

Enstar Group LTD
Form S-3/A
June 13, 2008

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As filed with the Securities and Exchange Commission on June 13, 2008

Registration No. 333-151461

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
AMENDMENT NO. 1
to**

**Form S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

ENSTAR GROUP LIMITED
(Exact name of registrant as specified in its charter)

Bermuda
*(State or other jurisdiction of
incorporation or organization)*

N/A
*(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)

**Corporation Service Company
80 State Street
Albany, New York 12207-2543
(800) 927-9800**
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Chicago, Illinois 60603
(312) 853-7000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

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.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) 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.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated
filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller
reporting company)

Smaller reporting
company

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 the 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 PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE OR THE SELLING SHAREHOLDERS MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND WE AND THE SELLING SHAREHOLDERS ARE NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JUNE 13, 2008

PROSPECTUS

ENSTAR GROUP LIMITED

2,798,500

Ordinary Shares

We are selling 2,072,963 ordinary shares and the selling shareholders identified in this prospectus are selling 725,537 ordinary shares. We will not receive any of the proceeds from the sale of the shares by the selling shareholders.

Our ordinary shares are listed on the Nasdaq Global Select Market under the symbol ESGR. The last reported sale price on June 12, 2008 was \$96.48 per share.

The underwriters have an option to purchase a maximum of 419,775 ordinary shares from us and certain of the selling shareholders to cover over-allotments of shares.

Investing in our ordinary shares involves a high degree of risk. We urge you to read carefully the section entitled Risk Factors on page 8 of this prospectus, as well as all other information included or incorporated by reference in this prospectus, before you decide whether to invest in our ordinary shares.

| | Price to Public | Underwriting Discounts and Commissions | Proceeds to Enstar Group Limited | Proceeds to Selling Shareholders |
|------------------|--------------------|---|---|--|
| Per Share | \$ | \$ | \$ | \$ |
| Total | \$ | \$ | \$ | \$ |

Delivery of the ordinary shares will be made on or about _____, 2008.

None of the Securities and Exchange Commission, any state securities commission or insurance regulators, the Registrar of Companies in Bermuda or the Bermuda Monetary Authority has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Fox-Pitt Kelton Cochran Caronia Waller

Dowling & Partners Securities

The date of this prospectus is _____, 2008

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You should rely only on the information contained or incorporated by reference in this prospectus. We or the selling shareholders have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We and the selling shareholders are not making an offer to sell securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this prospectus is accurate only as of the date of the prospectus, and any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference, in each case, regardless of the time of delivery of the prospectus. Our business, financial condition, results of operations and prospects may have changed since those dates.

Shares may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003, the Exchange Control Act 1972 and related regulations of Bermuda which regulate the sale of securities in Bermuda. In addition, specific permission is required from the Bermuda Monetary Authority, pursuant to the provisions of the Exchange Control Act 1972 and related regulations, for all issuances and transfers of securities of Bermuda companies, other than in cases where the Bermuda Monetary Authority has granted a general permission. The Bermuda Monetary Authority in its policy dated June 1, 2005 provides that where any equity securities of a Bermuda company, including our ordinary shares, are listed on an appointed stock exchange, general permission is given for the issue and subsequent transfer of any securities of such company from and/or to a non-resident, for as long as any equity securities of such company remain so listed. The Nasdaq Global Select Market is deemed to be an appointed stock exchange under Bermuda law. The Bermuda Monetary Authority and the Registrar of Companies accept no responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed in this prospectus.

For so long as Enstar Group Limited owns Bermuda insurance companies, each shareholder or prospective shareholder will be responsible for notifying the Bermuda Monetary Authority in writing of his becoming a controller, directly or indirectly, of 10%, 20%, 33% or 50% of Enstar Group Limited within 45 days of becoming such a controller. The Bermuda Monetary Authority may serve a notice of objection on any controller of Enstar Group Limited if it appears to the Bermuda Monetary Authority that the person is no longer fit and proper to be such a controller.

In the United Kingdom, this communication is directed only at persons who (i) have professional experience in matters relating to investments or (ii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons together being referred to as relevant persons). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to such relevant persons and will be engaged in only with such relevant persons.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference contain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act, with respect to our financial condition, results of operations, business strategies, operating efficiencies, competitive positions, growth opportunities, plans and objectives of our management, as well as the markets for our ordinary shares and the insurance and reinsurance sectors in general. Statements that include words such as estimate, project, plan, intend, expect, anticipate, would, should, could, seek, and similar statements of a future or 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 our management 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 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 collectability of our reinsurance;

tax, regulatory or legal restrictions or limitations applicable to us 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 our 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 tax laws or regulations 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;

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 the Risk Factors section of this prospectus, on page 8. 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. You are therefore advised to consult any further disclosures we make on related subjects in our reports to the U.S. Securities and Exchange Commission.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before deciding to invest in our ordinary shares. We urge you to read this entire prospectus carefully, including the U.S. Securities and Exchange Commission filings that we have incorporated by reference into this prospectus. You should pay special attention to the Risk Factors section of this prospectus. Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus to Enstar, we, us, our or the Company mean Enstar Group Limited and its subsidiaries.

Enstar Group Limited

We were 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. Since our formation, we, through our subsidiaries, have completed several acquisitions of insurance and reinsurance companies and are currently administering those businesses in run-off. Insurance and reinsurance companies we acquire that are in run-off no longer underwrite new policies. In addition, we provide management and consultancy services, claims inspection services and reinsurance collection services to our affiliates and third-party clients for both fixed and success-based fees.

Our primary corporate objective is to grow our tangible net book value. We believe growth in our tangible net book value is driven primarily by growth in our net earnings, which is in turn partially driven by successfully completing new acquisitions.

We evaluate each opportunity presented by carefully reviewing the portfolio's risk exposures, claim practices, reserve requirements and outstanding claims, and seek an appropriate discount and/or seller indemnification to reflect the uncertainty contained in the portfolio's reserves. Based on this initial analysis, we can determine if a company or portfolio of business would add value to our current portfolio of run-off business. If we determine to pursue the purchase of a company in run-off, we then proceed to price the acquisition in a manner we believe will result in positive operating results based on certain assumptions including, without limitation, our ability to favorably resolve claims, negotiate with direct insureds and reinsurers, and otherwise manage the nature of the risks posed by the business.

Initially, at the time we acquire a company in run-off, we estimate the fair value of liabilities acquired based on external actuarial advice, as well as our own views of the exposures assumed. While we earn a larger share of our total return on an acquisition from commuting the liabilities that we have assumed, we also try to maximize reinsurance recoveries on the assumed portfolio.

Our ordinary shares are listed on the Nasdaq Global Select Market under the ticker symbol ESGR. Our principal executive offices are located at Windsor Place, 3rd Floor, 18 Queen Street, Hamilton HM JX, Bermuda, and our telephone number is (441) 292-3645. Our website is www.enstargroup.com. The information on our website does not constitute part of this prospectus and should not be relied upon in connection with making any investment in our securities.

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Competitive Strengths

We believe that our competitive strengths have enabled us, and will continue to enable us, 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, our Chief Executive Officer, Paul J. O Shea and Nicholas A. Packer, our Executive Vice Presidents and Joint Chief Operating Officers, Richard J. Harris, our Chief Financial Officer, and John J. Oros, our Executive Chairman, each have over 19 years of experience in the insurance, reinsurance or financial services industries. The extensive depth and knowledge of our management team provides us with the ability to identify, select and price companies and portfolios in run-off and to successfully manage those companies and portfolios.

Disciplined Approach to Acquisitions and Claims Management. We believe in generating profits through a disciplined, conservative approach to both acquisitions and claims management. We closely analyze new business opportunities to determine a company's inherent value and our ability to profitably manage that company or a portfolio of that company in run-off. We believe that our review and claims management process, combined with management of global exposures across our acquired businesses, allows us to price acquisitions on favorable terms and to profitably run off the companies and portfolios that we acquire and manage.

Long-Standing Market Relationships. Our management team has well-established personal relationships across the insurance and reinsurance industry. We use these market relationships to identify and source business opportunities. We have also relied on these market relationships to establish ourselves as a leader in the run-off market.

Highly Qualified, Experienced and Ideally Located Employee Base. We have been successful in recruiting a highly qualified team of experienced claims, reinsurance, financial, actuarial and legal staff in major insurance and reinsurance centers, including Bermuda, the United Kingdom, the United States and Australia. We believe the quality and breadth of experience of our staff enable us to extract value from our acquired businesses and to offer a wide range of professional services to the industry.

Financial Strength and Disciplined Investment Approach. As of March 31, 2008, we had approximately \$464.8 million of shareholders' equity. We have maintained a strong balance sheet by following conservative investment practices while seeking appropriate returns. As of March 31, 2008, approximately 91% of our invested assets were invested in fixed maturity securities, 98.7% of which were investment grade and 50.9% of which were government securities. This financial strength allows us to aggressively price acquisitions that fit within our core competency. We believe that our financial strength has allowed us to be recognized as a leader in the acquisition and management of run-off companies and portfolios. Our conservative approach to managing our balance sheet reflects our commitment to maintaining our financial strength.

Strategy

We intend to maximize our growth in tangible net book value by using the following strategies:

Solidify Our Leadership Position in the Run-Off Market by Leveraging Management's Experience and Relationships. We intend to continue to utilize the extensive experience and significant relationships of our senior management team to solidify our position as a leader in the run-off segment of the insurance and reinsurance market. The experience and reputation of our management team is expected to generate opportunities for us to acquire or manage companies and portfolios in run-off, and to price effectively the

acquisition or management of such businesses. Most importantly, we believe the experience of our management team will continue to allow us to manage the run-off of such businesses efficiently and profitably.

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Professionally Manage Claims. We are professional and disciplined in managing claims against companies and portfolios we own or manage. Our 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 our experienced claims adjusters and in-house and external legal counsel. When we acquire or begin managing a company or portfolio, we initially determine which claims are valid through the use of experienced in-house adjusters and claims experts. We pay valid claims on a timely basis, while relying on well-documented policy terms and exclusions where applicable and litigation when necessary to defend against paying invalid claims under existing policies and reinsurance agreements.

Commute Assumed Liabilities and Ceded Reinsurance Assets. Using detailed analysis and actuarial projections, we negotiate with the policyholders of the insurance and reinsurance companies or portfolios we own or manage with a goal of commuting insurance and reinsurance liabilities for one or more agreed upon payments 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. By acquiring companies that are direct insurers, reinsurers or both, we are able to negotiate favorable entity-wide commutations with reinsurers that would not be possible if our subsidiaries had remained independent entities. We also negotiate with reinsurers to commute their reinsurance agreements providing coverage to our subsidiaries on terms that we believe to be favorable based on then-current market knowledge. We invest 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 to Commit to Highly Disciplined Acquisition, Management and Reinsurance Practices. We utilize a disciplined approach to minimize risk and increase the probability of positive operating results from companies and portfolios we acquire or manage. We carefully review acquisition candidates and management engagements for consistency with accomplishing our long-term objective of producing positive operating results. We focus our investigation on risk exposures, claims practices and reserve requirements. In particular, we carefully review all outstanding claims and case reserves, and follow 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. We pursue prudent capital management relative to our risk exposure and liquidity requirements to maximize profitability and long-term growth in shareholder value. Our capital management strategy is to deploy capital efficiently to acquisitions and to establish, and re-establish when necessary, adequate loss reserves to protect against future adverse developments.

Challenges

We face a number of challenges in implementing our strategies, including the following:

Management of Insurance and Reinsurance Companies in Run-Off. Insurance and reinsurance companies we acquire that are in run-off no longer underwrite new policies and are subject to the risk that their stated loss and loss adjustment expense reserves may not be sufficient to cover future losses and the cost of run-off. Our ability to achieve positive operating results depends on our pricing of acquisitions on favorable terms relative to the risks posed by the acquired businesses and then successfully managing the acquired businesses. If we are not able to price acquisitions on favorable terms, efficiently manage claims and control run-off expenses, we may have to cover losses sustained with retained earnings, which would materially and adversely impact our ability to grow our business and may result in losses.

Loss and Loss Adjustment Expense Reserves. 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 incurred claims. The amounts our insurance and reinsurance subsidiaries pay on claims and the related costs of adjusting those claims may deviate from the loss and loss adjustment

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expense reserves they maintain. If actual losses and loss adjustment expenses exceed their reserves, their net income and capital would decrease.

Investment Portfolios and Investment Income. A significant portion of our income is derived from our invested assets. The value of our investment portfolio and the investment income that we receive from our portfolio fluctuates depending on general economic and market conditions. A decline in the value of our investments classified as trading and available-for-sale may reduce our net income or cause us to incur a loss.

Integration of Acquired Insurance and Reinsurance Companies in Run-Off. Our pursuit of growth through acquisitions and/or strategic investments in insurance and reinsurance companies in run-off depends in part on our ability to integrate acquired companies and portfolios. The integration of companies or portfolios we acquire may result in substantial diversion of management resources or unanticipated litigation. Any failure by us to effectively integrate acquired companies and portfolios may have a material adverse effect on our business, financial condition or results of operations.

Retaining Executive Officers and Maintaining Relationships with Certain Directors. Our success depends in part upon the continued services of our senior management team, particularly our Chief Executive Officer, Dominic F. Silvester, our Executive Vice Presidents and Joint Chief Operating Officers, Paul J. O Shea and Nicholas A. Packer, our Chief Financial Officer, Richard J. Harris, and our Executive Chairman, John J. Oros, and our relationships with John J. Oros and J. Christopher Flowers, one of our directors and one of our largest shareholders. The loss of any member of our senior management team or other key personnel, our inability to recruit and retain additional qualified personnel as we grow or the loss of our relationships with John J. Oros or J. Christopher Flowers, could materially and adversely affect our business and results of operations and could prevent us from fully implementing our strategy.

For a discussion of these challenges and other risks relating to our business and an investment in our ordinary shares, see **Risk Factors** on page 8.

Recent Developments

On June 16, 2006, our indirect subsidiary, Enstar US, Inc., or Enstar US, entered into a definitive agreement with Dukes Place Holdings, L.P., a portfolio company of GSC European Mezzanine Fund II, L.P., for the purchase of 44.4% of the outstanding capital stock of Stonewall Acquisition Corporation. Stonewall Acquisition Corporation is the parent of two Rhode Island-domiciled insurers, Stonewall Insurance Company, or Stonewall, and Seaton Insurance Company, or Seaton, both of which are in run-off. The purchase price is \$20.4 million. On May 27, 2008, the Rhode Island Department of Business Regulation issued an order approving the proposed acquisition. The acquisition was completed on June 13, 2008 and was funded from available cash on hand.

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The Offering

| | |
|---|---|
| Ordinary shares offered by us | 2,072,963 shares |
| Ordinary shares offered by the selling shareholders | 725,537 shares |
| Over-allotment option granted by us and certain of the selling shareholders | 419,775 shares |
| Ordinary shares to be outstanding after the offering, not including the over-allotment option | 14,017,252 shares |
| J.C. Flowers II, L.P. investment intent | J.C. Flowers II, L.P., or the Flowers Fund, has expressed its intent to us and the underwriters to purchase in the offering ordinary shares with a value of approximately \$30 million at the public offering price. There can be no assurance that the Flowers Fund will purchase any of these shares. The aggregate number of shares offered by us will not be affected by the number of shares, if any, purchased by the Flowers Fund. |
| Senior management dispositions | In connection with the offering, certain members of senior management will be selling ordinary shares with an aggregate value of approximately \$20 million. For a further discussion of these sales, see <i>Principal and Selling Shareholders</i> <i>Selling Shareholders</i> on page 95. |
| Use of proceeds | We intend to use the net proceeds received from the ordinary shares offered by us to fund future acquisitions of insurance and reinsurance companies or portfolios in run-off and for general corporate purposes. We will not receive any proceeds from the sale of shares by the selling shareholders in this offering. |
| Nasdaq Global Select Market symbol | ESGR |

The total number of ordinary shares to be outstanding after this offering does not reflect:

529,775 shares that may be issued pursuant to outstanding stock options and restricted share units;

1,134,503 shares that have been reserved for future issuance pursuant to our 2006 Equity Incentive Plan;

200,000 shares that have been reserved for future issuance pursuant to the Enstar Group Limited Employee Share Purchase Plan; and

96,866 shares that have been reserved for future issuance pursuant to the Enstar Group Limited Deferred Compensation and Ordinary Share Plan for Non-employee Directors.

Unless otherwise specifically stated, information in this prospectus assumes the underwriters do not exercise their over-allotment option to purchase additional shares in this offering.

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The following table provides a summary of our historical consolidated financial and operating data as of the dates and for the periods indicated. We derived the summary historical consolidated financial data as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 from our audited consolidated financial statements included in this prospectus. We derived the summary historical consolidated financial data as of December 31, 2005, 2004 and 2003 and for the years ended December 31, 2004 and 2003 from our audited consolidated financial statements not included in this prospectus. We derived the summary historical consolidated financial data as of March 31, 2008 and for the three months ended March 31, 2008 and 2007 from our unaudited condensed consolidated financial statements included in this prospectus, which include all adjustments, consisting only of normal recurring adjustments, that management considers necessary for a fair presentation of our financial position and results of operations as of the date and for the periods presented. The results of operations for past accounting periods are not necessarily indicative of the results to be expected for any future accounting period.

This information is only a summary and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited and unaudited consolidated financial statements and notes thereto included elsewhere in this prospectus.

Since our inception, we have made several acquisitions which impact the comparability between periods of the information reflected below. See Business - Recent Acquisitions on page 68 for information about our acquisitions.

| | Three Months Ended | | Years Ended December 31, | | | | |
|-----------------------|---|----------|--------------------------|-----------|-----------|-----------|-----------|
| | 2008 | 2007 | 2007 | 2006 | 2005 | 2004 | 2003 |
| | (In thousands of U.S. dollars, except per share data) | | | | | | |
| Summary | | | | | | | |
| Consolidated | | | | | | | |
| Statements of | | | | | | | |
| Earnings Data: | | | | | | | |
| Consulting fees | \$ 6,055 | \$ 4,661 | \$ 31,918 | \$ 33,908 | \$ 22,006 | \$ 23,703 | \$ 24,746 |
| Net investment | | | | | | | |
| (losses) income and | | | | | | | |
| Net realized | | | | | | | |
| gains/losses | (494) | 20,509 | 64,336 | 48,001 | 29,504 | 10,502 | 7,072 |
| Net | | | | | | | |
| (increase)/reduction | | | | | | | |
| in loss and loss | | | | | | | |
| adjustment expenses | | | | | | | |
| liabilities | (685) | (2,510) | 24,482 | 31,927 | 96,007 | 13,706 | 24,044 |
| Total other expenses | (25,009) | (22,721) | (67,904) | (49,838) | (57,299) | (35,160) | (21,782) |
| Minority interest | (3,376) | (2,248) | (6,730) | (13,208) | (9,700) | (3,097) | (5,111) |
| Share of income of | | | | | | | |
| partly owned | | | | | | | |
| companies | | | | 518 | 192 | 6,881 | 1,623 |

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| | | | | | | | |
|---|------------|------------|------------|-----------|-----------|-----------|-----------|
| Net (loss)/earnings from continuing operations | (23,509) | (2,309) | 46,102 | 51,308 | 80,710 | 16,535 | 30,592 |
| Extraordinary gain | | | | | | | |
| Negative goodwill (2008 and 2006: net of minority interest) | 35,196 | 15,683 | 15,683 | 31,038 | | 21,759 | |
| Net earnings | \$ 11,687 | \$ 13,374 | \$ 61,785 | \$ 82,346 | \$ 80,710 | \$ 38,294 | \$ 30,592 |
| Per Share Data(1)(2): | | | | | | | |
| (Loss)/earnings per share before extraordinary gain | | | | | | | |
| basic | \$ (1.97) | \$ (0.21) | \$ 3.93 | \$ 5.21 | \$ 8.29 | \$ 1.72 | \$ 3.19 |
| Extraordinary gain per share basic | 2.95 | 1.41 | 1.34 | 3.15 | | 2.26 | |
| Earnings per share basic | \$ 0.98 | \$ 1.20 | \$ 5.27 | \$ 8.36 | \$ 8.29 | \$ 3.98 | \$ 3.19 |
| (Loss)/earnings per share before extraordinary gain | | | | | | | |
| diluted | \$ (1.97) | \$ (0.21) | \$ 3.84 | \$ 5.15 | \$ 8.14 | \$ 1.71 | \$ 3.19 |
| Extraordinary gain per share diluted | 2.95 | 1.41 | 1.31 | 3.11 | | 2.24 | |
| Earnings per share diluted | \$ 0.98 | \$ 1.20 | \$ 5.15 | \$ 8.26 | \$ 8.14 | \$ 3.95 | \$ 3.19 |
| Weighted average shares outstanding | | | | | | | |
| basic | 11,927,542 | 11,160,448 | 11,731,908 | 9,857,914 | 9,739,560 | 9,618,905 | 9,582,396 |
| Weighted average shares outstanding | | | | | | | |
| diluted(3) | 11,927,542 | 11,160,448 | 12,009,683 | 9,966,960 | 9,918,823 | 9,694,528 | 9,582,396 |
| Cash dividends paid per share | | | | \$ 2.92 | | \$ 0.81 | \$ 5.62 |

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| | As of March 31, 2008 | 2007 | 2006 | As of December 31, 2005 | 2004 | 2003 |
|--|--|-------------|-------------|------------------------------------|-------------|-------------|
| | (In thousands of U.S. dollars, except per share data) | | | | | |
| Summary Balance Sheet Data: | | | | | | |
| Total investments | \$ 1,217,695 | \$ 637,196 | \$ 747,529 | \$ 539,568 | \$ 591,635 | \$ 268,417 |
| Cash and cash equivalents | 1,798,386 | 1,163,333 | 513,563 | 345,329 | 350,456 | 127,228 |
| Reinsurance balances receivable | 758,659 | 465,277 | 408,142 | 250,229 | 341,627 | 175,091 |
| Total assets | 3,994,956 | 2,417,143 | 1,774,252 | 1,199,963 | 1,347,853 | 632,347 |
| Loss and loss adjustment expense liabilities | 2,700,687 | 1,591,449 | 1,214,419 | 806,559 | 1,047,313 | 381,531 |
| Loans payable | 329,963 | 60,227 | 62,148 | | | |
| Total shareholders equity | 464,842 | 450,599 | 318,610 | 260,906 | 177,338 | 147,616 |
| Book Value per Share(4): | | | | | | |
| Basic | \$ 38.97 | \$ 38.41 | \$ 32.32 | \$ 26.79 | \$ 18.44 | \$ 15.40 |
| Diluted | \$ 38.97 | \$ 37.52 | \$ 31.97 | \$ 26.30 | \$ 18.29 | \$ 15.40 |

- (1) 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.
- (2) The weighted average ordinary shares outstanding shown for the years ended December 31, 2007, 2006, 2005, 2004 and 2003 reflect the conversion of Class A, B, C and D shares to ordinary shares on January 31, 2007, as part of the recapitalization completed in connection with the merger of our wholly-owned subsidiary with and into The Enstar Group, Inc. as if the conversion occurred on January 1, 2007, 2006, 2005, 2004 and 2003. For the year ended December 31, 2007, the ordinary shares issued to acquire The Enstar Group, Inc. are reflected in the calculation of the weighted average ordinary shares outstanding from January 31, 2007, the date of issue. As a result both the book value per share and the earnings per share calculations, previously reported, have been amended to reflect this change.
- (3) The calculations of diluted earnings per share for the three months ended March 31, 2008 and March 31, 2007 and the calculation of diluted book value per share as of March 31, 2008 do not include share equivalents relating to unvested shares, restricted shares and options because to do so would have been anti-dilutive.
- (4) Basic book value per share is defined as total shareholders equity available to ordinary shareholders divided by the number of ordinary shares outstanding as of 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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RISK FACTORS

You should carefully consider these risks along with the other information included in this prospectus, including the matters addressed under Forward-Looking Statements, before investing in any of our securities. If any of the following risks actually occur, our business could be harmed. In that case, the trading price of our ordinary shares could decline, and you might lose all or part of your investment.

Risks Relating to Our Business

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

Our future results of operations will depend in significant part on the extent to which we can implement our business strategies successfully, including our ability to realize the anticipated growth opportunities, expanded market visibility and increased access to capital. Our business strategies include continuing to operate our 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 our insurance and reinsurance subsidiaries. Such adverse business issues may also reduce the level of incentive-based fees generated by our 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 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 and, as a result, holders of our ordinary shares may receive lower returns.

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.

We were 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, or LAE, 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 March 31, 2008, our gross reserves for losses and loss adjustment expense totaled \$2.7 billion, and our reinsurance receivables totaled \$758.7 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 businesses and then successfully manage the acquired businesses. 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 material losses.

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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 companies or portfolios of business 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 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 \$31.9 million, \$33.9 million and \$22.0 million for the years ended December 31, 2007, December 31, 2006 and December 31, 2005, 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 incurred claims. 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 \$24.5 million, \$31.9 million and \$96.0 million for the years ended December 31, 2007, December 31, 2006 and December 31, 2005, 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 our subsidiaries' reserves are insufficient to cover their actual losses and loss adjustment expenses, our 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 our subsidiaries' loss reserves include reserves for potential asbestos and environmental, or A&E, liabilities. At December 31, 2007, our insurance and reinsurance companies had recorded gross A&E loss reserves of \$677.6 million, or 42.6% of the total gross loss reserves. Net A&E loss reserves at December 31, 2007 amounted to \$420.0 million, or 36.1% of total net loss reserves. A&E 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 A&E 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. To further understand this risk, see Business Reserves for Unpaid Losses and Loss Adjustment Expense on page 71.

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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 of March 31, 2008, the balances receivable from reinsurers amounted to \$758.7 million, of which \$380.9 million was associated with two reinsurers with Standard & Poor's credit ratings of AA-. 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.

We derive a significant portion of our income from our invested assets. The net investment income that our subsidiaries realize from investments in fixed-income securities will generally increase or decrease with interest rates. The fair market value of our subsidiaries' fixed-income securities generally increases or decreases in an inverse relationship with fluctuations in interest rates and can also decrease as a result of any downturn in the business cycle that causes the credit quality of those securities to deteriorate. The fair market value of our subsidiaries' fixed-income securities classified as trading or available-for-sale in our subsidiaries' investment portfolios amounted to \$843.9 million at March 31, 2008. The changes in the market value of our subsidiaries' securities that are classified as trading or available-for-sale are reflected in our financial statements. Permanent impairments in the value of our subsidiaries' fixed-income securities are also reflected in our financial statements. As a result, a decline in the value of the securities in our subsidiaries' investment portfolios may reduce our net income or cause us to incur a loss.

In addition to fixed-income securities, we have invested, and may from time to time continue to invest, in limited partnerships, limited liability companies and equity funds. These and other similar investments may be illiquid. As of March 31, 2008, we had an aggregate of \$105.4 million of such investments. For more information, see "Business Investment Portfolio" on page 84.

We have made, and expect 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.

We have 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. We have made several acquisitions and investments and we expect to continue to make such acquisitions and investments. 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.

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Our past and 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 have made several acquisitions and may in the future make additional strategic acquisitions, either of other companies or selected portfolios of insurance or reinsurance in run-off. These 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;

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 and our Exchange Act reporting requirements;

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.

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 Business Reserves for Unpaid Losses and Loss Adjustment Expense on page 71.

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

We are subject to extensive regulation under insurance laws of a number of jurisdictions, and compliance with legal and regulatory requirements is expensive. These laws limit the amount of dividends that can be paid to us by our insurance and reinsurance subsidiaries, prescribe 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, 2007, the required statutory capital and surplus of our insurance and reinsurance companies amounted to \$88.0 million compared to the actual statutory capital and surplus of \$483.8 million. As of December 31, 2007, \$55.5 million of our total investments of \$637.2 million were not admissible for statutory solvency purposes.

The insurance industry has experienced substantial volatility as a result of current investigations, litigation and regulatory activity by various insurance, governmental and enforcement authorities, including the U.S. Securities and Exchange Commission, or the SEC, concerning certain practices within the insurance industry. These practices include the sale and purchase of finite reinsurance or other non-traditional or loss mitigation insurance products and the accounting treatment for those products. Insurance and reinsurance companies that we have acquired, or may acquire in the future, may have been or may become involved in these investigations and have lawsuits filed against them. Our involvement in any investigations and related lawsuits would cause us to incur legal costs and, if we were found to have violated any laws, we could be required to pay fines and damages, perhaps in material amounts.

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.

Our subsidiaries may not have maintained or be able to 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, place one or more of them into rehabilitation or liquidation proceedings, 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.

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, we are 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 at a hearing at which creditors may appear. The court must be satisfied that the scheme is fair.

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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 might signal the decline of solvent schemes of arrangement. However, since BAIC, more than 25 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 any of our insurance or reinsurance subsidiaries 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 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 and Joint Chief Operating Officers, Richard J. Harris, our Chief Financial Officer, John J. Oros, our Executive Chairman, and our subsidiaries' 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, Packer, Oros and Harris has an employment agreement with us. In addition to serving as our Executive Chairman, 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 splits his time commitment between us and J.C. Flowers & Co. LLC, with the expectation that Mr. Oros will spend approximately 50% of his working time with us; however, there is no minimum work commitment set forth in our employment agreement with Mr. Oros. J. Christopher Flowers, one of our directors and 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, holders of permanent resident's certificates or holders of a working resident's certificate) 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, holder of a permanent resident's certificate or holders of a working 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.

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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. The independent members of our board of directors review any material transactions involving a conflict of interest, and the board of directors will take other actions as may be deemed appropriate by them in particular circumstances, such as forming a special committee of independent directors or engaging third-party financial advisers to evaluate such transactions. We may not be able to pursue all advantageous transactions that we would otherwise pursue in the absence of a conflict should our board of directors be unable to determine that any such transaction is on terms as favorable as we could otherwise obtain in the absence of a conflict.

Our consulting business generates a significant amount of our total income, and the failure to develop new consulting relationships could materially adversely affect our results of operations and financial condition.

A significant amount of our existing consulting business is dependent on a relatively small number of our clients. While our senior management team has industry relationships that we believe will allow us to successfully identify and enter into agreements with new clients for our consulting business, we cannot assure you that we will be successful in entering into such agreements. A material reduction in consulting fees paid by one or more of our clients or the failure to identify new clients for our consulting services could have a material adverse effect on our business, financial condition and results of operations.

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.

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 Australian dollars, Euros, British pounds and other European currencies, into U.S. dollars will impact our reported consolidated financial condition, results of operations and cash flows from year to year.

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Risks Relating to this Offering and Ownership of Our Ordinary 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;
- sales, or the possibility or perception of future sales, by our existing shareholders;
- changes in general conditions in the economy and the insurance industry;
- the financial markets; and
- adverse press or news announcements.

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 Messrs. Flowers, Silvester, Packer and O Shea, Trident II, L.P. and its affiliates, or Trident, and Beck Mack & Oliver LLC, or Beck Mack, may not be fully aligned with your interests, and this may lead to a strategy that is not in your best interest. As of May 15, 2008, Messrs. Flowers, Silvester, Packer and O Shea, Trident and Beck Mack beneficially owned approximately 10.3%, 18.8%, 6.0%, 6.1%, 11.2% and 7.6%, respectively, of our outstanding ordinary shares. Although they do not act as a group, Trident, Beck Mack and each of Messrs. Flowers, Silvester, Packer and O Shea exercise significant influence over matters requiring shareholder approval, and their concentrated holdings may delay or deter possible changes in control of Enstar, which may reduce the market price of our ordinary shares. For further information on aspects of our bye-laws that may discourage changes of control of 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 below.

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 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 Internal Revenue Code of 1986, as amended, or 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 may 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

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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.

The market value of our ordinary shares may decline if large numbers of shares are sold, including pursuant to existing registration rights.

We have entered into a registration rights agreement with Trident, Mr. Flowers and Mr. Silvester and certain other of our shareholders. This agreement provides that Trident, Mr. Flowers and Mr. Silvester may request that we effect a registration statement under the Securities Act of certain of their ordinary shares. In addition, they and the other shareholders party to the agreement have piggyback registration rights, which may result in their participation in an offering initiated by us. As of the date of this prospectus, an aggregate of 4,794,873 ordinary shares held by Trident, Mr. Flowers and Mr. Silvester are subject to the agreement. Of these shares, 518,241 are being sold by Trident in this offering. By exercising their registration rights, these holders could cause a large number of ordinary shares to be registered and generally become freely tradable without restrictions under the Securities Act immediately upon the effectiveness of the registration. Our ordinary shares have in the past been, and may from time to time continue to be, thinly traded, and significant sales, pursuant to the existing registration rights or otherwise, could adversely affect the market price for our ordinary shares and impair our ability to raise capital through offerings of our equity securities.

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 though we have appointed 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 for violation of U.S. federal securities laws, as such laws 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 believe 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 our independent auditors, 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, 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, or the 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, only shareholders holding 5% or more of our outstanding ordinary shares or numbering 100 or more are entitled to propose a resolution at an Enstar general meeting.

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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, the results of operations of our subsidiaries, our financial condition, cash requirements and prospects and other factors that our board of directors deems relevant. In addition, there are significant regulatory and other constraints that could prevent us from paying dividends in any event. As a result, capital appreciation, if any, on our ordinary shares may be your sole source of gain for the foreseeable future.

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.

It is our understanding 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. 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., U.K. or Australia 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, United Kingdom and Australia, 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.

U.S. persons who own our ordinary shares might become subject to adverse U.S. tax consequences as a result of related person 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

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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.

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 we will not 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.

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.

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. 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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USE OF PROCEEDS

We expect to receive net proceeds from this offering of approximately \$194.7 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We intend to use the proceeds from this offering, including any additional proceeds we receive from the underwriters' exercise of their over-allotment option, to fund future acquisitions of insurance and reinsurance companies in run-off and for general corporate purposes. Until we apply the proceeds from the sale of the securities, we may temporarily invest any proceeds that are not immediately applied to the above purposes in U.S. government or agency obligations, commercial paper, money market accounts, short-term marketable securities, bank deposits or certificates of deposit, repurchase agreements collateralized by U.S. government or agency obligations or other short-term investments.

We will not receive any proceeds from the sale of ordinary shares by the selling shareholders.

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The following table sets forth our capitalization as of March 31, 2008:

on an actual basis; and

on an as adjusted basis to reflect the application of the net proceeds of approximately \$194.7 million from the sale by us of 2,072,963 ordinary shares in this offering at an assumed offering price of \$96.48 per share, which was the closing price of our ordinary shares on the Nasdaq Global Select Market on June 12, 2008.

You should read this table in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Use of Proceeds and our consolidated financial statements and the related notes included elsewhere in this prospectus.

| | As of March 31, 2008 | |
|--|--|--------------------|
| | Actual | As Adjusted |
| | (In thousands, except per share data) | |
| Cash and cash equivalents | \$ 1,480,695 | \$ 1,675,395 |
| Restricted cash and cash equivalents | 317,691 | 317,691 |
| Total cash, cash equivalents and restricted cash | 1,798,386 | 1,993,086 |
| Loans payable | \$ 329,963 | \$ 329,963 |