unanimously to approve the merger agreement, subject to such modifications as the officers executing the merger agreement may approve, and the transactions contemplated by the merger agreement.

On May 22, 2006, the parties finalized the merger agreement, the recapitalization agreement, the registration rights agreement, the support agreement and the other transaction documents. The parties also agreed on the initial composition of the board of directors and executive officers of New Enstar, as well as other employee compensation and benefit matters, including amendments to the employment agreements of Messrs. O Shea, Packer and Silvester and the terms of the new employment agreement for Mr. Oros.

Enstar s Reasons for the Merger

At a special meeting held on May 21, 2006, the Enstar board of directors, with all of Enstar s directors present and voting, unanimously determined that it was advisable and fair to and in the best interests of Enstar and its shareholders for Enstar to enter into and consummate the proposed transactions and approve the merger agreement and the transactions contemplated by the merger agreement. Some of Enstar s directors and executive officers have interests in the proposed transactions that are different from, or in addition to, yours. The Enstar board of directors considered these interests when approving the proposed transactions and the merger agreement and concluded that such interests could be appropriately addressed through disclosure and that no director should recuse himself from the deliberations and decisions of the board regarding the merger. These interests are discussed in Interests of Certain Persons in the Merger beginning on page 52.

In reaching its decision, the Enstar board of directors considered a number of factors, including the following:

the merger is expected to enhance the existing and proven close working relationship between Enstar and Castlewood management and to further align the incentives of Castlewood management with the interests of Enstar s shareholders;

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Based on the financial analyses presented to and discussed by the board of directors, the transaction would provide a positive economic result for Enstar s shareholders, including the one-time $3.00 per share dividend to be paid to shareholders of Enstar and the one-for-one exchange ratio contemplated by the merger agreement; in reaching such conclusion, the directors focused, among other things, on:

- the increase in the Enstar shareholders proportionate economic ownership of Castlewood from 32.03% to 48.7% (on an undiluted basis);
- the increase in the Enstar shareholders direct economic ownership of Castlewood resulting from arm s length negotiations by representatives of Enstar;
- the implied internal rate of return if the contribution to the combined entity of Enstar s assets other than its investment in Castlewood were viewed as an investment in Castlewood in exchange for the increased economic ownership in Castlewood; and
- comparison of the public market value of Enstar to the implied public market value of Castlewood based on Enstar s 32.03% economic ownership of Castlewood, which supported the fairness of the economic terms of the transaction.

the ownership and management structure of Castlewood, Enstar and B.H. Acquisition, a company they partially own with an affiliate of Trident II, L.P., would be simplified by forming one public company with one board of directors and a consolidated management team;

the merger would consolidate the financial and management resources and thereby expand New Enstar s capabilities to pursue additional acquisitions in the insurance and reinsurance run-off business;

New Enstar s access to capital could be enhanced as a result of both its larger asset base and simplified ownership structure;

the merger could expand the opportunities for New Enstar to deploy its capital in attractive investments;

the merger is expected to result in increased focus of the time and energies of the directors and management of New Enstar on identifying and consummating attractive acquisitions and managing the existing businesses;

Enstar s board of directors and management believed that the other terms of the merger agreement, including the parties representations, warranties, covenants and conditions to their respective obligations, were reasonable;

Enstar was familiar with Castlewood through its existing ownership interest; and

the merger was expected to qualify as a tax-free reorganization for U.S. federal income purposes and, accordingly, should not be taxable either to Castlewood, Enstar or Enstar s shareholders.

The Enstar board of directors also identified and considered the potentially negative factors concerning the potential transactions, including the following:

the risk that the merger might not be completed or that the closing might be delayed;

the costs to be incurred in connection with the merger, including transaction expenses; and

the other risks described in Risk Factors beginning on page 18.

After deliberation, the Enstar board of directors concluded that, on balance, the potential benefits of the transactions to the Enstar shareholders outweighed these risks and potential disadvantages.

The foregoing discussion of the information and factors considered by the Enstar board of directors is not intended to be exhaustive, but includes the material factors considered by the Enstar board of directors. In reaching its decision to approve the merger agreement and the transactions contemplated by the merger agreement, the Enstar board did not view any single factor as determinative and did not find it necessary or practicable to assign any relative or specific weights to the various factors considered. In addition, individual

directors may have given different weights to different factors. The board did not make any determination as to how any specific benefit or risk contributed to its conclusion that the transaction was advisable and fair, but rather considered the benefits and risks in the aggregate.

Recommendation of the Board of Directors of Enstar

THE ENSTAR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT ENSTAR SHAREHOLDERS VOTE FOR THE APPROVAL OF THE MERGER AGREEMENT AND THE TRANSACTIONS CONTEMPLATED BY THE MERGER AGREEMENT.

In considering the recommendation of Enstar s board of directors with respect to the merger, you should be aware that some officers and directors of Enstar have interests in the merger that are different from, or in addition to, the interests of Enstar shareholders generally. Enstar s board of directors considered these interests in approving the merger agreement and the transactions contemplated by the merger agreement and concluded that such interests could be appropriately addressed through disclosure and that no director should recuse himself from the deliberations and decisions of the board regarding the merger. For more information on these interests, see Interests of Certain Persons in the Merger beginning on page 52.

In addition, you should be aware that as of May 23, 2006, Enstar s directors and executive officers owned 1,904,753 shares of Enstar common stock, representing approximately 33.19% of the voting power of Enstar common stock on that date. Three of those directors, who owned Enstar common stock representing 30.1% of the voting power on that date, have entered into a support agreement with Castlewood pursuant to which such directors have agreed to vote their shares of Enstar common stock in favor of the merger agreement and the transactions contemplated by the merger agreement. All other Enstar directors and officers have also indicated that they intend to vote their shares of Enstar common stock in favor of the merger agreement and the transactions contemplated by the merger agreement.

Castlewood s Reasons for the Merger

At a special meeting held on May 20, 2006, the Castlewood board of directors determined that it was advisable and fair to and in the best interest of Castlewood and its shareholders for Castlewood to enter into the merger agreement and consummate the transactions contemplated by the merger agreement. In reaching its decision, the Castlewood board of directors considered a number of factors, including the following:

- New Enstar is expected to have a significantly increased equity market capitalization, which Castlewood s board of directors believes would provide greater financial flexibility and improved access to both debt and equity capital;
- New Enstar s ordinary shares will be listed on Nasdaq and, subject to contractually agreed upon restrictions on transfer and other restrictions under Bermuda law, would be substantially more liquid for Castlewood s existing shareholders than their current Castlewood shares;
- New Enstar would benefit from the expertise and extensive experience of the combined management team;
- the increased size of New Enstar could allow it to participate in the acquisition and management of larger companies or portfolios in run-off than would be available to Castlewood on a stand-alone basis;
- as a result of the simplified shareholder structure, New Enstar would be easier to analyze and value, which would provide for increased market visibility for New Enstar and, ultimately, may enhance the market valuation of New Enstar s ordinary shares relative to the shares privately held by Castlewood s existing shareholders;

holders of substantially all of Castlewood s existing shares were directly involved in the negotiations in respect of the proposed merger and were supportive of the transaction and the related recapitalization of Castlewood;

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the potential financial benefits stemming from the enhanced growth prospects of New Enstar; and

the merger is expected to qualify as a tax-free reorganization for U.S. federal income tax purposes and, accordingly, should not be taxable either to Castlewood, Enstar or Enstar s shareholders.

The Castlewood board of directors also identified and considered the potentially negative factors concerning the potential transactions, including the following:

the risk that the merger might not be consummated or that the closing might be delayed;

the costs to be incurred in connection with the merger, including transaction expenses;

the cost of becoming directly subject to the reporting and other requirements of the Exchange Act, including Section 404 of the Sarbanes-Oxley Act of 2002; and

the other risks described in Risk Factors beginning on page 18.

After deliberation, the Castlewood board of directors concluded that, on balance, the potential benefits of the transactions to Castlewood and its shareholders outweighed these risks and potential disadvantages.

Some of Castlewood s directors and executive officers have interests in the proposed transactions that are different from, or in addition to, Castlewood s shareholders. The Castlewood board of directors considered these interests when approving the proposed transactions and the merger agreement. These interests are discussed in Interests of Certain Persons in the Merger beginning on page 52.

The foregoing discussion of the information and factors considered by the Castlewood board of directors is not intended to be exhaustive, but does include the material positive and negative factors considered by the Castlewood board of directors. In view of the wide variety of factors considered by the Castlewood board of directors in connection with its evaluation of the merger and the complexity of these matters, the board did not attempt to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision. Rather, the Castlewood board of directors made its determination based on the totality of information presented to it and the deliberations engaged in by it. In considering the factors discussed above, individual directors may have given different weights to different factors.

Accounting Treatment

The merger will be accounted for as a purchase by Castlewood under accounting principles generally accepted in the United States. Under the purchase method of accounting, the assets and liabilities of Enstar will be recorded, as of consummation of the merger, at their respective fair values and combined with those of Castlewood.

Material U.S. Federal Income Tax Consequences of the Merger

The following discussion is a summary of the material U.S. federal income tax consequences to holders of Enstar common stock who exchange such stock for New Enstar ordinary shares in the merger and who hold Enstar common stock and will hold New Enstar ordinary shares as capital assets (as defined in section 1221 of the Code). This discussion is based on the Code, U.S. Treasury regulations, administrative rulings and pronouncements, and judicial decisions, all as in effect as of the date hereof and all of which are subject to change, possibly with retroactive effect. Any such change could alter the tax consequences discussed below. This discussion does not cover any issues arising

under any state, local or non-U.S. tax laws.

This discussion is based in part on facts described in this proxy statement/prospectus; the provisions of the merger agreement, the recapitalization agreement and other related agreements; and representations made by Castlewood and Enstar. If any of these facts or representations is inaccurate, the U.S. federal income tax consequences of the merger could differ from those described below.

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This discussion does not address all U.S. federal income tax issues that may be relevant to all holders in light of their particular circumstances or the consequences to holders who are subject to special federal income tax treatment, such as:

- tax-exempt organizations;
- individuals who hold Enstar common stock received pursuant to the exercise of any incentive stock options or who hold Enstar common stock subject to certain restrictions received in connection with the performance of services; or
- non-U.S. holders who have held more than 5% of the Enstar common stock (taking into account the applicable attribution rules of the Code and U.S. Treasury regulations) at any time within the five-year period ending at the consummation of the merger.

In addition, this discussion does not address any tax consequences associated with:

- the exercise of options to purchase Enstar common stock before the effective time of the merger;
- the exchange of options to purchase Enstar common stock for options to purchase New Enstar ordinary shares in the merger; or
- the exchange of Enstar restricted stock units for a right to receive New Enstar ordinary shares.

We urge you to consult your own tax advisor concerning the specific U.S. federal, state and local, as well as non-U.S., tax consequences to you of the exchange of Enstar common stock for New Enstar ordinary shares in the merger in light of your own particular circumstances.

Tax Opinions

It is a condition to the closing of the merger that Enstar and Castlewood receive an opinion from Enstar s tax counsel, Debevoise, on or prior to the date on which Castlewood s registration statement of which this proxy statement/prospectus is a part becomes effective, or the effective date opinion, to the effect that the merger should be treated for U.S. federal income tax purposes as a reorganization within the meaning of section 368(a) of the Code. It is also a condition to the consummation of the merger that Enstar and Castlewood receive a second opinion from Debevoise, dated as of the closing date of the merger, or the closing date opinion, confirming the effective date opinion. The effective date opinion is, and the closing date opinion will be, based on the Code, U.S. Treasury Regulations, administrative rulings and pronouncements, and judicial decisions, all as in effect on the date hereof and on representation letters provided by Enstar and Castlewood to Debevoise at the effective time and the closing date, respectively, and on customary factual assumptions.

If any of the necessary representations or assumptions is inaccurate or incomplete, Debevoise s effective date opinion or its closing date opinion, or both, may be invalid. If any of these representations or assumptions cannot be made, Debevoise may not be able to provide its closing date opinion. If Debevoise cannot provide its closing date opinion, the merger cannot close unless Enstar and Castlewood waive the requirement that they receive such opinion. If Enstar and Castlewood waive the requirement that they receive such closing date opinion, or if Debevoise s closing date opinion would differ materially from Debevoise s effective date opinion, and there is a material change in the expected U.S. federal income tax consequences associated with the exchange of Enstar common stock for New Enstar ordinary shares in the merger as described in this proxy statement/prospectus, then this proxy statement/prospectus will be

revised and recirculated and the approval of Enstar s shareholders will be resolicited.

The full text of Debevoise s effective date opinion will be filed as an exhibit to Castlewood s registration statement of which this proxy statement/prospectus is a part. For information on how to obtain a copy of exhibits filed with Castlewood s registration statement, see Where You Can Find More Information on page 214. Debevoise s closing date opinion will also confirm the opinion rendered in Debevoise s effective date opinion.

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No assurance can be given that the IRS will agree with the tax consequences described in the Debevoise opinions or that, if the IRS were to take a contrary position, that position would not ultimately be sustained by the courts. Neither Enstar nor Castlewood intends to obtain a ruling from the IRS regarding the tax consequences of the merger.

Tax Consequences to Exchanging Shareholders

As noted above, Debevoise will provide an opinion that the merger should be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. Accordingly,

Enstar shareholders should not recognize any gain or loss on the exchange of Enstar common stock for New Enstar ordinary shares in the merger;

the tax basis to an Enstar shareholder of New Enstar ordinary shares received in exchange for Enstar common stock pursuant to the merger should equal such Enstar shareholder s tax basis in the Enstar common stock surrendered in exchange therefor; and

the holding period of an Enstar shareholder for New Enstar ordinary shares received pursuant to the merger should include the holding period of the Enstar common stock surrendered in exchange therefor.

Under applicable U.S. Treasury regulations (§1.368-3(b)), each Enstar exchanging shareholder will be required to attach to its federal income tax return for the current taxable year a statement setting forth certain specified information about the exchange, including a statement of such shareholder s tax basis in its Enstar common stock and a description of the New Enstar ordinary shares it receives in the merger.

A U.S. holder who will own 5% or more of either the total voting power or the total value of the outstanding New Enstar ordinary shares after the merger (determined after taking into account the applicable attribution rules of the Code and U.S. Treasury regulations) and who would otherwise qualify for non-recognition of gain in connection with the merger (and the related basis and holding period consequences described above) will so qualify only if such holder enters into a gain recognition agreement with the IRS in accordance with the U.S. Treasury regulations under section 367(a) of the Code. Certain subsequent dispositions of Enstar shares or assets by New Enstar may result in gain recognition to such a holder. Each such U.S. holder should consult its own tax advisors regarding these matters.

Certain Tax Consequences to Enstar and Castlewood

As noted above, Debevoise will provide an opinion that the merger should be treated for U.S. federal income tax purposes as a reorganization within the meaning of section 368(a) of the Code. Accordingly no income, gain or loss should be recognized by Castlewood or Enstar as a result of the transfer to the Enstar shareholders of New Enstar ordinary shares pursuant to the merger.

For a discussion of the material tax considerations of holding and disposing of New Enstar ordinary shares, see the discussion under Material Tax Considerations of Holding and Disposing of New Enstar Ordinary Shares beginning on page 202.

Regulatory Matters Relating to the Merger

Antitrust and Competition Filings

The merger is not subject to notification to the U.S. Department of Justice and U.S. Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvements Act. Castlewood and Enstar conduct operations in a number of foreign

jurisdictions, and the merger may be subject to notification and approval by governmental authorities under the antitrust or competition laws of those jurisdictions. We recognize that some of these approvals may not be obtained before the completion of the merger and may impact New Enstar s ability to conduct business in those jurisdictions until such approvals are obtained. We cannot assure you that the governmental reviewing authorities will clear the merger at all or without restrictions or conditions that would have a material adverse effect on New Enstar if the merger is consummated. These restrictions and

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conditions could include a complete or partial license, divestiture or spin-off of some of New Enstar s assets or businesses.

In addition, even after completion of all notification and approval requirements, the U.S. Department of Justice, the U.S. Federal Trade Commission or another governmental authority could challenge or seek to block the merger under the antitrust laws, as it deems necessary or desirable in the public interest. Other agencies with authority over antitrust or other comparable anti-competition laws with jurisdiction over the merger could also initiate action to challenge or block the merger. In addition, in some jurisdictions, a competitor, customer or other third party could initiate a private action under the antitrust laws challenging or seeking to enjoin the merger, before or after it is consummated. Castlewood and Enstar cannot be sure that a challenge to the merger will not be made or that, if a challenge is made, Castlewood and Enstar will prevail.

Other Regulatory Considerations

The consummation of the merger is conditioned upon Castlewood s receipt of approval of the recapitalization and the merger from the Financial Services Authority of the United Kingdom, which Castlewood received on September 1, 2006. Castlewood and its shareholders have also provided the requisite notice of the transaction to the Federal Office of Private Insurance in Switzerland and the Banking Finance and Insurance Commission in Belgium. Castlewood has already received approval from the Bermuda Monetary Authority to issue its ordinary shares in connection with the recapitalization and the merger.

Other than the filings and approvals described above, neither Enstar nor Castlewood is aware of any regulatory approvals required to be obtained, or waiting periods to expire, to consummate the merger. If the parties discover that other approvals or action is needed, however, they may not be able to obtain it, as is the case with respect to the other necessary approvals. Even if Enstar and Castlewood could obtain all necessary approvals, and the necessary approval of their shareholders, conditions may be placed on any such approval that could cause either Castlewood or Enstar to abandon the merger.

Rights Agreement

Enstar entered into a rights agreement dated as of January 20, 1997, as amended, with American Stock Transfer & Trust Company as rights agent. Under this agreement, Enstar effected a dividend distribution of shareholder rights that carry certain conversion rights in the event of a significant change in beneficial ownership of Enstar. One right is attached to each share of Enstar s outstanding common stock and is not detachable until such time as a person or group of affiliated or associated persons either acquires beneficial ownership of 15% or more of Enstar s outstanding common stock or announces an intention to commence a tender or exchange offer the consummation of which would result in beneficial ownership of 15% or more of the outstanding Enstar common stock. The exercise price of each right was fixed at $40. If an acquirer purchases an equity position in Enstar equal to or greater than a 15% interest or engages in certain other types of transactions with Enstar, each right not beneficially owned by the acquirer is converted into the right to buy that number of shares of Enstar common stock which has a market value shortly after such triggering event of two times the exercise price of the right.

At the time of the execution and delivery of the merger agreement, Enstar and the rights agent amended the terms of the rights agreement so that the execution and delivery of the merger agreement, recapitalization agreement, support agreement and any other agreement or transaction entered into in connection with the merger would not constitute a triggering event. The amended terms of the rights agreement also provide for the cancellation of all rights under the rights agreement upon the effectiveness of the merger and in accordance with the merger transaction documents. This means that holders of Enstar s common stock will not obtain the detachable rights in connection with the merger.

Federal Securities Laws Consequences; Stock Transfer Restriction Agreements

All New Enstar ordinary shares received by Enstar shareholders in the merger will be freely transferable, except that New Enstar ordinary shares received by persons who are deemed to be affiliates of Enstar under the Securities Act at the time of the Annual Meeting may be resold by them only in transactions permitted by

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Rule 145 under the Securities Act or as otherwise permitted under the Securities Act. Persons who may be deemed to be an affiliate of Enstar for such purposes generally include individuals or entities that control, are controlled by or are under common control with, Enstar, as the case may be, and include directors, certain executive officers and principal shareholders of Enstar. These affiliates may resell the New Enstar ordinary shares they receive in the merger only:

under an effective registration statement under the Securities Act covering the resale of those shares;

in transactions permitted by Rule 145(d) under the Securities Act; or

as otherwise permitted under the Securities Act.

Castlewood s registration statement, of which this proxy statement/prospectus is a part, does not cover the resale of New Enstar ordinary shares to be received in connection with the merger by persons who may be deemed to be affiliates of Enstar before the merger, and no person is authorized to make any use of this document in connection with any such sale. The merger agreement also requires that Enstar use reasonable best efforts to cause each affiliate to execute a written agreement to the effect that such persons will not offer, sell or otherwise dispose of any of the New Enstar ordinary shares issued to them in the merger in violation of the Securities Act or the related rules and regulations promulgated thereunder. However, Trident and Messrs. Flowers and Silvester and certain other shareholders of Castlewood (including the current directors of Enstar), some of whom may be deemed to be affiliates of Enstar, have entered into a registration rights agreement with Castlewood and certain of its current shareholders. The registration rights agreement gives such persons the right to require, in certain instances, New Enstar to register their New Enstar ordinary shares or to participate in registered offerings of shares by New Enstar and other shareholders of New Enstar. See Material Terms of Related Agreements Registration Rights Agreement on page 68.

Stock Exchange Listing; Delisting and Deregistration of Enstar Common Stock

It is a condition to the merger that the New Enstar ordinary shares issuable in the merger be approved for listing on Nasdaq, subject to official notice of issuance. If the merger is consummated, Enstar common stock will cease to be listed on Nasdaq and its shares will be deregistered under the Exchange Act.

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INTERESTS OF CERTAIN PERSONS IN THE MERGER

Certain of Enstar s and Castlewood s directors and executive officers have interests in the merger as individuals in addition to, and that may be different from, your interests as shareholders of Enstar or New Enstar. The Enstar and Castlewood boards of directors were aware of these interests and considered them in their respective decisions to approve the merger agreement and the transactions contemplated by the merger agreement.

New Employment Agreements with John J. Oros, Paul J. O Shea, Nicholas A. Packer and Dominic F. Silvester

On May 23, 2006, Castlewood entered into a new employment agreement with Mr. O Shea and amended its employment agreements with Messrs. Packer and Silvester. Mr. O Shea s employment agreement, which will become effective when the merger is consummated, supersedes the employment agreement between Castlewood and Mr. O Shea, dated November 29, 2001. Messrs. Packer s and Silvester s amended and restated employment agreements, which will also become effective when the merger is consummated, supersedes their respective employment agreements, each dated as of April 1, 2006. New Enstar also expects that it and its subsidiary, Castlewood (US) Inc., will enter into a new employment agreement with John J. Oros, to become effective when the merger is consummated.

Following the merger, Messrs. O Shea and Packer will serve as New Enstar s Executive Vice Presidents, Mr. Silvester will serve as its Chief Executive Officer and Mr. Oros will serve as its Executive Chairman. As compensation for their services, each executive officer will (1) receive a base salary (Mr. Silvester s salary will be $565,000 and Messrs. O Shea s and Packer s salary will each be $440,000, and Mr. Oros s salary is expected to be $282,500), (2) be eligible for incentive compensation under Castlewood s incentive compensation programs and (3) be entitled to certain employee benefits, including a housing allowance, a life insurance policy in the amount of five times his base salary, medical, dental and long-term disability insurance, payment of an amount equal to 10% of his base salary each year contributed to his retirement savings plan and, for Messrs. Packer and Silvester, the executive will be reimbursed for one round trip for his family to/from Bermuda each calendar year.

For additional details on the terms of these employment agreements, see section Management of New Enstar Following the Merger and Other Information Employment Agreements beginning on page 164.

Enstar Director and Executive Benefit Plans

Under Enstar s 1997 Amended Incentive Plan, as amended in 2001 and 2003 and Enstar s 2001 Outside Director s Stock Option Plan, 500,000 options to purchase Enstar shares have been granted to various directors and officers of Enstar. Of the 500,000 options outstanding, 80,000 options have yet to vest. These 80,000 unvested options will vest immediately upon a change of control triggered by the merger.

Payments to, and Other Interests of, Certain Executive Officers and Directors

Pursuant to the recapitalization agreement, Castlewood will pay, immediately prior to the merger, $5,076,000 to certain of its executive officers and employees. Of the $5,076,000, Messrs. O Shea, Packer and Silvester will receive $989,956, $989,956 and $2,969,868, respectively. The remaining $126,220 will be paid to Messrs. David Grisley, David Hackett and David Rocke, employees of Castlewood.

Certain parties to the recapitalization agreement will also enter into a registration rights agreement entitling them to require Castlewood to register for resale the New Enstar ordinary shares they receive in the recapitalization. For additional details on the terms of registration rights agreement, see Material Terms of Related Agreements

Registration Rights Agreement beginning on page 68. The directors of Enstar are also expected to become parties to the registration rights agreement, which will entitle them to require Castlewood to register for resale the New Enstar ordinary shares they receive in the merger subject to the terms of such agreement.

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Two directors of Enstar, Messrs. Armstrong and Davis, have entered into a letter agreement, dated May 23, 2006, with Castlewood pursuant to which Castlewood, subject to the consummation of the merger, agreed to repurchase from Messrs. Armstrong and Davis, upon their request, during a 30-day period commencing January 15, 2007, at then prevailing market prices, such number of New Enstar ordinary shares as provides an amount sufficient for Messrs. Armstrong and Davis to pay taxes on compensation income resulting from the exercise of options by them on May 23, 2006 for 50,000 shares of Enstar common stock in the aggregate. Castlewood s obligation to repurchase ordinary shares is limited to 25,000 ordinary shares from each of Messrs. Armstrong and Davis.

Pursuant to the Severance Benefits Agreement, dated May 21, 1998, between Enstar and Mr. Frazer, Mr. Frazer will be entitled to $350,000 upon the expected termination of his employment with Enstar immediately following the effective time of the merger.

New Enstar Board of Directors

Under the terms of the recapitalization agreement, the board of directors of New Enstar after the consummation of the merger will consist of ten individuals. Four of these individuals Messrs. T. Whit Armstrong, Paul J. Collins, Gregory L. Curl and T. Wayne Davis are current directors of Enstar, three of these individuals Messrs. J. Christopher Flowers, Nimrod T. Frazer and John J. Oros are current directors of both Enstar and Castlewood, and the other three individuals Messrs. O Shea, Silvester and Packer are current directors and/or executive officers of Castlewood.

Indemnification of Directors and Officers; Directors Indemnity Agreements

From and after the effective time of the merger, Castlewood has agreed that New Enstar will indemnify and hold harmless all past and present directors, officers, employees and agents of Enstar and its subsidiaries before the consummation of the merger for losses in connection with any action arising out of or pertaining to acts or omissions, or alleged acts or omissions, by them in their capacities as such at or before the effective time of the merger.

New Enstar will indemnify or advance expenses to such persons to the same extent such persons are indemnified or have the right to advancement of expenses under Enstar s articles of incorporation, bylaws and indemnification agreements, if any, on the date of the merger agreement, and to the fullest extent permitted by law. Castlewood also has agreed that it will include and cause to be maintained in effect in its memorandum of association and bye-laws and Enstar USA s articles of incorporation and bylaws for a period of six years after the consummation of the merger, provisions substantially similar to (in the case of Castlewood, to the fullest extent permitted by Bermuda law) the current provisions regarding elimination of liability of directors, indemnification of officers, directors and employees and advancement of expenses contained in the articles of incorporation and bylaws of Enstar.

In addition, Castlewood has agreed that it will cause to be maintained, for a period of six years after the consummation of the merger, the current policies of directors and officers liability insurance and fiduciary liability insurance maintained by Enstar with respect to claims arising from facts or events that occurred at or before the effective time of the merger. New Enstar may substitute policies of at least the same coverage and amounts containing terms and conditions which are, in the aggregate, no less advantageous to the insured. Such substitute policies must be issued by insurance companies having the same or better ratings and levels of creditworthiness as the insurance companies that have issued the current policies.

Tax Indemnification Agreement

Mr. Flowers, a director and Enstar s largest shareholder, has entered into a tax indemnification agreement, dated May 23, 2006, with Castlewood and Enstar pursuant to which Castlewood will reimburse and indemnify Mr. Flowers

for, and hold him harmless on an after-tax basis against, any increase in Mr. Flowers U.S. federal, state or local income tax liability (including any interest or penalties relating thereto), and reasonable attorneys fees, incurred by Mr. Flowers as a result of certain dispositions of shares of Enstar or dispositions of all or substantially all of the Enstar assets by New Enstar, Enstar or any successor or assign of either, within the period beginning immediately after the effective time of the merger and ending five years after the last day of the taxable year that includes the effective time.

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THE MERGER AGREEMENT

The following is a summary of the material terms of the merger agreement. This summary does not purport to describe all the terms of the merger agreement and is qualified in its entirety by reference to the complete text of the merger agreement which is attached as Annex A to this proxy statement/prospectus and incorporated herein by reference. All shareholders of Enstar are urged to read carefully the merger agreement in its entirety.

The merger agreement has been attached to provide investors with information regarding its terms. It is not intended to provide any other factual information about Enstar or Castlewood. In particular, the assertions embodied in the representations and warranties contained in the merger agreement were intended principally to allocate risk between Enstar and Castlewood or establish closing conditions, rather than to establish matters of fact. Such assertions may be subject to important qualifications and limitations agreed to by the parties in connection with negotiating the terms of the merger agreement. Moreover, the representations and warranties are subject to a contractual standard of materiality that may be different from what may be viewed as material to shareholders of Enstar. Accordingly, you should not rely on the representations and warranties in the merger agreement as characterizations of the actual state of facts regarding Enstar or Castlewood.

General

Under the merger agreement, Merger Sub, a wholly-owned subsidiary of Castlewood, will merge with and into Enstar, with Enstar surviving as a wholly-owned subsidiary of Castlewood. Enstar will change its name to Enstar USA, Inc.

Closing Matters

Unless the parties agree otherwise, the consummation of the merger will take place as promptly as practicable (but no later than the third business day) after all closing conditions have been satisfied or waived, unless the merger agreement has been terminated or another time or date is agreed to in writing by the parties. See Conditions to the Consummation of the Merger below for a more complete description of the conditions that must be satisfied or waived before consummation of the merger.

As soon as practicable after the satisfaction or waiver of the conditions to the merger, on the closing date, Merger Sub and Enstar will file a certificate of merger with the Georgia Secretary of State in accordance with the relevant provisions of the Georgia Business Corporation Code, and make all other required filings or recordings. The merger will become effective when the certificate of merger is filed or at such later time as Castlewood and Enstar agree and specify in the certificate of merger.

Merger Consideration; Treatment of Stock Options and Restricted Stock Units; Board and Management

The merger agreement further provides that, at the consummation of the merger:

- Each share of Enstar common stock issued and outstanding immediately before the consummation of the merger, together with the associated rights issued under the Enstar shareholder rights plan, will be converted into the right to receive one New Enstar ordinary share.

- Each outstanding option to purchase shares of Enstar common stock will be assumed by New Enstar and converted into an option to purchase New Enstar ordinary shares.

The per share exercise price of each new option will be set at a ratio to the trading price of the ordinary shares of New Enstar immediately following the closing of the merger that equals the ratio of the exercise price of the corresponding Enstar stock option to the trading price of shares of Enstar common stock immediately prior to the closing of the merger. The number of New Enstar ordinary shares underlying the new option will be set so that the aggregate spread value of the new option approximately equals the spread value of the former Enstar stock option.

Each assumed New Enstar option will be vested to the same extent the Enstar stock option was vested immediately prior to the closing, except if the option agreement provides for acceleration of vesting as

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a result of the merger. New Enstar options will otherwise be subject to the same terms and conditions as the Enstar stock options.

Each restricted stock unit issued under Enstar s Deferred Compensation and Stock Plan for Non-Employee Directors that is outstanding immediately prior to the closing will automatically convert from a right in respect of a share of Enstar common stock into a right in respect of a New Enstar ordinary share.

Each share of common stock of Merger Sub issued and outstanding immediately prior to the consummation of the merger will be converted into one share of common stock of Enstar USA.

The articles of incorporation of Enstar will be amended and restated at the consummation of the merger and will be the articles of incorporation of Enstar USA until thereafter amended.

The bylaws of Merger Sub in effect immediately prior to the consummation of the merger will be the bylaws of Enstar USA until thereafter amended.

Until successors are duly elected or appointed and qualified, Cheryl D. Davis and John J. Oros will be the directors of Enstar USA.

Until successors are duly elected or appointed and qualified, the officers of Enstar immediately prior to the consummation of the merger will be the officers of Enstar USA.

Exchange of Stock in the Merger

Before the consummation of the merger, Castlewood will appoint an exchange agent (which will be reasonably acceptable to Enstar) to handle the exchange of Enstar common stock for New Enstar ordinary shares. Promptly after the completion of the merger, the exchange agent will send a letter of transmittal, which is to be used to exchange Enstar common stock for New Enstar ordinary shares, to each former Enstar shareholder of record.

The letter of transmittal will be accompanied by instructions explaining the procedures for surrendering Enstar share certificates. PLEASE DO NOT RETURN STOCK CERTIFICATES WITH THE ENCLOSED PROXY CARD.

Enstar shareholders who surrender their common stock in accordance with the instructions, together with a properly completed letter of transmittal, will receive one New Enstar ordinary share for each share of Enstar common stock held by such shareholder as of the effective time. After the merger, each share of Enstar common stock will only represent the right to receive one New Enstar ordinary share into which that share of Enstar common stock will have been converted, except as otherwise described below.

Dividends or distributions declared with respect to New Enstar ordinary shares with a record date that is after the consummation of the merger will not be paid to any holder of any Enstar share certificates until the holder surrenders the Enstar share certificates in exchange for New Enstar ordinary shares. Upon surrender and subject to applicable law, New Enstar will pay to the holder, without interest, any dividends or distributions that have been declared on New Enstar ordinary shares with a record date after the consummation of the merger and before the date of such surrender and a payment date before the date of such surrender.

After the consummation of the merger, Enstar will not register any transfers of the shares of Enstar common stock. Castlewood shareholders will not exchange their share certificates in the merger.

Listing of New Enstar Ordinary Shares

Castlewood has agreed to use its reasonable best efforts to cause the New Enstar ordinary shares to be issued in the merger and the New Enstar ordinary shares to be reserved for issuance upon exercise of the stock options exchanged for Enstar stock options to be approved for listing on Nasdaq, subject to official notice of issuance, before the consummation of the merger. Approval for listing on Nasdaq of the New Enstar ordinary shares issuable to the Enstar shareholders in the merger, subject only to official notice of issuance, is a condition to the obligations of Castlewood and Enstar to consummate the merger.

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Covenants

Castlewood and Enstar have each undertaken certain covenants in the merger agreement, which, among other things, concern the conduct of their respective businesses between the date the merger agreement was signed and the consummation of the merger. The following summarizes the more significant of these covenants:

No Solicitation

Enstar has agreed that Enstar, and each of its subsidiaries, officers and directors, will use reasonable best efforts to ensure that their respective employees, agents and representatives (including any investment banker, attorney or accountant retained by it or any of its subsidiaries) do not directly or indirectly:

initiate inquiries regarding, or solicit the making of, any takeover proposal, as defined below; or

engage in any negotiations concerning a takeover proposal.

However, Enstar and its board of directors are permitted to disclose to its shareholders its position with respect to any takeover proposal as may be required under the federal securities laws. In addition, Enstar is permitted to engage in any discussions or negotiations with, or provide information to, any person in response to an unsolicited takeover proposal, if:

before providing any information to any person in connection with a takeover proposal, such person is required to enter into a customary confidentiality agreement with Enstar containing terms no less restrictive than the terms contained in the confidentiality agreement between Castlewood and Enstar; and

Enstar provides Castlewood with copies of all information provided to such person to the extent such information has not been previously provided to Castlewood.

A takeover proposal means any proposal or offer in respect of:

a merger, consolidation, business combination, share exchange, reorganization, recapitalization, sale of substantially all of the assets, liquidation, dissolution or similar transaction involving Enstar, any of the foregoing referred to as a business combination transaction, with a third party;

Enstar s acquisition of any third party in a business combination transaction in which the shareholders of the third party immediately prior to consummation of such business combination transaction will own more than 35% of Enstar s outstanding capital stock immediately following such business combination transaction, including the issuance by Enstar of more than 35% of any class of its voting equity securities as consideration for assets or securities of a third party; or

any acquisition, whether by tender or exchange offer or otherwise, by any third party of 35% or more of any class of capital stock of Enstar or of 35% or more of the consolidated assets of Enstar, in a single transaction or a series of related transactions.

Enstar has agreed to notify Castlewood in writing of the receipt of any takeover proposal or request for information or inquiry that would reasonably be expected to lead to the receipt of a takeover proposal, the terms and conditions of any takeover proposal, and the identity of the person making a takeover proposal, request or inquiry. Enstar has also

agreed to inform Castlewood on the status and material terms of any discussions regarding, or relating to, any takeover proposal and of any change in the price or material terms of and conditions regarding the takeover proposal.

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Board of Directors Covenant to Recommend

Enstar has agreed that its board of directors will recommend adoption and approval of the merger agreement to the Enstar shareholders. However, Enstar s board of directors is permitted to withdraw, or qualify in any material respect its recommendation in any manner adverse to Castlewood, before the Annual Meeting, if:

- its board of directors determines in good faith, after consultation with its outside legal counsel, that the failure to do so would be reasonably likely to be inconsistent with the fiduciary duties owed by the board to Enstar s shareholders under applicable law; or

- if the change in recommendation is in response to a superior proposal, as defined below, only (i) after Enstar provides to Castlewood a written notice advising Castlewood that the Enstar board of directors has received a superior proposal, specifying the terms and conditions of such superior proposal and including a copy thereof and identifying the person making such superior proposal, (ii) after negotiating in good faith with Castlewood to make such adjustments in the terms and conditions of the merger agreement as would enable Enstar to proceed with its recommendation without a change in such recommendation if and to the extent Castlewood elects to seek to make such adjustments and (iii) if Castlewood does not, within the earlier of five days of Castlewood s receipt of notice of a superior proposal or three business days prior to the special shareholders meeting of Enstar, make an offer that the board of directors of Enstar determines in good faith to be as favorable to the Enstar shareholders as such superior proposal.

A superior proposal means a bona fide written proposal or offer made by a third party in respect of a business combination transaction involving, or any purchase or acquisition of all or substantially all of the voting power of Enstar s capital stock, or all or substantially all of the consolidated assets of Enstar, which business combination transaction or other purchase or acquisition contains terms and conditions that the board of directors determines in good faith, after consultation with its outside counsel, would result in a transaction that if consummated would be more favorable, from a financial point of view, to the shareholders of Enstar than the merger.

Operations of Castlewood and Enstar Pending Closing

Castlewood and Enstar have each undertaken covenants that place restrictions on them and their respective subsidiaries until either the consummation of the merger or the termination of the merger agreement. In general, Castlewood, Enstar and their respective subsidiaries are required to conduct their respective businesses in the usual, regular and ordinary course in all material respects substantially in the same manner as conducted before the date of the merger agreement and to use their reasonable best efforts to preserve intact their present lines of business and relationships with third parties.

Each of them has agreed to restrictions that, except as expressly contemplated by the merger agreement, or with the written consent of the other party, prohibit them and their respective subsidiaries from:

- declaring or paying dividends or distributions (except for a $3.00 per share dividend payable in cash to the shareholders of Enstar immediately prior to the consummation of the merger);

- making changes in their share capital, including, among other things, stock splits, combinations or reclassifications;

- repurchasing or redeeming their capital stock;

issuing or selling any shares of their capital stock or other equity interests, except Castlewood may issue up to 198 of its Class D non-voting ordinary shares to up to 35 employees of Castlewood and may enter into agreements reasonably acceptable to Enstar related to the issuance of such shares; or

amending their respective governing documents.

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Enstar also agreed to additional restrictions that, except as expressly contemplated by the merger agreement, or with the written consent of Castlewood (not to be unreasonably withheld), prohibits them and their respective subsidiaries from:

- acquiring any person or division (other than an entity that is a wholly-owned subsidiary of Enstar) or disposing of assets; and

- incurring or guaranteeing debt, making loans or capital contributions or investments in any other person (other than to wholly-owned subsidiaries of Enstar) and entering into any material commitment or transaction requiring a capital expenditure by Enstar or its subsidiaries.

Reasonable Best Efforts Covenant

Castlewood and Enstar have agreed to cooperate with each other and to use their reasonable best efforts to take all actions and do all things necessary, proper or advisable under the merger agreement and applicable laws to consummate the merger and the other transactions contemplated by the merger agreement. Reasonable best efforts include (but are not limited to) filing for governmental consents and taking actions necessary to resolve any objections or challenge any governmental entity may have to the contemplated transactions so as to permit their consummation.

Other Covenants and Agreements

Expenses

Castlewood and Enstar have each agreed to pay their own costs and expenses incurred in connection with the merger and the merger agreement, except that if the merger is consummated, Castlewood or its relevant subsidiary will pay all property or transfer taxes imposed on Enstar and its subsidiaries.

Other Covenants

The merger agreement contains certain other covenants, including covenants relating to cooperation between Castlewood and Enstar in the preparation of this proxy statement/prospectus, making governmental filings, public announcements and certain tax matters. The merger agreement also contains customary covenants by Castlewood relating to indemnification of directors, officers, employees and agents of Enstar and its subsidiaries from and after the effective time of the merger and maintaining, for a period of six years after the consummation of the merger, the current policies of directors and officers liability insurance and fiduciary liability insurance.

Representations and Warranties

The merger agreement contains substantially mutual representations and warranties, certain of which are qualified by material adverse effect limitation, made by each of Castlewood and Enstar to the other. The representations and warranties include those relating to:

- corporate existence, qualification to conduct business and corporate standing and power;

- ownership of subsidiaries;

- capital structure;

corporate authority to enter into, and carry out the obligations under, the merger agreement and enforceability of the merger agreement;

absence of any conflict with or violation under their organizational documents or any law or agreement to which they are subject or bound as a result of the merger agreement and the transactions contemplated by the merger agreement;

governmental and regulatory approvals required to consummate the merger and the other transactions contemplated by the merger agreement;

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in the case of Enstar, filings made with the Commission;

financial statements;

accuracy of information supplied for use in this proxy statement/prospectus;

board of directors approval;

required shareholder votes;

litigation;

compliance with laws;

absence of certain changes or events since December 31, 2005;

employee benefit plans and related matters;

inapplicability of anti-takeover statutes;

environmental matters;

intellectual property matters;

payment of fees to finders or brokers in connection with the merger agreement;

tax matters;

material contracts;

assets;

real property;

insurance;

affiliate transactions; and

disclosures made by them.

The merger agreement also contains certain representations and warranties of Castlewood with respect to Merger Sub, including those relating to organization, authorization, absence of a breach of the organizational documents and no prior business activities.

Conditions to the Consummation of the Merger

Mutual Conditions

Castlewood s and Enstar s respective obligations to consummate the merger are subject to the satisfaction or the waiver of the following conditions:

- the receipt of all governmental and regulatory consents, clearances, approvals and actions necessary for the merger and the other transactions contemplated by the merger agreement unless failure to obtain those consents, clearances, approvals and actions would not reasonably be expected to have a material adverse effect on New Enstar (except for a limited number of consents, clearances, approvals and actions of, filings with and notices to the governmental entities listed in Castlewood s disclosure letter that must be obtained regardless of their materiality);

- the absence of any law, order or injunction prohibiting the consummation of the merger in the United States, Bermuda or the European Union;

- the Commission having declared effective the Castlewood registration statement of which this proxy statement/prospectus is a part;

- the approval for listing by Nasdaq of the New Enstar ordinary shares to be issued in the merger, subject to official notice of issuance;

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the receipt of all securities and blue sky permits and approvals necessary to consummate the merger;

the adoption and approval of the merger agreement by the Enstar shareholders;

the affirmative votes of the holders of a majority of the outstanding share capital of Castlewood necessary to consummate the transactions contemplated by the recapitalization agreement;

the completion of the recapitalization of Castlewood pursuant to the recapitalization agreement (see Material Terms of Related Agreements Recapitalization Agreement beginning on page 63);

no event having occurred which would trigger a distribution under Enstar s shareholders rights plan;

the receipt by Enstar and Castlewood of Debevoise s opinion to the effect that the merger should qualify as a reorganization within the meaning of section 368(a) of the Code (see discussion under The Proposed Merger Material U.S. Federal Income Tax Consequences of the Merger Tax Opinions beginning on page 48);

the representations and warranties of the other party contained in the merger agreement which are qualified as to material adverse effect being true and correct, as of the date of the merger agreement and as of the closing date of the merger, except to the extent that such representation or warranty speaks as of another date, and the representations and warranties of the other party which are not qualified as to material adverse effect being true and correct (disregarding materiality qualifiers) except where the failure to be true and correct, individually or in the aggregate, would not have a material adverse effect on the party making the representation, as of the date of the merger agreement and as of the closing date of the merger as if they were made on that date, except to the extent that such representation or warranty speaks as of another date; and

the parties having performed or complied in all material respects with all agreements or covenants required to be performed by them under the merger agreement (other than the parties covenants regarding the issuance of securities, and Enstar s covenant regarding dividends and changes in share capital, which will have been complied with in all respects), in each case, on or before the closing date.

As used in the merger agreement, the term material adverse effect means with respect to either Castlewood or Enstar, as applicable, any event, change, circumstance or effect that, individually or in the aggregate, is or would be reasonably likely to be materially adverse to:

the business, financial condition, assets or results of operations of such entity and its subsidiaries, taken as a whole, other than any event, change, circumstance or effect relating:

to the economy or financial markets in general;

to changes in general in the industries in which such entity operates (provided, however, that the effect of such changes shall be included to the extent of, and in the amount of, the disproportionate impact (if any) they have on such entity relative to the other participants in such industry);

to changes in applicable law or regulations or in generally accepted accounting principles (provided, however, that the effect of such changes shall be included to the extent of, and in the amount of, the disproportionate impact (if any) they have on such entity relative to other persons with similar lines of business); or

to the announcement of the merger agreement or the transactions contemplated by the merger agreement; or

the ability of such entity and its subsidiaries to complete the transactions contemplated by the merger agreement and the recapitalization agreement.

Additional Conditions

In addition, Enstar s obligation to consummate the merger is subject to the satisfaction or waiver of the receipt by Mr. Flowers of an indemnity agreement with respect to the gain recognition agreement anticipated

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to be filed by Mr. Flowers in accordance with Treasury regulation § 1.367(a)-8. Mr. Flowers and Castlewood entered into such indemnity agreement on May 23, 2006. See Interests of Certain Persons in the Merger Tax Indemnification Agreement beginning on page 53 for a description of the tax indemnity agreement.

Termination of Merger Agreement

Right to Terminate

The merger agreement may be terminated at any time before the consummation of the merger in any of the following ways:

by mutual written consent of Enstar and Castlewood;

by either Enstar or Castlewood:

if the merger has not been consummated by January 31, 2007; except that a party may not terminate the merger agreement if the cause of the merger not being consummated is that party s failure to fulfill its material obligations under the merger agreement;

if a governmental authority or a court in the United States or European Union permanently enjoins or prohibits the consummation of the merger, except that a party that seeks to terminate the merger agreement upon such an event must have used its reasonable best efforts to obtain government approvals for the consummation of the merger; or

if Enstar s shareholders fail to approve the merger agreement.

by Castlewood:

if Enstar has breached in any material respect any of its representations or warranties or has failed to perform in any material respect any of its covenants or other agreements under the merger agreement and such breach:

is incapable of being cured by or remains uncured prior to January 31, 2007; or

would result in the failure of certain closing conditions in the merger agreement being satisfied; or

if:

Enstar or Enstar s board of directors materially breaches the covenant regarding no solicitation of an alternative takeover proposal and such breach is not cured within five business days after receiving such notice of breach;

Enstar s board of directors changes its recommendation to the Enstar shareholders to approve the merger agreement; or

Enstar fails to hold the Annual Meeting to vote on the merger by November 23, 2006; or

by Enstar:

if Castlewood or Merger Sub has breached in any material respect any of its representations or warranties or has failed to perform in any material respect any of its covenants or other agreements under the merger agreement and such breach:

- is incapable of being cured by or remains uncured prior to January 31, 2007; or
- would result in the failure of certain closing conditions in the merger agreement being satisfied; or

if there has been a change in the recommendation by the Enstar board of directors in respect of the merger agreement and:

- Enstar notifies Castlewood in writing that it intends to approve and enter into an agreement concerning a different business combination transaction that constitutes a superior proposal, attaching the most current version of such agreement or a description of its material terms; and

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Castlewood, within five business days of receiving such notice from Enstar, does not make an offer that the board of directors of Enstar determines is at least as favorable to the Enstar shareholders as the superior proposal Enstar received from the third party.

Termination of the merger agreement also terminates certain obligations under the support agreement.

Obligations in Event of Termination

In the event of termination as provided for above, the merger agreement will become void and of no further force and effect (except with respect to certain designated sections of the merger agreement) and there will be no liability on behalf of Enstar, Castlewood or Merger Sub, except for liabilities arising from a willful breach of the merger agreement.

Amendments, Extensions and Waivers

The merger agreement may be amended by the parties at any time before or after the Annual Meeting and the Castlewood shareholders meeting, except that any amendment after the shareholders meetings, which requires approval by shareholders, may not be made without such approval.

At any time before the consummation of the merger, the parties may, to the extent legally allowed, extend the time for the performance of any of the obligations or other acts of the other parties, waive any inaccuracies in the representations and warranties contained in the merger agreement, and waive compliance with any of the agreements or conditions contained in the merger agreement.

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MATERIAL TERMS OF RELATED AGREEMENTS

Recapitalization Agreement

Castlewood and certain of its shareholders entered into a recapitalization agreement, dated as of May 23, 2006, pursuant to which the series of transactions described below will be effected immediately prior to the consummation of the merger. The following is a summary of the material terms of the recapitalization agreement. This summary does not purport to describe all the terms of the recapitalization agreement and is qualified in its entirety by reference to the complete text of the agreement, which is attached as Annex C to this proxy statement/prospectus and incorporated herein by reference.

Events

Immediately prior to the consummation of the merger, the following events will occur:

The repurchase by Castlewood of 1,797.555 of its Class B shares held by Trident for $20,000,000 in cash.

A payment of $5,076,000 by Enstar to Castlewood.

A payment of $5,076,000 by Castlewood to certain of its executive officers and employees.

The amendment and restatement of Castlewood s bye-laws and the change of Castlewood s name to Enstar Group Limited.

The exchange of all outstanding Class A shares of Castlewood held by Enstar for 2,972,892 non-voting convertible ordinary shares of Castlewood.

The exchange of all remaining outstanding Class B shares of Castlewood held by Trident for 2,082,236 ordinary shares of Castlewood.

The exchange of all outstanding Class C shares of Castlewood, including Class C-1 shares, Class C-2 shares, Class C-3 shares and Class C-4 shares, held by certain Castlewood shareholders for 3,636,612 ordinary shares of Castlewood.

The exchange of all outstanding Class D shares of Castlewood, including Class D-1 shares, Class D-2 shares, Class D-3 shares, Class D-4 shares and Class D-5 shares, of Castlewood held by certain employee shareholders for 420,577 ordinary shares of Castlewood. To the extent any Class D shares that are exchanged are unvested, an entity designated by Castlewood and Enstar will hold and/or have the right to purchase the ordinary shares issued upon the exchange thereof for $0.001 per share from the holder thereof if the holder s employment with Castlewood is terminated prior to the time the Class D shares would have become vested. This right must be exercised within 60 days of any such termination.

The purchase by Castlewood of all of the shares of B.H. Acquisition beneficially owned by an affiliate of Trident II, L.P. for $6,200,167 in cash. B.H. Acquisition is partially owned by Castlewood, Enstar and an affiliate of Trident II, L.P.

As of the consummation of the merger, the following events will occur:

The automatic termination of the share purchase and capital commitment agreement, dated as of October 1, 2001, among Castlewood, Enstar and certain shareholders of Castlewood and the agreement among members, dated November 29, 2001, among Castlewood, Enstar and certain shareholders of Castlewood.

The appointment of the members of the board of directors of New Enstar immediately following the merger. Such directors will include Messrs. T. Whit Armstrong, Paul J. Collins, Gregory L. Curl, T. Wayne Davis, J. Christopher Flowers, Nimrod T. Frazer, John J. Oros, Paul J. O Shea, Nicholas A. Packer and Dominic F. Silvester.

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Mutual Representations and Warranties

The recapitalization agreement contains substantially mutual representations and warranties made by each of Castlewood and its shareholders that are a party thereto related to:

- authority to enter into, and carry out the obligations under, the recapitalization agreement and the enforceability of the recapitalization agreement;
- absence of any breach of their organizational documents or any law or agreement to which they are subject or bound as a result of the transactions contemplated by the recapitalization agreement; and
- approvals required to carry out the obligations under the recapitalization agreement.

Additional Representations and Warranties

In addition, Castlewood made representations and warranties related to:

- due authorization and issuance of all issued and outstanding shares of Castlewood, including all ordinary shares issued in connection with the recapitalization;
- the sufficiency of the number of ordinary shares available for issuance upon conversion of all of the non-voting convertible ordinary shares; and
- the sufficiency of voting power held by shareholders party to the agreement to effect the transactions contemplated by the recapitalization agreement.

In addition, the Castlewood shareholders party to the recapitalization agreement made representations and warranties related to:

- ownership of shares;
- acquisition of shares for investment purpose; and
- the shareholder being an accredited investor.

In addition, Trident II, L.P. represented and warranted to certain ownership matters with respect to the shares of B.H. Acquisition beneficially owned by its affiliate.

Covenants

Castlewood and its shareholders party to the recapitalization agreement agreed to the following covenants under the recapitalization agreement:

- to use their reasonable best efforts to take all actions and do all things necessary, proper and advisable under the recapitalization agreement, the merger agreement and applicable laws to complete the transactions contemplated in the recapitalization agreement and the merger agreement;

to execute and deliver any additional documents and take any further action as may be reasonably necessary or desirable to effect the matters contemplated in the recapitalization agreement or merger agreement;

to consent to the completion of the transactions contemplated by the recapitalization agreement and to waive any requirements, restrictions or obligations under the share purchase and capital commitment agreement or the agreement among members (each as described above) arising out of the transactions contemplated by the recapitalization agreement;

to waive any dissenter s, appraisal or similar rights such party may have in respect of the transactions contemplated by the recapitalization agreement or the merger agreement; and

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to waive and release all directors and officers of Castlewood from all actions, claims and liabilities for any actions or omissions in respect of the recapitalization agreement, the merger agreement and the other transactions contemplated by the recapitalization agreement or the merger agreement (other than any actions, claims or liabilities based on fraud, bad faith or intentional misconduct).

Other Covenants and Agreements

Castlewood has also agreed to the following covenants:

to use its reasonable best efforts to cause all ordinary shares issued in the recapitalization to be approved for listing on Nasdaq;

to take all reasonable steps to cause any disposition of its Class B shares or acquisitions of its ordinary shares in the transactions contemplated by the recapitalization agreement to be exempt from Section 16(b) of the Exchange Act;

to take all action to call and hold a special meeting of Castlewood shareholders to vote on the approval of the recapitalization agreement and the transactions contemplated in the recapitalization agreement;

to use reasonable efforts to cause each holder of Class D shares of Castlewood to become a party to the recapitalization agreement or take such actions necessary to cause all of the outstanding Class A shares, Class B shares, Class C shares and Class D shares of Castlewood to be exchanged for the consideration described above;

to either establish (1) an entity with the sole purpose of holding and/or having the right to purchase the ordinary shares issued in exchange for unvested Class D shares from holders whose employment has been terminated prior to the time such unvested Class D shares would become vested or (2) at the option of Enstar, alternative arrangements to accomplish a similar administrative process for exercising such rights; and

to use its reasonable best efforts to obtain letter agreements from all holders of Class D shares of Castlewood who are not parties to the recapitalization agreement that restrict the holders from transferring the ordinary shares they receive in the recapitalization for a period of one year.

Irrevocable Proxy

Under the recapitalization agreement, each Castlewood shareholder that is a party thereto has agreed to designate and appoint Messrs. Frazer and Oros, in their respective capacities as officers of Enstar, and any individual who shall thereafter succeed to any such office of Enstar, and each of them individually, as such shareholder s proxy and attorney-in-fact to vote on the recapitalization agreement and the transactions contemplated by the recapitalization agreement on the shareholder s behalf.

Conditions

Castlewood s and the shareholders respective obligations to complete the transactions contemplated by the recapitalization agreement are subject to the satisfaction of the following conditions:

the absence of any law, order or injunction prohibiting completion of the transactions contemplated by the recapitalization agreement;

the receipt of all permits, consents, approvals and authorizations required for the performance;

the satisfaction or waiver of the closing conditions under Article VI (conditions precedent) of the merger agreement;

delivery of Debevoise s opinion to the effect that the recapitalization will qualify as a reorganization under section 368(a) of the Code;

the requisite consent of Castlewood s shareholders to the recapitalization agreement and the transactions contemplated in the recapitalization agreement;

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the representations and warranties of Castlewood (in the case of the shareholders) or of each shareholder (in the case of Castlewood) contained in the recapitalization agreement being true and correct in all material respects, as of the date of the recapitalization agreement and as of the closing date; and

Castlewood (in the case of the shareholders) or each shareholder (in the case of Castlewood) having performed or complied in all material respects with all agreements or covenants required to be performed by it under the recapitalization agreement at or prior to the completion of the transactions contemplated by the recapitalization agreement.

Employee Bonuses

Upon the closing of the merger, Castlewood s current annual incentive compensation plan will be cancelled (and any accruals under such plan will be reversed) and replaced with a new annual incentive compensation plan, the terms of which will be subject to approval by the compensation committee of New Enstar s board of directors. It is anticipated that, with respect to services to be performed in each of calendar years 2006 through 2010, the plan will permit eligible employees to share in a bonus pool, which is anticipated to represent, in the aggregate, 15% of New Enstar s consolidated net after-tax profits and from which distributions are anticipated to be made in cash, ordinary shares or other securities of New Enstar, or the right to acquire ordinary shares or other securities of New Enstar, in such amounts per employee and in such form as shall be determined by New Enstar s compensation committee. The board of directors of New Enstar will determine whether and, if so, on what terms and conditions, the plan will continue in effect with respect to calendar years after 2010.

Transfer Restrictions

Under the recapitalization agreement, each shareholder of Castlewood has agreed not to transfer or agree to transfer its ordinary shares or non-voting convertible ordinary shares of New Enstar received pursuant to the recapitalization for a period of one year. Pursuant to a separate letter agreement, this one year transfer restriction also applies to directors of Enstar with respect to shares of New Enstar that they receive pursuant to the merger. Directors of Enstar also agreed not to exercise any options for one year following the merger. The following are exceptions to the general prohibition on transfers:

transfers to Castlewood;

following the consummation of the merger, other than in the case of an employee shareholder, transfers to another party to the recapitalization agreement, other than an employee shareholder, or to any party to the letter agreement containing similar transfer restrictions on members of the board of directors of Enstar;

transfers to a trust under which distributions may be made only to such shareholder or his or her immediate family members;

transfers to a charitable remainder trust, the income from which will be paid to such shareholder during his or her life;

transfers to a corporation, partnership, limited liability company or other entity, all of the equity interests in which are held, directly or indirectly, by such shareholder and his or her immediate family members; and

transfers in connection with a tender offer, merger, amalgamation, recapitalization, reorganization or similar transaction involving New Enstar;

provided that, with regard to some of the transfers listed above, such shareholder has sole, ultimate control of the entity referred to and such entity agrees to be bound by the recapitalization agreement or the letter agreement referred to above.

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Registration Rights

Concurrently with the closing, Castlewood and certain shareholders of Castlewood and Enstar will enter into a registration rights agreement pursuant to which those shareholders will be granted registration rights following the closing of the merger with respect to the ordinary shares received pursuant to the recapitalization and the merger. For more information on the registration rights agreement, see Material Terms of Related Agreements Registration Rights Agreement beginning on page 68.

Expenses

All fees and expenses incurred in connection with the recapitalization agreement, the merger agreement and the transactions contemplated in the recapitalization agreement and merger agreement will be paid by the party incurring such fees and expenses. However, Castlewood will reimburse all reasonable out-of-pocket fees and expenses incurred in connection with the recapitalization agreement, the merger agreement and the transactions contemplated in the recapitalization agreement and merger agreement by the holders of its Class B shares, its Class C shares and its Class D shares, except that the reimbursement for the holders of its Class B shares is subject to a maximum of $150,000.

Termination

The recapitalization agreement will terminate on the earlier of the termination of the merger agreement and the termination of the support agreement (other than the termination of the support agreement upon the completion of the merger). If the recapitalization agreement is terminated, its provisions will cease to have effect, except that no such termination will relieve any party from any liability arising from a willful breach of the recapitalization agreement.

Support Agreement

Castlewood and Messrs. Flowers, Oros and Frazer entered into the support agreement, with respect to the Enstar common stock owned by them and acquired during the term of the support agreement. The following is a summary of the material terms of the support agreement and is qualified in its entirety by reference to the complete text of the agreement, which is attached as Annex B to this proxy statement/prospectus and incorporated herein by reference.

Voting of Shares

Each of Messrs. Flowers, Oros and Frazer agreed that, at any meeting of the shareholders of Enstar called to vote upon the merger, the merger agreement and the other transactions contemplated by the merger agreement, he will vote all of the shares of Enstar common stock owned by him in favor of the approval of the merger agreement and the transactions contemplated by the merger agreement. Each of the three shareholders further agreed that at any meeting of the shareholders of Enstar, he will vote all of the shares of Enstar common stock owned by him against:

- any takeover proposal other than as contemplated by the merger agreement;
- any other transaction or proposal involving Enstar or any of its subsidiaries that would prevent, nullify, materially interfere with or delay the merger agreement, the merger and the other transactions contemplated by the merger agreement.

As of May 23, 2006, Messrs. Flowers, Oros and Frazer, three of the largest shareholders of Enstar, hold an aggregate of 1,726,556 shares of Enstar s outstanding common stock, representing approximately 30.1% of the voting power of Enstar s capital stock.

Irrevocable Proxy

Each of Messrs. Flowers, Oros and Frazer has agreed to designate and appoint Mr. Richard J. Harris and Mr. Paul J. O Shea, in their respective capacities as officers of Castlewood, and any individual who shall

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thereafter succeed to any such office of Castlewood, and each of them individually, as the shareholder s proxy and attorney-in-fact to vote on the matters described above.

Transfer Restrictions

Each of Messrs. Flowers, Oros and Frazer has agreed not to transfer any of the shares of Enstar common stock owned by him, or grant any proxies or enter into any voting agreements with respect to such shares other than the support agreement with Castlewood. Exceptions to the general prohibition on transfer include transfers to a trust under which distributions may be made only to such shareholder or his immediate family members, to a charitable remainder trust, the income from which will be paid to such shareholder during his life, or to an entity, all of the equity interests in which are held by such shareholder and his immediate family members, and provided, in each of the exceptions, such shareholder has sole record ownership and control of the entity referred to and such entity agrees to be bound by the support agreement.

Termination

The support agreement will terminate on the earlier of the consummation of the merger, at the option of at least two of the shareholders party to the support agreement if Enstar s board of directors has effected a change in its recommendation to the Enstar shareholders to approve the merger agreement and the transactions contemplated by the merger agreement, the termination of the merger agreement and January 31, 2007. If the support agreement is terminated, its provisions will cease to have effect, except that no such termination will relieve any party from liability for any breach prior to such termination.

Shareholder Capacity

The parties acknowledged that each of Messrs. Flowers, Oros and Frazer executed the support agreement solely in his capacity as a record holder or beneficial owner of shares of Enstar common stock and not in his capacity as an officer or director of Enstar.

Registration Rights Agreement

Castlewood, Trident, Messrs. Flowers and Silvester and certain other shareholders of Castlewood, and the directors of Enstar, and, together with any other person who becomes party to the registration rights agreement, as agreement holders, will enter into a registration rights agreement in connection with the transactions contemplated by the merger agreement and the recapitalization agreement. The registration rights agreement will become effective immediately upon the consummation of the merger. The following is a summary of the material terms of the registration rights agreement. This summary does not purport to describe all of the terms of the registration rights agreement and is qualified in its entirety by reference to the complete text of the agreement, which is filed as an exhibit to the registration statement of which this proxy statement/prospectus is a part and incorporated herein by reference.

The registration rights agreement will provide that, after the expiration of one year from the date of the registration rights agreement, any of Trident, Mr. Flowers and Mr. Silvester, each referred to as a requesting holder, may require that New Enstar effect the registration under the Securities Act of all or any part of such holder s registrable securities, as defined below. Trident is entitled to make three requests and Messrs. Flowers and Silvester are each entitled to make two requests. Notwithstanding the preceding sentence, the registration rights agreement further provides that, after the expiration of 90 days from the date of the registration rights agreement and prior to the first anniversary of such date, Trident has the right to require New Enstar to effect the registration of up to 750,000 shares of registrable securities, referred to as the Trident demand.

Upon receipt of a registration request (other than the Trident demand), New Enstar is required as promptly as reasonably practicable (but in any event within 7 days of such request) to give written notice of such request to all other holders of registrable securities. New Enstar must then use its reasonable best efforts to register all registrable securities that have been requested to be registered by the requesting holder in the registration request or by any other agreement holder by written notice to New Enstar in accordance with the provisions of the registration rights agreement.

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New Enstar will not be required to effect a registration request unless the aggregate number of ordinary shares proposed to be registered constitutes at least the lesser of: (1) 25% of the total number of registrable securities held by the requesting holder (or 15% in the case of the Trident demand) or (2) 10% of the total number of registrable securities held by all holders of registrable securities on the date of the registration rights agreement, or if the total number of registrable securities then outstanding is less than such amount, all of the registrable securities then outstanding. In addition, New Enstar will not be obligated to effect a registration more than once in any nine month period except that any request for registration that immediately follows the registration pursuant to the Trident demand may be as soon as six months following registration pursuant to the Trident demand. With respect to the Trident demand, New Enstar cannot include any securities other than registrable securities owned by Trident without Trident s prior written consent.

Registrable securities means:

- any ordinary shares of New Enstar issued pursuant to the merger;
- any ordinary shares of New Enstar issued pursuant to the recapitalization agreement;
- any ordinary shares of New Enstar issued upon exercise, exchange or conversion of any options, restricted stock units or other rights to acquire ordinary shares of New Enstar that are issued in connection with the merger or the recapitalization agreement; or
- any equity securities issued or issuable with respect to the ordinary shares referred to above by way of conversion, exercise or exchange thereof or share dividend or share split or in connection with a combination of shares, recapitalization, reclassification, merger, amalgamation, arrangement, consolidation or other reorganization.

A request for registration will not constitute the use of a registration request by a requesting holder pursuant to the registration rights agreement if:

- the requesting holder and the other holders of registrable securities holding 50% or more of the outstanding registrable securities determine in good faith to withdraw (prior to the effective date of the registration statement relating to such request) the proposed registration;
- the registration statement relating to such request is not declared effective within 90 days of the date such registration statement is first filed with the Commission;
- prior to the sale of at least 90% of the registrable securities included in the registration relating to such request, such registration is adversely affected by any stop order, injunction or other order or requirement of the Commission or other governmental agency, quasi-governmental agency or self-regulatory body or court for any reason and New Enstar fails to cure such stop order, injunction or other order or requirement within 30 days;
- more than 20% of the registrable securities requested by the requesting holder to be included in the registration of an underwritten offering are not included in such offering on the advice of the managing underwriter of such offering;
- the conditions to closing specified in any underwriting agreement or purchase agreement entered into in connection with the registration relating to such request are not satisfied (other than as a result of a material breach by the requesting holder); or

in the case of an underwritten offering, the failure of New Enstar to cooperate fully.

New Enstar may postpone for a reasonable period of time, not to exceed 90 days, the filing or the effectiveness of a registration statement if New Enstar furnishes to the holders of registrable securities covered by such registration statement a certificate signed by the chief executive officer of New Enstar stating that the board of directors of New Enstar has determined that such registration is reasonably likely to have a material adverse effect on any proposal or plan by New Enstar to engage in any acquisition of assets or any merger, amalgamation, consolidation, tender offer or similar transaction, or otherwise would have a material adverse effect on the business, assets, operations, prospects or financial condition of New Enstar.

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New Enstar cannot grant registration rights to any holder or prospective holder of any securities of New Enstar which are senior to or otherwise conflict in any material respect with the registration rights that will be provided pursuant to the registration rights agreement, without the prior written consent of either each of the requesting holders or shareholders to the agreement holding 50% or more of outstanding registrable securities and, for such time as Trident owns at least 20% of the registrable securities it owned as of the date of the registration rights agreement, Trident. New Enstar may grant additional demand or piggyback registration rights that are *pari passu* with the rights that will be set forth in the registration rights agreement, and any dilution of the registration rights resulting from any such *pari passu* rights will not be deemed to conflict with the rights that will be set forth in the registration rights agreement.

Whenever New Enstar proposes to register ordinary shares (other than a registration pursuant to a registration request under the registration rights agreement, a registration on Form S-4 or a registration relating solely to employee benefit plans), whether for its own account or for the account of one or more securityholders of New Enstar, and the registration form to be filed may be used for the registration or qualification for distribution of registrable securities, New Enstar is required to give prompt written notice to all holders of registrable securities of its intention to effect such a registration and must include in such registration, all registrable securities with respect to which New Enstar receives from the holders of registrable securities written requests for inclusion, or a piggyback registration. New Enstar may terminate or withdraw any registration initiated by it prior to the effectiveness of such registration, whether or not any holder of registrable securities has elected to include registrable securities in such registration, and except for the obligation to pay certain registration expenses, New Enstar will have no liability to any holder of registrable securities in connection with such termination or withdrawal.

For a period of 180 days from the effective date of the effectiveness of a registration statement filed in connection with a request for registration, New Enstar cannot file or cause to be effected any registration of any of its equity securities or securities convertible or exchangeable into or exercisable for its equity securities under the Securities Act (except on Form S-4 or S-8 or any successor or similar forms).

If a requesting holder requests registration of any of its shares, New Enstar is required to prepare and file a registration statement with the Commission as expeditiously as possible, and no later than 45 days after receipt of such request. New Enstar is required to keep such registration statement effective for a period of either a minimum of six months (or if such registration statement relates to an underwritten offering, such longer period as in the opinion of counsel for the underwriters a prospectus is required by law to be delivered in connection with sales of registrable securities by an underwriter or dealer) or such shorter period as will terminate when all the securities covered by such registration statement have been disposed of.

New Enstar will pay certain expenses in connection with any request for registration or piggyback registration in accordance with the registration rights agreement.

In the event of a requested underwritten offering, the holders of a majority of the registrable securities being registered will have the right to select the investment banker(s) and manager(s) to administer the offering, subject to New Enstar s approval which cannot be unreasonably withheld, conditioned or delayed.

In addition to the provisions set forth above, the registration rights agreement contains other terms and conditions including those customary in agreements of this kind.

Termination

The registration rights agreement will terminate on the earliest of its termination by the consent of the holders of registrable securities holding 50% or more of the outstanding registrable securities and each of the requesting holders (but only if such requesting holder holds any registrable securities at such time) or in each case, their respective

successors in interest, the date on which no shares subject to the agreement are outstanding, and the dissolution, liquidation or winding up of New Enstar.

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No Transfers Letter Agreement

In connection with the merger, each of the members of the board of directors of Enstar entered into a letter agreement with Enstar, pursuant to which the directors agreed not to (1) transfer any of such director s shares of Enstar common stock or New Enstar ordinary shares or any option to purchase shares of Enstar common stock or any option to purchase ordinary shares of New Enstar upon the assumption of any such Enstar stock options by New Enstar or (2) exercise any Enstar stock option or New Enstar option held by such person, for a period of one year following the effective time of the merger. The letter agreement contains certain exceptions to the general prohibition of transfers that are described above under the heading Recapitalization Agreement Transfer Restrictions beginning on page 68.

Repurchase of Shares Letter Agreement

Two directors of Enstar, Messrs. Armstrong and Davis, have entered into a letter agreement, dated May 23, 2006, with Castlewood pursuant to which New Enstar, subject to the consummation of the merger, agrees to repurchase from Messrs. Armstrong and Davis, upon their request, during a 30-day period commencing January 15, 2007, at the then prevailing market prices, such number of shares as provides an amount sufficient for Messrs. Armstrong and Davis to pay taxes on compensation income resulting from the exercise of options by them on May 23, 2006 for 50,000 shares of Enstar common stock in the aggregate. New Enstar s obligation to repurchase ordinary shares is limited to 25,000 ordinary shares from each of Mr. Armstrong and Mr. Davis.

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INFORMATION ABOUT CASTLEWOOD

Business

Company Overview

In 1993, Mr. Silvester, who was joined by Mr. Packer and Mr. O Shea in 1993 and 1994, respectively, began a business venture in Bermuda to provide run-off services to the insurance and reinsurance industry. In 1995 this business was assumed by Castlewood Limited.

In 1996, Castlewood Limited formed a wholly-owned subsidiary, Castlewood (EU) Ltd. based in Guildford and London in the United Kingdom, to extend the services provided by Castlewood Limited.

In 2000, Castlewood Limited entered into a joint venture with Enstar and an affiliate of Trident II, L.P. to acquire, and for Castlewood Limited to manage, B.H. Acquisition. In connection with the formation of the joint venture, Castlewood, Enstar and an affiliate of Trident II, L.P. acquired 45%, 33% and 22% economic interests, respectively, in B.H. Acquisition.

Castlewood was formed in August 2001 under the laws of Bermuda to acquire and manage insurance and reinsurance companies in run-off, and to provide management, consulting and other services to the insurance and reinsurance industry. In connection with Castlewood s formation, Enstar and Trident made an initial investment in Castlewood and the senior executives of Castlewood contributed their equity interests in Castlewood Limited.

Since its formation, Castlewood, through its subsidiaries, has completed several acquisitions of insurance and reinsurance companies and is now administering those businesses in run-off. Castlewood derives its earnings from the ownership and management of these companies primarily by settling insurance and reinsurance claims below the recorded loss reserves and from returns on the portfolio of investments retained to pay future claims. In addition, Castlewood has formed other businesses that provide management and consultancy services, claims inspection services and reinsurance collection services to Castlewood affiliates and third-party clients for both fixed and success-based fees.

In the primary (or direct) insurance business, the insurer assumes risk of loss from persons or organizations that are directly subject to the given risks. Such risks may relate to property, casualty, life, accident, health, financial or other perils that may arise from an insurable event. In the reinsurance business, the reinsurer agrees to indemnify an insurance or reinsurance company, referred to as the ceding company, against all or a portion of the insurance risks. When an insurer or reinsurer stops writing new insurance business or a particular line of business, the insurer, reinsurer, or the line of discontinued business is in run-off.

In recent years, the insurance industry has experienced significant consolidation. As a result of this consolidation and other factors, the remaining participants in the industry often have portfolios of business that are either inconsistent with their core competency or provide excessive exposure to a particular risk or segment of the market (i.e., property/casualty, asbestos, environmental, director and officer liability, etc.). These non-core and/or discontinued portfolios are often associated with potentially large exposures and lengthy time periods before resolution of the last remaining insured claims resulting in significant uncertainty to the insurer or reinsurer covering those risks. These factors can distract management, drive up the cost of capital and surplus for the insurer or reinsurer, and negatively impact the insurer s or reinsurer s credit rating, which makes the disposal of the unwanted company or portfolio an attractive option. Alternatively, the insurer may wish to maintain the business on its balance sheet, yet not divert

significant management attention to the run-off of the portfolio. The insurer or reinsurer, in either case, is likely to engage a third party, such as Castlewood, that specializes in run-off management to purchase the company or portfolio, or to manage the company or portfolio in run-off.

In the sale of a run-off company, a purchaser, such as Castlewood, typically pays a discount to the book value of the company based on the risks assumed and the relative value to the seller of no longer having to manage the company in run-off. Such a transaction can be beneficial to the seller because it receives an

upfront payment for the company, eliminates the need for its management to devote any attention to the disposed company and removes the risk that the established reserves for the business may prove to be inadequate. The seller is also able to redeploy its management and financial resources to its core businesses.

Alternatively, if the insurer or reinsurer hires a third party, such as Castlewood, to manage its run-off business, the insurer or reinsurer will, unlike in a sale of the business, receive little or no cash up front. Instead, the management arrangement may provide that the insurer or reinsurer will share in any profits derived from the run-off with certain incentive payments allocated to the run-off manager. By hiring a run-off manager, the insurer or reinsurer can outsource the management of the run-off business to experienced and capable individuals, while allowing its own management team to focus on the insurer s or reinsurer s core businesses. Although Castlewood s desired approach to managing run-off business is to align its interests with the interests of the owners, under certain management arrangements to which Castlewood is a party, it only receives a fixed management fee and does not receive incentives.

Following the purchase of a run-off company or the engagement to manage a run-off company or portfolio of business, it is incumbent on the new owner or manager to conduct the run-off in a disciplined and professional manner in order to efficiently discharge the liabilities associated with the business while preserving and maximizing its assets. Castlewood s approach to managing a run-off company or portfolio of business includes negotiating with third-party insureds and reinsureds to commute their insurance or reinsurance agreement for an agreed upon up-front payment by Castlewood, or the third-party client, and to more efficiently manage payment of reinsurance claims. Castlewood attempts to commute policies with direct insureds or reinsureds (sometimes called policy buy-backs), thereby eliminating uncertainty over the amount of future claims. Commutations and policy buy-backs provide an opportunity for the company to exit exposures to certain policies and insureds generally at a discount to the ultimate liability and provide the ability to eliminate exposure to further losses. Such a strategy also contributes to the reduction in the length of time and future cost of the run-off of the Company s insurance and reinsurance companies. Castlewood also attempts, where appropriate, to negotiate favorable commutations with reinsurers by securing the receipt of a lump-sum settlement from the reinsurer in complete satisfaction of the reinsurer s liability in respect of any future claims. Castlewood, or the third-party client, is then fully responsible for any claims in the future. Castlewood typically invests proceeds from reinsurance commutations with the expectation that such investments will produce income, which, together with the principal, will be sufficient to satisfy future obligations with respect to the acquired company or portfolio.

Competitive Strengths

Castlewood believes that its competitive strengths have enabled, and will continue to enable, it to capitalize on the opportunities that exist in the run-off market. These strengths include:

Experienced Management Team with Proven Track Record. Dominic F. Silvester, Castlewood s Chief Executive Officer, Paul J. O Shea, an Executive Vice President of Castlewood, Nicholas A. Packer, an Executive Vice President of Castlewood and Richard J. Harris, Castlewood s Chief Financial Officer, each has over 18 years of experience in the insurance and reinsurance industry. The extensive depth and knowledge of Castlewood s management team provide it with the ability to identify, select and price companies and portfolios in run-off and to successfully manage companies and portfolios in run-off.

Highly Qualified, Experienced and Ideally Located Employee Base. Castlewood has been successful in recruiting a highly qualified team of experienced claims, reinsurance, financial, actuarial and legal staff located in three of the major insurance and reinsurance centers in the world: London, New York and Bermuda. The quality and breadth of experience of Castlewood s staff enable it to offer a wide range of professional services to the industry.

Long-Standing Market Relationships. Castlewood s management team has well-established personal relationships across the insurance and reinsurance industry. Castlewood uses these market relationships to identify and source business opportunities and establish itself as a leader in the run-off business.

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Disciplined Approach to Acquisitions and Claims Management. Castlewood believes in generating profitability through a disciplined, conservative approach to both acquisitions and claims management. Castlewood closely analyzes new business opportunities to determine a company s inherent value and Castlewood s ability to profitably manage that company or a portfolio in run-off. Castlewood believes that its review and claims management process, combined with management of global exposures across product lines, allow it to price acquisitions on favorable terms and to profitably run-off the businesses that it acquires and manages.

Financial Strength. As of December 31, 2005, Castlewood had $260.9 million of shareholders equity without any outstanding debt. This financial strength allows Castlewood to aggressively price acquisitions that fit within its core competency and hire and retain additional management talent when necessary. Castlewood believes that its financial strength has allowed it to be recognized as a leader in the acquisition and management of run-off companies and portfolios. Castlewood s conservative approach to managing its balance sheet reflects its commitment to maintaining its financial strength.

Strategy

Castlewood s corporate objective is to generate returns on capital that appropriately reward it for risks it assumes. Castlewood intends to achieve this objective by executing the following strategies:

Establish Leadership Position in the Run-Off Market by Leveraging Management s Experience and Relationships. Castlewood intends to continue to utilize the extensive experience and significant relationships of its senior management team to establish itself as a leader in the run-off segment of the insurance and reinsurance market. The strength and reputation of Castlewood s management team is expected to generate opportunities for Castlewood to acquire or manage companies and portfolios in run-off, to price effectively the acquisition or management of such businesses, and, most importantly, to manage the run-off of such businesses efficiently and profitably.

Professionally Manage Claims. Castlewood is professional and disciplined in managing claims against run-off companies and portfolios it owns or manages. Castlewood s management understands the need to dispose of certain risks expeditiously and cost-effectively by constantly analyzing changes in the market and efficiently settling claims with the assistance of its experienced claims adjusters and in-house and external legal counsel. When Castlewood acquires or begins managing a company or portfolio it initially determines which claims are valid through the use of experienced in-house adjusters and claims experts. Castlewood pays valid claims on a timely basis, and looks to well-documented policy exclusions and coverage issues where applicable and litigates when necessary to avoid invalid claims under existing policies and reinsurance agreements.

Commutation of Assumed Liabilities and Ceded Reinsurance Assets. Using detailed analysis and actuarial projections, Castlewood negotiates with the policyholders of the insurance and reinsurance companies or portfolios it owns or manages with a view to commuting insurance and reinsurance liabilities for an agreed upon up-front payment at a discount to the ultimate liability. Such commutations can take the form of policy buy-backs and structured settlements over fixed periods of time. Castlewood also negotiates with reinsurers to commute their reinsurance agreements providing coverage to Castlewood s subsidiaries on terms that Castlewood believes to be favorable based on then-current market knowledge. Castlewood invests the proceeds from reinsurance commutations with the expectation that such investments will produce income, which, together with the principal, will be sufficient to satisfy future obligations with respect to the acquired company or portfolio.

Continue Commitment to Highly Disciplined Acquisition, Management, and Reinsurance Practices. Castlewood utilizes a disciplined approach to minimize risk and increase the probability of positive operating results from acquisitions and companies and portfolios it manages. Castlewood carefully reviews acquisition candidates and management engagements for consistency with accomplishing its long-term objective of producing positive operating results. Castlewood focuses its investigation on the risk exposure, claims practices, reserve requirements, outstanding claims and its ability to price an acquisition or engagement on terms that will provide positive operating results. In particular,

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Castlewood carefully reviews all outstanding claims and case reserves, and follows a highly disciplined approach to managing allocated loss adjustment expenses, such as the cost of defense counsel, expert witnesses, and related fees and expenses.

Manage Capital Prudently. Castlewood manages its capital prudently relative to its risk exposure and liquidity requirements to maximize profitability and long-term growth in shareholder value. Castlewood s capital management strategy is to deploy capital efficiently to acquisitions, reinsurance opportunities and to establish (and re-establish, when necessary) adequate loss reserves to protect against future adverse developments.

Acquisition of Insurers or Portfolios in Run-Off

Castlewood specializes in the negotiated acquisition and management of insurance and reinsurance companies and portfolios in run-off. Castlewood approaches, or is approached by, primary insurers or reinsurance providers with portfolios of business to be sold or managed in run-off. Castlewood evaluates each opportunity presented by carefully reviewing the portfolio s risk exposures, claim practices, reserve requirements and outstanding claims, and seeking an appropriate discount or seller indemnification to reflect the uncertainty contained in the portfolio s reserves. Based on this initial analysis, Castlewood can determine if a company or portfolio of business would add value to its current portfolio of run-off business. If Castlewood determines to pursue the purchase of a company in run-off, it then proceeds to price the acquisition in a manner it believes will result in positive operating results based on certain assumptions including, without limitation, its ability to favorably resolve claims, negotiate with direct insureds and reinsurers, and otherwise manage the nature of the risks posed by the business.

With respect to its U.K., European and Bermudian insurance and reinsurance subsidiaries, Castlewood is able to pursue strategies to achieve complete finality and conclude the run-off of a company by promoting a solvent scheme of arrangement whereby a local court-sanctioned scheme, approved by a statutory majority of voting creditors, provides for a one-time full and final settlement of an insurance or reinsurance company s obligations to its policyholders.

Acquisitions to Date

In November 2001, a wholly-owned subsidiary of Castlewood completed the acquisition of two reinsurance companies in run-off, River Thames Insurance Company Limited, or River Thames, based in London, England, and Overseas Reinsurance Corporation Limited, or Overseas Reinsurance, based in Bermuda. The total purchase price of River Thames and Overseas Reinsurance was approximately $15.2 million.

In August 2002, Castlewood purchased Hudson Reinsurance Company Limited, or Hudson, a Bermuda-based company, for approximately $4.1 million. Hudson reinsured risks relating to property, casualty and workers compensation on a worldwide basis, and Castlewood is now administering the run-off of its claims.

In March 2003, Castlewood and Shinsei Bank, Limited, or Shinsei, completed the acquisition of The Toa-Re Insurance Company (UK) Limited, a London-based subsidiary of The Toa Reinsurance Company, Limited, for approximately $46.4 million. Upon completion of the transaction, Toa-Re s name was changed to Hillcot Re Limited. Hillcot Re Limited underwrote reinsurance business throughout the world between 1980 and 1994, when it stopped writing new business and went into run-off. The acquisition was effected through Hillcot Holdings Ltd., or Hillcot, a Bermuda company, in which Castlewood has a 50.1% economic interest and a 50% voting interest. Hillcot is included in Castlewood s consolidated financial statements, with the remaining 49.9% economic interest reflected as minority interest. J. Christopher Flowers, a member of Castlewood s board of directors and, following the merger, one of New Enstar s largest shareholders, is a director and the largest shareholder of Shinsei. Castlewood s results of operations include the results of Hillcot Re Limited from the date of acquisition in March 2003.

During 2004, Castlewood, through one of its subsidiaries, completed the acquisition of Mercantile Indemnity Company Ltd., or Mercantile, Harper Insurance Limited, or Harper (formerly Turegum Insurance Company) and Longmynd Insurance Company Ltd., or Longmynd (formerly Security Insurance Company

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(UK) Ltd.) for a total purchase price of approximately $4.5 million. Castlewood recorded an extraordinary gain of approximately $21.8 million in 2004 relating to the current excess of the fair value of the net assets acquired over the cost of these acquisitions.

In May 2005, Castlewood, through one of its subsidiaries, purchased Fieldmill Insurance Company Limited (formerly known as Harleysville Insurance Company (UK) Limited) for approximately $1.4 million.

In March 2006, Castlewood and Shinsei, through Hillcot, completed the acquisition of Aioi Insurance Company of Europe Limited, or Aioi Europe, a London-based subsidiary of Aioi Insurance Company, Limited. Aioi Europe has underwritten general insurance and reinsurance business in Europe for its own account until 2002 when it generally ceased underwriting, and placed its general insurance and reinsurance business into run-off. The aggregate purchase price paid for Aioi Europe was £62 million (approximately $108.9 million), with £50 million in cash paid upon the closing of the transaction and £12 million in the form of a promissory note, payable twelve months from the date of the closing. Upon completion of the transaction, Aioi Europe changed its name to Brampton Insurance Company Limited. Castlewood recorded an extraordinary gain of approximately $4.3 million, net of minority interest, in 2006 relating to the current excess of the fair value of the net assets acquired over the cost of this acquisition. In April 2006, Hillcot Holdings Limited borrowed approximately $44 million from an international bank to partially assist with the financing of the Aioi Europe acquisition. Following a repurchase by Aioi Europe of its shares valued at £40 million in May 2006, Hillcot Holdings repaid the promissory note and reduced the bank borrowings to $19.2 million, which is repayable in 2010.

In connection with the recapitalization, Castlewood will purchase the interest of an affiliate of Trident, in B.H. Acquisition, a company partially owned by Castlewood, Enstar and an affiliate of Trident II, L.P. Following the merger, B.H. Acquisition will be an indirect wholly-owned subsidiary of Castlewood. In July 2000, B.H. Acquisition acquired as an operating business two reinsurance companies, Brittany Insurance Company Ltd., or Brittany, and Compagnie Europeénne d Assurances Industrielles S.A., or CEAI. Brittany and CEAI are principally engaged in the active management of books of reinsurance business from international markets.

Management of Run-Off Portfolios

Castlewood is a party to several management engagements pursuant to which it has agreed to manage the run-off portfolio of a third party. Such arrangements are advantageous for third-party insurers because they allow a third-party insurer to focus their management efforts on their core competency while allowing them to maintain the portfolio of business on their balance sheet. In addition, Castlewood s expertise in managing portfolios in run-off allows the third-party insurer the opportunity to potentially realize positive operating results if Castlewood achieves its objectives in management of the run-off portfolio. Castlewood specializes in the collection of reinsurance receivables through its indirect subsidiary Kinsale Brokers Limited. Through Castlewood s subsidiaries, Castlewood (US) Inc. and Cranmore Adjusters Limited, Castlewood also specializes in providing claims inspection services whereby Castlewood is engaged by third-party insurance and reinsurance providers to review certain of their existing insurance and reinsurance exposures, relationships, policies and/or claims history.

Castlewood s primary objective in structuring its management arrangements is to align the third-party insurer s interests with those of Castlewood. Consequently, management agreements typically are structured so that Castlewood receives fixed fees in connection with the management of the run-off portfolio and also typically receives certain incentive payments based on a portfolio s positive operating results.

Management Agreements

Castlewood has entered into approximately 15 management agreements with third-party clients to manage certain run-off portfolios with gross loss reserves (as of June 30, 2006) of approximately $3 billion. The fees generated by these engagements include both fixed and incentive-based remuneration based on Castlewood s success in achieving certain objectives. These agreements do not include the recurring engagements managed

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by Castlewood s special claims inspection and reinsurance collection subsidiaries, Cranmore Adjusters Limited and Kinsale Brokers Limited, respectively.

Claims Management and Administration

An integral factor to Castlewood s success is its ability to analyze, administer, manage and settle claims and related expenses, such as loss adjustment expenses. Castlewood s claims teams are located in different offices within its organization and provide global claims support. Castlewood has implemented claims handling guidelines and claims reporting and control procedures in all of its claims units. To ensure that claims are handled and reported in accordance with these guidelines, all claims matters are reviewed regularly, with all material claims matters being circulated to and reviewed by management prior to any action being taken.

When Castlewood receives notice of a claim, regardless of size and regardless of whether it is a paid claim request or a reserve advice, it is reviewed and recorded within its claims system reserving Castlewood s rights where appropriate. Claims reserve movements and payments are reviewed daily, with any material movements being reported to management for review. This enables flash reporting of significant events and potential insurance or reinsurance losses to be communicated to senior management worldwide on a timely basis irrespective from which geographical location or business unit location the exposure arises.

Castlewood also is able to efficiently manage claims and obtain savings through its extensive relationships with defense counsel (both in-house and external), liquidators, third-party claims administrators and other professional advisors and experts. Castlewood has developed relationships and protocols to reduce the number of outside counsel by consolidating claims of similar types and complexity with appropriate law firms specializing in the particular type of claim. This approach has enabled Castlewood to more efficiently manage outside counsel and other third parties, thereby reducing expenses, and to establish closer relationships with ceding companies.

When appropriate, Castlewood negotiates with direct insureds to buy back policies either on favorable terms or to mitigate against potential future indemnity exposures and legal costs in an uncertain and constantly evolving legal environment. Where appropriate, Castlewood also pursues commutations on favorable terms with ceding companies of reinsurance business in order to realize savings or to mitigate against potential future indemnity exposures and legal costs. Such buy-backs and commutations eliminate all past, present and future liability to direct insureds and reinsureds in return for a lump sum payment.

With regard to reinsurance receivables, Castlewood manages cash flow by working with reinsurers, brokers and professional advisors to achieve fair and prompt payment of reinsured claims, taking appropriate legal action to secure receivables where necessary. Castlewood also attempts where appropriate to negotiate favorable commutations with its reinsurers by securing a lump sum settlement from reinsurers in complete satisfaction of the reinsurer s past, present and future liability in respect of such claims. Properly priced commutations reduce the expense of adjusting direct claims and pursuing collection of reinsurance receivables (both of which may often involve extensive legal expense), realize savings, remove the potential future volatility of claims and reduce required regulatory capital.

Reserves for Unpaid Losses and Loss Adjustment Expense

Applicable insurance laws require Castlewood to maintain reserves to cover its estimated losses under insurance policies that it has assumed and for loss adjustment expense, or LAE, relating to the investigation, administration and settlement of policy claims. Castlewood s LAE reserves consist of both reserves for allocated loss adjustment expenses, or ALAE, and for unallocated loss adjustment expenses, or ULAE. ALAE are linked to the settlement of an individual claim or loss, whereas ULAE reserve is based on the Company s estimates of future costs to administer the claims.

Castlewood and its subsidiaries establish losses and LAE reserves for individual claims by evaluating reported claims on the basis of:

its knowledge of the circumstances surrounding the claim;

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the severity of the injury or damage;

the jurisdiction of the occurrence;

the potential for ultimate exposure;

the type of loss; and

its experience with the line of business and policy provisions relating to the particular type of claim.

Because a significant amount of time can lapse between the assumption of risk, the occurrence of a loss event, the reporting of the event to an insurance or reinsurance company and the ultimate payment of the claim on the loss event, the liability for unpaid losses and LAE is based largely upon estimates. Castlewood s management must use considerable judgment in the process of developing these estimates. The liability for unpaid losses and LAE for property and casualty business includes amounts determined from loss reports on individual cases and amounts for losses incurred but not reported, or IBNR. Such reserves, including IBNR reserves, are estimated by management based upon loss reports received from ceding companies, supplemented by Castlewood s own estimates of losses for which no ceding company loss reports have yet been received.

In establishing reserves, management also considers actuarial estimates of ultimate losses. Castlewood s actuaries employ generally accepted actuarial methodologies and procedures to estimate ultimate losses and loss expenses. In addition, a loss reserve study is prepared by an independent actuary annually in order to provide additional insight into the reasonableness of Castlewood s reserves for losses and loss expenses.

Castlewood s loss reserves are largely related to casualty exposures including latent exposures primarily relating to asbestos and environmental, or A&E, as discussed below. In establishing the reserves for unpaid claims, management considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognized for known claims (including the cost of related litigation) when sufficient information has been developed to indicate the involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, reserves are established to cover loss development related to both known and unasserted claims.

The estimation of unpaid claim liabilities is subject to a high degree of uncertainty for a number of reasons. Unpaid claim liabilities for property and casualty exposures in general are impacted by changes in the legal environment, jury awards, medical cost trends, and general inflation. Moreover, for latent exposures in particular, developed case law and adequate claims history do not exist. There is significant coverage litigation involved with these exposures which creates further uncertainty in the estimation of the liabilities. As such, for these types of exposures, it is especially unclear whether past claim experience will be representative of future claim experience. Ultimate values for such claims cannot be estimated using reserving techniques that extrapolate losses to an ultimate basis using loss development factors, and