Castlewood Holdings LTD
Form S-4
July 11, 2006

Table of Contents

As filed with the Securities and Exchange Commission on July 11, 2006

Registration No. 333-

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

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.	John J. Oros President and Chief Operating Officer	Robert C. Juelke, Esq. Drinker Biddle & Reath LLP
Debevoise & Plimpton LLP 919 Third Avenue New York, New York 10022 (212) 909-6000	The Enstar Group, Inc. 401 Madison Avenue Montgomery, Alabama 36104 (334) 834-5483	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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Share	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Ordinary Shares, $1.00 par value	6,275,654 shares	Not Applicable	$561,733,790	$60,106

(1) Represents the maximum number of ordinary shares that the registrant may be required to issue in the merger, calculated as the product of (a) the sum of (i) 5,739,384, the aggregate number of shares of Enstar common stock outstanding as of May 23, 2006, (ii) 500,000 shares of Enstar common stock issuable pursuant to the exercise of options outstanding as of May 23, 2006 and (iii) 36,270 restricted stock units of Enstar to be converted in the merger; and (b) an exchange ratio of 1.0000 ordinary share of the registrant for each share of Enstar common stock.

(2) Estimated solely for the purposes of calculating the registration fee required by Section 6(b) of the Securities Act of 1933, as amended, or the Securities Act, and calculated pursuant to Rule 457(f) under the Securities Act. Pursuant to Rule 457(f)(1) under the Securities Act, the proposed maximum aggregate offering price of the registrant s ordinary shares was calculated based upon (a) the market value of shares of Enstar common stock to be exchanged in the merger, determined in accordance with Rule 457(c), as the product of (i) $89.51, the average of the high and low prices per share of Enstar common stock as of July 3, 2006, as reported on the NASDAQ Global Select Market, and (ii) 6,275,654, the estimated maximum number of shares of Enstar common stock that may be cancelled in the merger.

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.

Table of Contents

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 JULY 11, 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 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. Enstar s board of directors determined that the disclosure in the proxy statement delivered in connection with the June 2, 2006 annual meeting required amendment to describe certain terms and implications of the contemplated merger transaction. This proxy statement/prospectus includes such additional disclosure. 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.

Table of Contents

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 shareholders. Enstar s board of directors 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 19 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.

Table of Contents

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 , 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 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.

Table of Contents

Table of Contents

Table of Contents

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.

Table of Contents

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: What will happen in the merger?

A: In the 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. Current Enstar shareholders will own approximately 48.7% of New Enstar s issued ordinary shares after the merger. Current Castlewood shareholders, other than Enstar, will own the remaining approximately 51.3% of New Enstar s issued ordinary shares after the merger. In the merger, New Enstar will issue approximately 5.7 million ordinary shares to holders of Enstar common stock. After the merger, New Enstar will have outstanding approximately 11.8 million ordinary shares.

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. Upon the consummation of the recapitalization, Enstar will own approximately 3.0 million non-voting convertible ordinary shares of Castlewood. Unless otherwise indicated, the ownership percentage calculations set forth above and throughout this proxy statement/prospectus treat such non-voting convertible ordinary shares of Castlewood owned by Enstar as if they were treasury shares and not outstanding because Enstar will be a wholly-owned subsidiary of Castlewood.

Table of Contents

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 51.

Q: Why are Castlewood and Enstar proposing the merger and the transactions contemplated by the merger agreement?

A: 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, the Enstar 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., a company they partially own with an affiliate of Trident II, L.P., 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.

For a more detailed description of the background and reasons for the merger, see The Proposed Merger beginning on page 41.

Q: What will I receive in the merger for my Enstar common stock?

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

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.

Table of Contents

Q: Will Enstar s shares of common stock continue to be traded on the NASDAQ Global Select Market after the merger is consummated?

A: No, but the ordinary shares of New Enstar that you receive in the merger are expected to be. Castlewood will apply for listing of the New Enstar ordinary shares on the NASDAQ Global Select Market, or Nasdaq, under the ticker symbol ESGR. If the merger is consummated, Enstar s common stock will no longer be listed for trading on Nasdaq.

Q: What are the tax consequences of the merger?

A: The merger should not be a taxable transaction to you for U.S. federal income tax purposes. See The Proposed Merger Material U.S. Federal Income Tax Consequences of the Merger on page 46. You are urged to consult your own tax advisor as to the tax effects of the merger in your particular circumstances.

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 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: When do you expect to consummate the merger?

A: We expect to consummate the merger as quickly as possible once all the conditions to the merger, including obtaining the required approval of Enstar s shareholders at the Annual Meeting, are fulfilled. Fulfilling some of these conditions, such as required regulatory approvals, is not entirely within our control. We hope to consummate the merger in the third quarter of 2006.

Q: Are there risks associated with the merger that I should consider in deciding how to vote?

A: Yes. There are risks associated with all business combinations, including this merger. In particular, you should be aware that the exchange ratio determining the number of New Enstar ordinary shares that Enstar shareholders will receive is fixed and will not change as the market price of shares of Enstar common stock fluctuates in the period before the merger. Accordingly, the value of the New Enstar ordinary shares that you as an Enstar shareholder will receive in the merger in return for your shares of Enstar common stock may be either less than or more than the current fair market value of the shares of Enstar common stock that you currently hold. There are also a number of other risks that are discussed in this proxy statement/prospectus. Please read with particular care the more detailed description of the risks associated with the merger under Risk Factors beginning on page 19.

Q: Who will manage New Enstar?

A: Pursuant to the recapitalization agreement, Castlewood, Enstar and certain other shareholders of Castlewood have agreed that New Enstar s board of directors will consist of ten members 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. The proposed Chief Executive Officer of New Enstar following the merger is Dominic F. Silvester and the proposed Executive Chairman is John J. Oros.

Q: Will I receive the one-time $3.00 per share dividend on my Enstar common stock if the merger is not consummated?

A: No. The one-time $3.00 per share cash dividend will be paid to the Enstar shareholders as of the applicable record date only if the merger is consummated.

Table of Contents

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 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 66.

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, 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 only if you provide written instructions to them on how to vote, so it is important that you provide them with instructions. 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. Shares of Enstar common stock held by a broker, bank or other fiduciary that are not voted because the beneficial owner has not provided instructions to the broker, bank or other fiduciary will have the same effect as a vote against the merger agreement and the transactions contemplated by the merger agreement but will have no effect on the results of the election of T. Whit Armstrong and T. Wayne Davis as directors or the ratification of the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of Enstar for 2006.

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;

- 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 198.

Table of Contents

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 198.

In this proxy statement/prospectus, the following terms have the meanings as set forth below:

Annual Meeting	Enstar s Annual Meeting to be held on , 2006.
B.H. Acquisition	B.H. Acquisition Ltd., a Bermuda company and partially-owned affiliate of Castlewood, Enstar and an affiliate of Trident II, L.P. which will become a wholly-owned subsidiary of New Enstar upon completion of the merger.
Castlewood	The registrant, Castlewood Holdings Limited, a Bermuda company, and its subsidiaries, prior to the merger.
Code	U.S. Internal Revenue Code of 1986, as amended.
Commission	U.S. Securities and Exchange Commission.
Direct Foreign Shareholder Group	A shareholder or group of commonly controlled shareholders of New Enstar that are not U.S. persons.
Enstar	The Enstar Group, Inc., a Georgia corporation, and its subsidiaries, prior to the merger.
Exchange Act	U.S. Securities Exchange Act of 1934, as amended.
merger agreement	Agreement and Plan of Merger, dated as of May 23, 2006, among Castlewood, Merger Sub and Enstar.
Merger Sub	CWMS Subsidiary Corp., a Georgia corporation and a direct wholly-owned subsidiary of Castlewood.
merger	The merger of Merger Sub with and into Enstar, with Enstar surviving as a direct wholly-owned subsidiary of Castlewood.
Nasdaq	NASDAQ Global Select Market.
New Enstar, we, us and our	Castlewood following the merger.
recapitalization	The recapitalization of Castlewood pursuant to the recapitalization agreement.

recapitalization agreement	Recapitalization Agreement, dated as of May 23, 2006, among Castlewood, Enstar, Trident, Dominic F. Silvester, Paul J. O Shea, Nicholas A. Packer, and certain other shareholders of Castlewood.
Record Date	Close of business on , 2006.
registration rights agreement	Registration Rights Agreement, between and among New Enstar, Trident, J. Christopher Flowers, Dominic F. Silvester and certain other shareholders of New Enstar.
Securities Act	U.S. Securities Act of 1933, as amended.
support agreement	Support Agreement, dated as of May 23, 2006, among Castlewood, J. Christopher Flowers, Nimrod T. Frazer and John J. Oros.
Trident	Collectively, Trident II, L.P., Marsh & McLennan Capital Professionals Fund, L.P. and Marsh & McLennan Employees Securities Company.

See the Glossary of Selected Insurance and Reinsurance Terms beginning on page G-1 for an explanation of terms related to the insurance industry.

Table of Contents

The Companies (see Information About Castlewood on page 71 and Information About Enstar on page 125)

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

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, Castlewood will change its name to Enstar Group Limited. 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.

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

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 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 several equity affiliates in the financial services industry. Enstar s common stock trades on Nasdaq under the symbol ESGR.

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.

Table of Contents

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.

Table of Contents

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.

Recommendation of Enstar s Board of Directors Relating to the Merger (see page 44)

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 interests of Enstar and its shareholders and that the merger agreement is advisable. Enstar s board of directors, by unanimous vote, 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. 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 51.

Reasons for the Merger (see page 43)

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, a company they partially own with an affiliate of Trident II, L.P., 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.

Treatment of Enstar Stock Options and Restricted Stock Units (see page 53)

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%. 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 Castlewood.

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 19)

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.

Conditions to the Consummation of the Merger (see page 58)

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 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 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 62);

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 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.

Termination of Merger Agreement (see page 60)

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.

Support Agreement (see page 66)

Castlewood and Messrs. Flowers, Oros and Frazer, three of Enstar s largest shareholders, have entered into 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 62)

In connection with the merger, Castlewood, Enstar, 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 a 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 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.

Regulatory Approvals (see page 48)

Castlewood is required to obtain approval of the merger and/or the recapitalization from the insurance regulatory authorities in certain foreign jurisdictions, including the United Kingdom and Belgium. In addition, Castlewood must provide notice of the merger and the recapitalization to the insurance regulatory authorities in Switzerland. Castlewood has already 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 46)

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 46 and 186, 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 46)

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)

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;

- 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 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

Table of Contents

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 51)

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 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;

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.

Table of Contents

Recent Developments (see page 98)

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.

Table of Contents

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 133.

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 March 31, 2006 and 2005, and for each of the three-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.

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 74 for information about Castlewood s acquisitions.

	Three Months Ended March 31,		Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001(1)
	(in thousands of U.S. dollars, except per share data)						
Statement of Operations Data:							
Net reduction in loss and loss adjustment expense liabilities	$ 2,457	$ 1,550	$ 96,007	$ 13,706	$ 24,044	$ 48,758	$ 90
Consulting fee income	6,349	4,488	22,006	23,703	24,746	20,627	983
Net investment income, net realized gains (losses) and foreign exchange (loss) gain	10,130	3,971	24,902	14,233	9,434	13,457	395
Total expenses	(10,873)	(8,733)	(52,697)	(38,891)	(24,144)	(32,302)	(2,264)
Share of income of partly owned companies	112	48	192	6,881	1,623	10,079	389
Minority interest	(212)	(380)	(9,700)	(3,097)	(5,111)		
	7,963	944	80,710	16,535	30,592	60,619	(407)

Net earnings from continuing operations							
Extraordinary gain Negative goodwill (net of minority interest)	4,347			21,759			
Net earnings	$ 12,310	$ 944	$ 80,710	$ 38,294	$ 30,592	$ 60,619	$ (407)
Per Share Data(2):							
Earnings per share before extraordinary gains basic	$ 433.08	$ 51.75	$ 4,397.89	$ 914.49	$ 1,699.56	$ 3,367.72	$ (22.61)
Extraordinary gain basic	236.42			1,203.42			
Net earnings per share basic	$ 669.50	$ 51.75	$ 4,397.89	$ 2,117.91	$ 1,699.56	$ 3,367.72	$ (22.61)
Earnings per share before extraordinary gain	$ 424.90	$ 50.36	$ 4,304.30	$ 906.13	$ 1,699.56	$ 3,367.72	$ (22.61)
Extraordinary gain diluted	231.95			1,192.40			
Net earnings per share diluted	$ 656.85	$ 50.36	$ 4,304.30	$ 2,098.53	$ 1,699.56	$ 3,367.72	$ (22.61)
Weighted average shares outstanding basic	18,387	18,242	18,352	18,081	18,000	18,000	18,000
Weighted average shares outstanding diluted	18,741	18,744	18,751	18,248	18,000	18,000	18,000
Cash dividends paid per share				645.83	4,483.41		

Table of Contents

	As of March 31, 2006	As of December 31, 2005	2004	2003	2002	2001
		(in thousands of U.S. dollars, except per share data)				
Summary Balance Sheet Data:						
Cash and cash equivalents	$ 434,993	$ 345,329	$ 350,456	$ 127,228	$ 85,916	$ 71,906
Investments	724,045	539,568	591,635	268,417	258,429	175,068
Reinsurance recoverable	319,414	250,229	341,627	175,091	122,937	238,162
Total assets	1,560,445	1,199,963	1,347,853	632,347	514,597	527,845
Reserves for losses and loss adjustment expenses	1,042,608	806,559	1,047,313	381,531	284,409	419,717
Total shareholder equity	273,604	260,906	177,338	147,616	167,473	63,696
Book Value per Share:						
Basic	14,880.30	14,189.70	9,721.41	8,200.89	9,304.06	3,538.67
Diluted	14,599.49	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.

Table of Contents

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 March 31, 2006 and 2005, and for each of the three-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 March 31,		**Year Ended December 31,**				
	2006	**2005**	**2005**	**2004**	**2003**	**2002**	**2001**
	(in thousands of U.S. dollars, except per share data)						
atement of Operations ata:							
come							
come before traordinary gain and mulative effect of a ange in accounting inciple	$ 1,828	$ 39	$ 19,045	$ 5,977	$ 13,226	$ 21,526	$ 1,574
traordinary gain, net of come taxes	875			4,415			
umulative effect of a ange in accounting inciple, net of income xes						967	
et income	$ 2,703	$ 39	$ 19,045	$ 10,392	$ 13,226	$ 22,493	$ 1,574
er Share Data(1):							
come per Share Basic							
come per common share fore extraordinary gain d cumulative effect of a ange in accounting inciple basic	$ 0.33	$ 0.01	$ 3.45	$ 1.09	$ 2.42	$ 3.94	$ 0.30
traordinary gain basic	0.16			0.80			
umulative effect of a ange in accounting inciple basic						0.18	
	$ 0.49	$ 0.01	$ 3.45	$ 1.89	$ 2.42	$ 4.12	$ 0.30

et income per common are basic													
eighted average shares tstanding basic		5,517,909		5,517,909		5,517,909		5,496,819		5,465,753		5,465,753	5,277,808
come per Share Diluted													
come per common share fore extraordinary gain d cumulative effect of a ange in accounting inciple diluted	$	0.31	$	0.01	$	3.25	$	1.03	$	2.25	$	3.74	$ 0.29
xtraordinary gain diluted		0.15						0.76					
umulative effect of a ange in accounting inciple diluted												0.17	
et income per common are diluted	$	0.46	$	0.01	$	3.25	$	1.79	$	2.25	$	3.91	$ 0.29
eighted average shares tstanding diluted		5,881,058		5,849,053		5,856,144		5,800,993		5,881,410		5,753,553	5,449,627
ash dividends paid per are													
alance Sheet Data:													
tal assets	$	189,097	$	159,054	$	185,220	$	158,977	$	152,620	$	128,609	$ 99,621
tal liabilities		21,207		12,844		20,097		12,803		6,688		8,360	1,964
inority interest										11,449			
areholders equity		167,890		146,210		165,123		146,174		134,483		120,249	97,657

(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.

15

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 three months ended March 31, 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 March 31, 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

	Three Months Ended March 31, 2006	Year Ended December 31, 2005
	(in thousands of U.S. dollars)	
Income		
Income before extraordinary gain	$ 8,885	$ 81,859
Cash dividends paid per share		

	At March 31, 2006
Balance sheet data:	
Total assets	$ 1,657,921
Total liabilities	1,281,592
Minority interest	68,002
Shareholders equity	308,327

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 133. The assumptions related to the preparation of the Unaudited Pro Forma Condensed Combined Financial Statements are described beginning at page 137. 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
Three months ended March 31, 2006				
Basic	$ 699.50	$ 0.49	$ 0.75	$ 0.75
Diluted	$ 656.85	$ 0.46	$ 0.72	$ 0.72
Book value per ordinary share as of March 31, 2006				
Basic	$ 14,880.30	$ 30.43	$ 26.16	$ 26.16
Diluted	$ 14,599.49	$ 28.46	$ 24.83	$ 24.83
Cash dividends per ordinary share				
Year ended December 31, 2005	$	$	$	$
Three months ended March 31, 2006				
Basic(2)	$	$	$ 3.84	$ 3.84
Diluted(2)	$	$	$ 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 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 s ordinary shares are anticipated to be approved for listing on Nasdaq under the symbol ESGR, subject to official notice of issuance.

Table of Contents

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 $22.6 million.

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

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.

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 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.

Table of Contents

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 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 51 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.

Table of Contents

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 and contingencies, many of which are beyond our control. 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. The run-off business differs from the business of traditional insurance and reinsurance underwriting in that insurance and reinsurance companies and portfolios in run-off no longer underwrite new policies and their books of business are subject to various risks, including the sufficiency of stated reserves to cover future losses. Because a company or portfolio in run-off no longer collects underwriting premiums, the source of capital to cover losses is limited to the stated reserves, as well as any reinsurance coverage. In addition, existing capital for the run-off business or portfolio must be sufficient to cover run-off expenses.

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 or 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.

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 companies and portfolios of insurance and reinsurance 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 and we may not win future engagements to provide these management services, either or both of which could adversely impact our financial results and slow the growth of our business.

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. 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. 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. 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.

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. 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 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.

Table of Contents

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 our business 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.

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, impose restrictions on the amount and type of investments that they can hold, prescribe solvency standards that they must meet and maintain 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.

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 74. 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 and an inability to generate sufficient revenue to offset acquisition costs.

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.

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;
- 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;
- the assets and liabilities we may acquire may be subject to foreign currency exchange rate fluctuation; 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 failure to manage successfully these operational challenges and risks could have a material adverse effect on our business, financial condition or results of operations.

Certain exit and finality strategies may not continue to be available.

With respect to our 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. Recently, certain solvent schemes of arrangement have either not received the required creditor or court approval. This development suggests that this exit and finality option may not be as

Table of Contents

readily available in the future. Should solvent schemes of arrangement no longer be available to us, there is a risk that the length and the cost of run-off may increase substantially, resulting potentially in a material adverse effect on our financial condition and results of operations.

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. These interests may result in a conflict of interest for those officers and directors. As a result, we may not be able to pursue all advantageous transactions that we would otherwise pursue in the absence of such a conflict or we may not be able to obtain terms as favorable as may otherwise be available.

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, 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, and Mr. Oros will have, an employment agreement with us. The loss of any of their services or the services of other members of our management team or the inability to attract and retain other talented personnel could impede the further implementation of our business strategy, which 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.

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 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. 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. 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 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.

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 27.

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 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 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

Table of Contents

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 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.

Holders of our ordinary shares may face difficulties in protecting their interests because we are incorporated under Bermuda law.

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, U.S. persons who own our shares may have more difficulty protecting their interests than U.S. persons who own shares of a U.S. corporation. To further understand this risk, see Description of New Enstar s Share Capital Differences in Corporate Law beginning on page 180 for more information on the differences between Bermuda and Georgia corporate laws.

Table of Contents

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.

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

Risks Relating to Taxation

We cannot predict our future tax liabilities.

We are a multi-national group with a Bermuda parent and with operating subsidiaries doing business in a number of countries. If the U.S. Internal Revenue Service, or IRS, were to contend successfully that we or any of our non-U.S. subsidiaries are engaged in a trade or business in the United States, then, to the extent not exempted from tax by the U.S.-Bermuda or other relevant income tax treaty, we or our non-U.S. subsidiaries would be subject to U.S. corporate income tax on that portion of our or their net income treated as effectively connected with a U.S. trade or business, as well as the U.S. corporate branch profits tax. Although we would vigorously resist such a contention, if we or our non-U.S. subsidiaries were ultimately held to be subject to taxation in the United States, our earnings would correspondingly decline.

In addition, the provisions of the U.S.-Bermuda income tax treaty that may limit any such tax to income attributable to a permanent establishment that we or our Bermuda subsidiaries maintain in the United States are only available if more than 50% of our or our subsidiary s shares are beneficially owned, directly or indirectly, by individuals who are Bermuda residents or U.S. citizens or residents. Similar restrictions may apply under other tax treaties. We may not be able to continually satisfy this beneficial ownership or other relevant treaty test or may not be able to establish it to the satisfaction of the IRS.

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 186.

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 190.

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 193.

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 194.

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 186. 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.

Table of Contents

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;

losses due to foreign currency exchange rate fluctuations;

changes in accounting policies or practices; and

Table of Contents

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.

Table of Contents

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 , 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.

Table of Contents

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.

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.

Table of Contents

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, 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.

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 will manage J.C. Flowers II LP, 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 the President of J.C. Flowers & Co., LLC, a financial services investment fund since 2002. 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

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

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

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.

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.

Table of Contents

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. At that 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.

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. 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, Enstar s legal advisor, Debevoise, provided drafts of the principal transaction documents to Drinker, the legal advisors to Castlewood. 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, 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. 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.

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 and voted unanimously to approve the merger agreement 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. The negotiation of the merger agreement and other 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.

Enstar s Reasons for the Merger

At a special meeting held on May 21, 2006, the Enstar board of directors 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. These interests are discussed in Interests of Certain Persons in the

Merger beginning on page 51.

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;

the transactions would 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;

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;

consolidating the financial and management resources and thereby expanding 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 19.

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.

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. For more information on these interests, see Interests of Certain Persons in the Merger beginning on page 51.

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;

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 19.

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 51.

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.

This discussion is for general information only and 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 in part 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 198. Debevoise s closing date opinion will also confirm the opinion rendered in Debevoise s effective date opinion.

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

Assuming that the merger is treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code:

- Enstar shareholders will 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 will 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 will include the holding period of the Enstar common stock surrendered in exchange therefor.

Table of Contents

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) will qualify for non-recognition of gain in connection with the merger (and the basis and holding period consequences described above will apply to such holder) 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

Assuming that the merger is treated for U.S. federal income tax purposes as a reorganization within the meaning of section 368(a) of the Code, no income, gain or loss will 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 186.

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 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 and the Banking Finance and Insurance Commission in Belgium. Castlewood and its shareholders are also required to provide proper notice of the transaction to the Federal Office of Private Insurance in Switzerland. Castlewood has not yet submitted the requisite applications or notice, but expects to do so in a timely manner.

Table of Contents

Although Castlewood does not expect these regulatory authorities to raise any significant concerns in connection with their review of the merger, there is no assurance that Castlewood will obtain all required regulatory approvals, or that those approvals will not include terms, conditions or restrictions that may have an adverse effect on Castlewood or Enstar.

Other than the filings 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.

Castlewood has already received approval from the Bermuda Monetary Authority to issue its ordinary shares in connection with the recapitalization and 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 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 67.

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.

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. Castlewood also expects to enter into a new employment agreement with John J. Oros, to become effective when the merger is consummated.

Under their respective agreements, following the merger, Messrs. O Shea and Packer will serve as New Enstar s Executive Vice Presidents and Mr. Silvester will serve as its Chief Executive Officer. Under the agreement expected to be entered into with Mr. Oros, he will serve as Executive Chairman of New Enstar following the merger. 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 148.

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 67. 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.

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.

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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;

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;

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 62);

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 47);

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 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 52 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

Table of Contents

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.

Table of Contents

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.

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

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

Table of Contents

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;

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.

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 67.

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 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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 65.

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.

Table of Contents

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 income 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

Table of Contents

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. 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 reinsurers 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.

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, 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.

Table of Contents

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 (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.

Table of Contents

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

Table of Contents

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 and settlement of policy 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;

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 the uncertainties surrounding the estimation of unpaid claim liabilities are not likely to be resolved in the near future. Further, there can be no assurance that the reserves established by Castlewood will be adequate or will not be adversely affected by the development of other latent exposures. The actuarial methods used to estimate ultimate loss and LAE for Castlewood s latent exposures are discussed below.

Non-latent claims are less significant to Castlewood, both in terms of reserves held, and in terms of risk of significant reserve deficiency. For the non-latent loss exposures, a range of traditional loss development extrapolation techniques is applied. Incremental paid and incurred loss development methodologies are the most commonly used methods. Traditional cumulative paid and incurred loss development methods are used where inception-to-date, cumulative paid and reported incurred loss development history is available.

These methods assume that cohorts, or groups, of losses from similar exposures will increase over time in a predictable manner. Historical paid and incurred loss development experience is examined for earlier underwriting years to make inferences about how later underwriting years losses will develop. Where company-specific loss information is not available or not reliable, industry loss development information published by reliable industry sources such as the Reinsurance Association of America is considered.

The reserving process is intended to reflect the impact of inflation and other factors affecting loss payments by taking into account changes in historical payment patterns and perceived trends. However, there is no precise method for the subsequent evaluation of the adequacy of the consideration given to inflation, or to any other specific factor, or to the way one factor may affect another.

The loss development tables below show changes in Castlewood s gross and net loss reserves in subsequent years from the prior loss estimates based on experience as of the end of each succeeding year. The estimate is increased or decreased as more information becomes known about the frequency and severity of

Table of Contents

losses for individual years. A redundancy means the original estimate was higher than the current estimate; a deficiency means that the current estimate is higher than the original estimate.

The tables below show Castlewood s loss reserve development for the years indicated. The first table shows, in the first section of the table, Castlewood s gross reserve for unpaid losses (including IBNR losses) and LAE and gross reserve for unpaid losses (including IBNR losses) excluding LAE. The second table shows, in the first section of the table, Castlewood s reserve for unpaid losses (including IBNR losses) and LAE net of reinsurance and reserve for unpaid losses (including IBNR losses) excluding LAE net of reinsurance. The second section of each table shows Castlewood s re-estimates of the reserve excluding LAE in later years. The third section of each table shows the cumulative amounts of losses paid as of the end of each succeeding year. The cumulative redundancy (deficiency) line in each table represents, as of the date indicated, the difference between the latest re-estimated liability and the reserves (excluding LAE) as originally estimated.

	2001	2002	2003	2004	2005
			(in thousands of U.S. dollars)		
Gross reserve for unpaid losses and loss adjustment expenses	419,717	284,409	381,531	1,047,313	806,559
Less: Reserve for loss adjustment expense	(24,337)	(32,987)	(41,940)	(66,339)	(50,075)
Gross reserve for unpaid losses	395,380	251,422	339,591	980,974	756,484
1 Yr Later	302,066	255,995	332,175	873,178	
2 Yrs Later	315,354	251,020	249,831		
3 Yrs Later	313,298	228,027			
4 Yrs Later	285,078				
Gross paid losses					
1 Yr Later	80,061	23,942	15,412	96,448	
2 Yrs Later	102,931	38,119	30,672		
3 Yrs Later	115,181	52,491			
4 Yrs Later	128,275				
Cumulative redundancy/(deficiency)	110,302	23,395	89,760	107,796	

	2001	2002	2003	2004	2005
			(in thousands of U.S. dollars)		
Net reserve for unpaid losses and loss adjustment expenses	224,507	184,518	230,155	736,660	593,160
Less: Reserve for loss adjustment expense	(24,337)	(32,987)	(41,940)	(66,339)	(50,075)
Net reserve for unpaid losses	200,170	151,531	188,215	670,321	543,085
1 Yr Later	169,644	129,453	190,121	597,555	
2 Yrs Later	156,003	129,827	132,715		
3 Yrs Later	159,251	88,257			
4 Yrs Later	113,482				
Net paid losses					
1 Yr Later	46,748	(9,222)	7,505	64,743	
2 Yrs Later	36,467	(1,803)	(6,098)		

3 Yrs Later	42,141	(15,101)		
4 Yrs Later	27,654			
Cumulative redundancy/(deficiency)	86,688	63,274	55,500	72,766

78

Table of Contents

The following table provides a reconciliation of the liability for losses and LAE, net of reinsurance ceded:

	Three Months Ended March 31,		Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(in thousands of U.S. dollars)						
Net reserves for losses and loss adjustment expenses, beginning of period	$ 593,160	$ 736,660	$ 736,660	$ 230,155	$ 184,518	$ 224,507	$
Incurred related to prior years	(2,457)	(1,550)	(96,007)	(13,706)	(24,044)	(48,758)	(90)
Paids related to prior years	(4,212)	(30,060)	(69,007)	(19,019)	(4,094)	(32,272)	(2,260)
Effect of exchange rate movement	(3,132)	(6,821)	3,652	4,124	10,575	6,774	2,750
Acquired on acquisition of subsidiaries	208,248	0	17,862	535,106	63,200	34,267	224,107
Net reserves for losses and loss adjustment expenses, end of period	$ 791,607	$ 698,229	$ 593,160	$ 736,660	$ 230,155	$ 184,518	$ 224,507

Net reduction in loss and loss adjustment expense liabilities for the three months ended March 31, 2006 and 2005 were $2.5 million and $1.6 million, respectively. The net reduction in loss and loss adjustment expense liabilities for both three-month periods was primarily attributable to the reduction in estimates of loss adjustment expense liabilities relating to 2006 and 2005 run-off activity partially offset by reductions in estimates of reinsurance balances receivable.

Net reduction in loss and loss adjustment expense liabilities for the year ended December 31, 2005 was $96.0 million. The net reduction in loss and loss adjustment expense liabilities for 2005 was primarily attributable to a reduction in estimates of ultimate losses of $65.3 million that arose from commutations and policy buy-backs, the settlement of losses in the year below carried reserves, lower than expected incurred adverse loss development and the resulting reductions in actuarial estimates of IBNR losses. As a result of the collection of certain reinsurance receivables, against which bad debt provisions had been provided in earlier periods, Castlewood reduced its aggregate provisions for bad debt by $20.2 million in 2005. During 2005, Castlewood reduced its estimate of loss adjustment expense liabilities by $10.5 million relating to 2005 run-off activity.

Net reduction in loss and loss adjustment expense in 2004 amounted to $13.7 million. In 2004, the estimate of net ultimate losses increased by $1.0 million primarily as a result of adverse development of incurred asbestos and environmental losses partially offset by certain commutations and settlement of losses below carried reserves. There was no change to the provisions for bad debts in 2004. In 2004, Castlewood reduced its estimate of loss adjustment expense liabilities by $14.7 million relating to 2004 run-off activity.

Net reduction in loss and loss adjustment expense liabilities for the year ended December 31, 2003 was $24.0 million. In 2003, the estimate of net ultimate losses was reduced by $13.6 million as a result of commutation and policy buy-backs, the settlement of losses below carried reserves and the resulting reductions in actuarial estimates of IBNR losses. During 2003, Castlewood reduced its estimate of loss adjustment expense liabilities $10.4 million relating to 2003 run-off activity.

Net reduction in loss and loss adjustment expense liabilities for the year ended December 31, 2002 was $48.8 million. In 2002, the estimate of net ultimate losses was reduced as a result of commutation and policy buy-backs, the settlement of losses below carried reserves and the resulting reductions in actuarial estimates of IBNR losses.

Table of Contents

The loss development tables below relate to B.H. Acquisition. All of the numbers shown in the tables below represent Castlewood s 45% economic interest in B.H. Acquisition. The first table shows, in the first section of the table, B.H. Acquisition s gross reserve for unpaid losses (including IBNR losses) and LAE and gross reserve for unpaid losses (including IBNR losses) excluding LAE. The second table shows, in the first section of the table, B.H. Acquisition s reserve for unpaid losses (including IBNR losses) and LAE net of reinsurance and reserve for unpaid losses (including IBNR losses) excluding LAE net of reinsurance. The second section of each table shows B.H. Acquisition s re-estimates of the reserve excluding LAE in later years. The third section of each table shows the cumulative amounts of losses paid as of the end of each succeeding year. The cumulative redundancy (deficiency) line in each table represents, as of the date indicated, the difference between the latest re-estimated liability and the reserves (excluding LAE) as originally estimated.

	2000	**2001**	**2002**	**2003**	**2004**	**2005**
			(in thousands of U.S. dollars)			
Gross reserve for unpaid losses and loss adjustment expenses	51,666	45,286	32,589	32,048	28,057	26,312
Less: Reserve for loss adjustment expense	(4,050)	(3,038)	(2,025)	(2,733)	(1,965)	(1,573)
Gross reserve for unpaid losses	47,616	42,248	30,564	29,315	26,092	24,739
1 Yr Later	46,985	32,959	29,849	29,362	27,345	
2 Yrs Later	37,695	32,243	29,896	30,615		
3 Yrs Later	36,980	32,290	31,149			
4 Yrs Later	37,027	35,543				
5 Yrs Later	38,280					
Gross paid losses						
1 Yr Later	4,737	2,394	534	3,270	2,606	
2 Yrs Later	7,131	2,929	3,804	5,876		
3 Yrs Later	7,665	6,198	6,410			
4 Yrs Later	10,935	8,805				
5 Yrs Later	13,541					
Cumulative Redundancy (Deficiency)	9,336	8,705	(584)	(1,300)	(1,253)	

	2000	**2001**	**2002**	**2003**	**2004**	**2005**
			(in thousands of U.S. dollars)			
Net reserve for unpaid losses and loss adjustment expenses	37,345	32,643	21,860	19,220	17,474	25,070
Less: Reserve for loss adjustment expense	(4,050)	(3,038)	(2,025)	(2,733)	(1,965)	(1,573)
Net reserve for unpaid losses	33,295	29,605	19,835	16,487	15,509	23,497
1 Yr Later	31,370	21,218	14,487	16,715	14,824	
2 Yrs Later	22,982	15,869	14,714	16,030		
3 Yrs Later	17,633	16,096	14,029			
4 Yrs Later	17,861	15,411				
5 Yrs Later	17,176					
Net paid losses						
1 Yr Later	1,765	1,382	(2,001)	1,206	(8,673)	

2 Yrs Later	3,147	(619)	(795)	(7,467)	
3 Yrs Later	1,146	587	(9,468)		
4 Yrs Later	2,352	(8,086)			
5 Yrs Later	(6,322)				
Cumulative Redundancy (Deficiency)	16,119	14,194	5,806	457	685

Table of Contents

The following table provides a reconciliation of the liability for losses and LAE, net of reinsurance ceded for B.H. Acquisition. All of the numbers shown in the table below represent Castlewood s 45% economic interest in B.H. Acquisition.

	Three Months Ended March 31,		Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(in thousands of U.S. dollars)						
Net reserves for Losses and Loss Expenses, beginning of period	$ 25,070	$ 17,474	$ 17,474	$ 19,220	$ 21,860	$ 32,643	$ 37,345
Incurred Related to Prior Years	34	26	(23)	(771)	931	(10,615)	(1,220)
Paids Related to Prior Years	(233)	(495)	8,673	(1,097)	(4,556)	(1,382)	(1,714)
Effect of Exchange Rate Movement	166	(364)	(1,054)	122	985	1,214	(1,768)
Net Reserves for Losses and Loss Expenses, end of period	$ 25,037	$ 16,641	$ 25,070	$ 17,474	$ 19,220	$ 21,860	$ 32,643

Asbestos and Environmental (A&E) Exposure

General A&E Exposures

A number of Castlewood s subsidiaries wrote general liability policies and reinsurance prior to their acquisition by Castlewood under which policyholders continue to present asbestos-related injury claims, claims alleging injury, damage or clean-up costs arising from environmental pollution, and other health hazard or mass tort claims, or A&E claims or exposures. The vast majority of these latent claims are presented under policies written many years ago.

There is a great deal of uncertainty surrounding A&E claims. This uncertainty impacts the ability of insurers and reinsurers to estimate the ultimate amount of unpaid claims and related LAE. The majority of these claims differ from any other type of claim because there is inadequate loss development and there is significant uncertainty regarding what, if any, coverage exists, to which, if any, policy years claims are attributable and which, if any, insurers/reinsurers may be liable. These uncertainties are exacerbated by lack of clear judicial precedent and legislative interpretations of coverage that may be inconsistent with the intent of the parties to the insurance contracts and expand theories of liability. The insurance and reinsurance industry as a whole is engaged in extensive litigation over these coverage and liability issues and is, thus, confronted with continuing uncertainty in its efforts to quantify A&E exposures.

Castlewood s A&E exposure is managed out of its offices in the United Kingdom and Rhode Island and centrally managed from the United Kingdom. In light of the intensive claim settlement process for these claims, which involves comprehensive fact gathering and subject matter expertise, management believes it is prudent to have a centrally managed claim facility to handle A&E claims on behalf of all of Castlewood s subsidiaries. Castlewood s A&E claims staff, headed by a U.S.-qualified attorney experienced in A&E liabilities, proactively manages, on a cost effective basis, the A&E claims submitted to Castlewood s insurance and reinsurance subsidiaries. The staff employs professional and disciplined claim handling strategies to achieve favorable results for Castlewood s insurance and reinsurance subsidiaries and its clients while minimizing costs.

The actuarial methods used to estimate ultimate loss and LAE for A&E exposures largely rely on benchmarking against industry historical loss experience and estimates of industry ultimate loss. Industry historical loss experience for A&E exposures is taken from information published by A.M. Best, an insurance rating agency. Estimates of industry ultimate loss are taken from a number of sources, including A.M. Best, and are reviewed on an on-going basis.

The relationships between various aspects of industry loss experience and Castlewood loss experience are used to develop a range of indications of unpaid claim liability. Estimates of remaining liability on A&E exposures are derived separately for each relevant Castlewood subsidiary and, for some subsidiaries, separately for distinct portfolios of exposure. The discussion that follows describes the primary actuarial methodologies used to estimate Castlewood s reserves for A&E exposures.

In addition to the specific considerations for each method described below, many general factors are considered in the application of the methods and the interpretation of results for each portfolio of exposures. These factors include the mix of product types (e.g. primary insurance versus reinsurance of primary versus reinsurance of reinsurance), the average attachment point of coverages (e.g. first-dollar primary versus umbrella over primary versus high-excess), payment and reporting lags related to the international domicile of Castlewood subsidiaries, payment and reporting pattern acceleration due to large wholesale settlements (e.g. policy buybacks and commutations) pursued by Castlewood, lists of individual risks remaining and general trends within the legal and tort environments.

Paid Survival Ratio Method. In this method, Castlewood s expected annual average payment amount is multiplied by an expected future number of payment years to get an indicated reserve. Castlewood s historical calendar year payments are examined to determine an expected future annual average payment amount. This amount is multiplied by an expected number of future payment years to estimate a reserve. Trends in calendar year payment activity are considered when selecting an expected future annual average payment amount. Accepted industry benchmarks are used in determining an expected number of future payment years. Each year, annual payments data is updated, trends in payments are re-evaluated and changes to benchmark future payment years are reviewed.

Paid Market Share Method. In this method, Castlewood s estimated market share is applied to the industry estimated unpaid losses. The ratio of Castlewood s historical calendar year payments to industry historical calendar year payments is examined to estimate Castlewood s market share. This ratio is then applied to the estimate of industry unpaid losses. Each year, calendar year payment data is updated (for both Castlewood and industry), estimates of industry unpaid losses are reviewed and the selection of Castlewood s estimated market share is revisited.

Reserve-to-Paid Method. In this method, the ratio of estimated industry reserves to industry paid-to-date losses is multiplied by Castlewood s paid-to-date losses to estimate Castlewood s reserves. Specific considerations in the application of this method include the completeness of Castlewood s paid-to-date loss information, the potential acceleration or deceleration in Castlewood s payments (relative to the industry) due to Castlewood s claims handling practices, and the impact of large individual settlements. Each year, paid-to-date loss information is updated (for both Castlewood and the industry) and updates to industry estimated reserves are reviewed.

IBNR:Case Ratio Method. In this method, the ratio of estimated industry IBNR reserves to industry case reserves is multiplied by Castlewood s case reserves to estimate Castlewood IBNR reserves. Specific considerations in the application of this method include the presence of policies reserved at policy limits, changes in overall industry case reserve adequacy and recent loss reporting history for Castlewood. Each year, Castlewood case reserves are updated, industry reserves are updated and the applicability of the industry IBNR:case ratio is reviewed.

Ultimate-to-Incurred Method. In this method, the ratio of estimated industry ultimate losses to industry incurred-to-date losses is applied to Castlewood incurred-to-date losses to estimate Castlewood s IBNR reserves. Specific considerations in the application of this method include the completeness of Castlewood s incurred-to-date loss information, the potential acceleration or deceleration in Castlewood s incurred losses (relative to the industry) due to Castlewood s claims handling practices and the impact of large individual settlements. Each year incurred-to-date loss information is updated (for both Castlewood and the industry) and updates to industry estimated ultimate losses are reviewed.

The liability for unpaid losses and LAE, inclusive of A&E reserves, reflects Castlewood s best estimate for future amounts needed to pay losses and related LAE as of each of the balance sheet dates reflected in the financial statements herein in accordance with GAAP. As of December 31, 2005, Castlewood had $313.4 million of net loss reserves for asbestos-related claims and $70.6 million for environmental pollution-related claims. The following table provides an analysis of Castlewood s gross and net loss and ALAE reserves

Table of Contents

from A&E exposures at year-end 2005, 2004 and 2003 and the movement in gross and net reserves for those years:

	Year Ended December 31,					
	2005		2004		2003	
	Gross	Net	Gross	Net	Gross	Net
	(in thousands of U.S. dollars)					
Provision for A&E claims and ALAE at January 1	$ 743,294	$ 479,048	$ 196,217	$ 92,745	$ 154,856	$ 48,746
A&E losses and ALAE incurred during the year	(93,705)	(31,566)	(4,216)	(29,348)	44,660	43,035
A&E losses and ALAE paid during the year	(78,635)	(69,014)	(9,436)	(4,087)	(12,220)	(4,177)
Provision for A&E claims and ALAE acquired during the year	7,125	5,489	560,729	419,738	8,921	5,141
Provision for A&E claims and ALAE at December 31	$ 578,079	$ 383,957	$ 743,294	$ 479,048	$ 196,217	$ 92,745

Asbestos continues to be the most significant and difficult mass tort for the insurance industry in terms of claims volume and expense. Castlewood believes that the insurance industry has been adversely affected by judicial interpretations that have had the effect of maximizing insurance recoveries for asbestos claims, from both a coverage and liability perspective. Generally, only policies underwritten prior to 1986 have potential asbestos exposure, since most policies underwritten after this date contain an absolute asbestos exclusion.

In recent years, especially from 2001 through 2003, the industry has experienced increasing numbers of asbestos claims, including claims from individuals who do not appear to be impaired by asbestos exposure. Since 2003, however, new claim filings have been fairly stable. It is possible that the increases observed in the early part of the decade were triggered by various state tort reforms (discussed immediately below). At this point, Castlewood can not predict whether claim filings will return to pre-2004 levels, remain stable, or begin to decrease.

Since 2001, several U.S. states have proposed, and in many cases enacted, tort reform statutes that impact asbestos litigation by, for example, making it more difficult for a diverse group of plaintiffs to jointly file a single case, reducing forum-shopping by requiring that a potential plaintiff must have been exposed to asbestos in the state in which he/she files a lawsuit, or permitting consolidation of discovery. These statutes typically apply to suits filed after a stated date. When a statute is proposed or enacted, asbestos defendants often experience a marked increase in new lawsuits, as plaintiffs attorneys seek to file suit before the effective date of the legislation. Some of this increased claim volume likely represents an acceleration of valid claims that would have been brought in the future, while some claims will likely prove to have little or no merit. As many of these claims are still pending, Castlewood cannot predict what portion of the increased number of claims represent valid claims. Also, the acceleration of claims increases the uncertainty surrounding projections of future claims in the affected jurisdictions.

During the same timeframe as tort reform, the U.S. federal and various U.S. state governments sought comprehensive asbestos reform to manage the growing court docket and costs surrounding asbestos litigation, in addition to the increasing number of corporate bankruptcies resulting from overwhelming asbestos liabilities. Whereas the federal government has thus far unsuccessfully pursued the establishment of a national asbestos trust fund at an estimated cost of $140 billion, states, including Texas and Florida, have implemented a medical criteria approach that only permits litigation to proceed when a plaintiff can establish and demonstrate actual physical impairment.

Table of Contents

Much like tort reform, asbestos litigation reform has also spurred a significant increase in the number of lawsuits filed in advance of the law s enactment. Castlewood cannot predict whether the drop off in the number of filed claims is due to the accelerated number of filings or an actual trend decline in alleged asbestos injuries.

Environmental Pollution Exposures

Environmental pollution claims represent another significant exposure for Castlewood. However, environmental claims have been developing as expected over the past few years as a result of stable claim trends. Claims against Fortune 500 companies are generally declining, and while insureds with single-site exposures are still active, in many cases claims are being settled for less than initially anticipated due to improved site remediation technology and effective policy buy-backs.

Despite the stability of recent trends, there remains significant uncertainty involved in estimating liabilities related to these exposures. First, the number of waste sites subject to cleanup is unknown. Approximately 1,200 sites are included on the National Priorities List (NPL) of the United States Environmental Protection Agency. State authorities have separately identified many additional sites and, at times, aggressively implement site cleanups. Second, the liabilities of the insureds themselves are difficult to estimate. At any given site, the allocation of remediation cost among the potentially responsible parties varies greatly depending upon a variety of factors. Third, as with asbestos liability and coverage issues, judicial precedent regarding liability and coverage issues regarding pollution claims does not provide clear guidance. There is also uncertainty as to the federal Superfund law itself and, at this time, Castlewood cannot predict what, if any, reforms to this law might be enacted by the U.S. Congress, or the effect of any such changes on the insurance industry.

Other Latent Exposures

While Castlewood does not view health hazard exposures such as silica and tobacco as becoming a material concern, recent developments in lead litigation have caused Castlewood to watch these matters closely. Recently, municipal and state governments have had success, using a public nuisance theory, pursuing the former makers of lead pigment for the abatement of lead paint in certain home dwellings. As lead paint was used almost exclusively into the early 1970 s, large numbers of old housing stock contain lead paint that can prove hazardous to people and, particularly, children. Although governmental success has been limited thus far, Castlewood continues to monitor developments carefully due to the size of the potential awards sought by plaintiffs.

Investments

Investment Strategy and Guidelines

Castlewood derives a significant portion of its income from its invested assets. As a result, its operating results depend in part on the performance of its investment portfolio. Because of the unpredictable nature of losses that may arise under Castlewood s insurance and reinsurance subsidiaries insurance or reinsurance policies and as a result of Castlewood s opportunistic commutation strategy, Castlewood s liquidity needs can be substantial and may arise at any time. Castlewood generally follows a conservative investment strategy designed to emphasize the preservation of its invested assets and provide sufficient liquidity for the prompt payment of claims and settlement of commutation payments. Castlewood s cash and cash equivalent portfolio is mainly comprised of high-grade fixed deposits and commercial paper with maturities of less than three months, liquid reserve funds and money market funds. Castlewood s investment portfolio consists primarily of high investment grade-rated, liquid, fixed-maturity securities of short-to-medium term duration and an enhanced cash mutual fund 96.3% of its total investment portfolio consists of investment grade securities. In addition, Castlewood has investments in a limited partnership, and has committed to invest in two private investment funds that are non-investment grade securities these investments accounted for 3.7%

of Castlewood s total investment portfolio as of March 31, 2006. Assuming the commitments to the two private

Table of Contents

investment funds were fully funded as of March 31, 2006 out of cash balances on hand at that time, the percentage of investments held in other than investment grade securities would increase to 13.7%.

Castlewood strives to structure its investments in a manner that recognizes its liquidity needs for future liabilities. In that regard, Castlewood attempts to correlate the maturity and duration of its investment portfolio to its general liability profile. If Castlewood s liquidity needs or general liability profile unexpectedly change, it may not continue to structure its investment portfolio in its current manner and would adjust as necessary to meet new business needs.

Castlewood s investment performance is subject to a variety of risks, including risks related to general economic conditions, market volatility, interest rate fluctuations, liquidity risk and credit and default risk. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond Castlewood s control. A significant increase in interest rates could result in significant losses, realized or unrealized, in the value of Castlewood s investment portfolio. Alternative investments, such as the commitment to the J.C. Flowers Fund, subject Castlewood to restrictions on redemption, which may limit its ability to withdraw funds for some period of time after the initial investment. The values of, and returns on, such investments may also be more volatile.

Investment Committee and Investment Manager

The investment committee of Castlewood s board of directors supervises its investment activity. The investment committee regularly monitors Castlewood s overall investment results which it ultimately reports to the board of directors.

Castlewood has engaged Goldman Sachs to provide discretionary investment management services. Castlewood has agreed to pay investment management fees based on the month-end market values of a portion of the investments in the portfolio. The fees, which vary depending on the amount of assets under management, are included in net investment income. Castlewood also pays investment advisory fees to Enstar. These fees are also included as part of net investment income.

Castlewood s Portfolio

Accounting Treatment

Castlewood s investments primarily consist of fixed income securities. Castlewood s fixed income investments are comprised of both available-for-sale investments and held to maturity investments as defined in FAS 115, Accounting for Certain Investments in Debt and Equity Securities. Available-for-sale investments are carried at their fair market value on the balance sheet date and held to maturity investments are carried at their amortized cost. Unrealized gains and losses on available-for-sale investments, which represent the difference between the amortized cost and the fair market value of securities, are reported in the balance sheet, as accumulated other comprehensive income in a separate component of shareholders equity.

Composition as of March 31, 2006

As of March 31, 2006, Castlewood s aggregate invested assets totaled approximately $1,159 million. Aggregate invested assets include cash and cash equivalents, restricted cash and cash equivalents, fixed-maturity securities, an enhanced cash mutual fund which invests in fixed income and money market securities denominated in U.S. dollars with average target duration of nine months, an investment in a limited partnership and an investment in a private investment fund.

Table of Contents

The following table shows the types of securities in Castlewood s portfolio, including cash equivalents, and their fair market values and amortized costs as of March 31, 2006:

Amortization		—		(4,025)		(4,025)
Impairment of Vision Goodwill		(54,986)		—		(54,986)
December 31, 2008	$	72,334	$	13,211	$	85,545
Amortization		—		(3,746)		(3,746)
December 31, 2009	$	72,334	$	9,465	$	81,799
Amortization		—		(3,422)		(3,422)
December 31, 2010	$	72,334	$	6,043	$	78,377

GAAP requires a company to perform an impairment test on goodwill annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired, by comparing the fair value of such goodwill to its recorded or carrying amount. If the carrying amount of the goodwill exceeds the fair value, an impairment charge must be recorded in an amount equal to the excess.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Park typically evaluates goodwill for impairment on April 1 of each year, with financial data as of March 31. Based on the analysis performed as of April 1, 2010, the Company determined that goodwill for Park's Ohio-based bank (The Park National Bank) was not impaired.

The balance of goodwill was $127.3 million at December 31, 2007 and was located at four subsidiary banks of Park. The subsidiary banks were Vision Bank ($55.0 million), The Park National Bank ($39.0 million), Century National Bank ($25.8 million) and The Security National Bank and Trust Co. ($7.5 million). During 2008, Park completed the consolidation of the eight banking charters of Park's Ohio-based subsidiary banks into one national bank charter. With this consolidation, the goodwill at The Park National Bank was $72.3 million.

Based primarily on the increased level of net loan charge-offs at Vision Bank, management determined that it was appropriate to test for goodwill impairment during the third quarter of 2008. Park continued to experience credit deterioration in Vision Bank's market place during the third quarter of 2008. The fair value of Vision was estimated by using the average of three measurement methods. These included: (1) application of various metrics from bank sale transactions for institutions comparable to Vision Bank; (2) application of a market-derived multiple of tangible book value; and (3) estimations of the present value of future cash flows. Park's management reviewed the valuation of Vision Bank with Park's Board of Directors and concluded that Vision Bank should recognize an impairment charge and write down the remaining goodwill ($55.0 million), resulting in a goodwill balance of zero with respect to the Vision Bank reporting unit.

Goodwill and other intangible assets (as shown on the Consolidated Balance Sheets) totaled $78.4 million at December 31, 2010, $81.8 million at December 31, 2009 and $85.5 million at December 31, 2008.

The core deposit intangibles are being amortized to expense principally on the straight-line method, over periods ranging from six to ten years. The amortization period for the core deposit intangibles related to the Vision acquisition is six years. Core deposit intangible amortization expense was $3.4 million in 2010, $3.7 million in 2009 and $4.0 million in 2008.

The accumulated amortization of core deposit intangibles was $16.1 million as of December 31, 2010 and $12.7 million at December 31, 2009. The expected core deposit intangible amortization expense for each of the next five years is as follows:

(In thousands)		
2011	$	2,677
2012		2,677
2013		689
2014		—
2015		—
Total	$	6,043

Consolidated Statement of Cash Flows
Cash and cash equivalents include cash and cash items, amounts due from banks and money market instruments. Generally money market instruments are purchased and sold for one-day periods.

Net cash provided by operating activities reflects cash payments as follows:

December 31, (In thousands)	2010	2009	2008
Interest paid on deposits and other borrowings	$ 74,680	$ 96,204	$ 139,256
Income taxes paid	$ 24,600	$ 30,660	$ 28,365
Transfers to OREO	$ 35,507	$ 35,902	$ 37,823

Loss Contingencies and Guarantees
Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Income Taxes
The Corporation accounts for income taxes using the asset and liability approach. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. To the extent that Park does not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is recorded. All positive and negative evidence is reviewed when determining how much of a valuation allowance is recognized on a quarterly basis. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

An uncertain tax position is recognized as a benefit only if it is “more-likely-than-not” that the tax position would be sustained in a tax examination being presumed to occur. The benefit recognized for a tax position that meets the “more-likely-than-not” criteria is measured based on the largest benefit that is more than 50 percent likely to be realized, taking into consideration the amounts and probabilities of the outcome upon settlement. For tax positions not meeting the “more-likely-than-not” test, no tax benefit is recorded. Park recognizes any interest and penalties related to income tax matters in income tax expense.

Preferred Stock
On December 23, 2008, Park issued $100 million of Senior Preferred Shares to the U.S. Department of Treasury (the “Treasury”) under the Capital Purchase Program (CPP), consisting of 100,000 shares, each with a liquidation preference of $1,000 per share. In addition, on December 23, 2008, Park issued a warrant to the Treasury to purchase 227,376 common shares. These preferred shares and related warrant are considered permanent equity for accounting purposes. GAAP requires management to allocate the proceeds from the issuance of the preferred stock between the preferred stock and related warrant. The terms of the preferred shares require management to pay a cumulative dividend at the rate of 5 percent per annum until February 14, 2014 and 9 percent thereafter. Management determined that the 5 percent dividend rate is below market value; therefore, the fair value of the preferred shares would be less than the $100 million in proceeds. Management determined that a reasonable market discount rate is 12 percent for the fair value of preferred shares. Management used the Black-Scholes model for calculating the fair value of the warrant (and related common shares). The allocation between the preferred shares and warrant at December 23, 2008, the date of issuance, was $95.7 million and $4.3 million, respectively. The discount on the preferred shares of $4.3 million is being accreted through retained earnings over a 60 month period.

Treasury Stock
The purchase of Park’s common stock is recorded at cost. At the date of retirement or subsequent reissuance, the treasury stock account is reduced by the weighted average cost of the common shares retired or reissued.

Comprehensive Income
Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, changes in the funded status of the Company’s Defined Benefit Pension Plan, and the unrealized net holding gains and losses on the cash flow hedge, which are also recognized as separate components of equity.

Stock Based Compensation

Compensation cost is recognized for stock options and stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of Park's common stock at the date of grant is used for stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. Park did not grant any stock options during 2010, 2009 or 2008. No stock options vested in 2010, 2009 or 2008. Park granted 7,020, 7,020 and 7,200 shares of common stock to its directors in 2010, 2009 and 2008, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Derivative Instruments
At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are: (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"); (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"); or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the Consolidated Balance Sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Fair Value Measurement
Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 21 of these Notes to Consolidated Financial Statements. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Transfers of Financial Assets
Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Retirement Plans

Pension expense is the net of service and interest cost, return on plan assets and amortization of gains and losses not immediately recognized. Employee 401(k) plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Earnings Per Common Share

Basic earnings per common share is net income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options, warrants and convertible securities. Earnings and dividends per common share are restated for any stock splits and stock dividends through the date of issuance of the consolidated financial statements.

Adoption of New Accounting Pronouncements:

Accounting for Transfers of Financial Assets: In June 2009, FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140." This removes the concept of a qualifying special-purpose entity from existing GAAP and removes the exception from applying FASB ASC 810-10, Consolidation (FASB Interpretation No. 46 (revised December 2003) Consolidation of Variable Interest Entities) to qualifying special purpose entities. The objective of this new guidance is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets (which includes loan participations); the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. The Company's adoption of this new guidance on January 1, 2010, did not have a material impact on Park's consolidated financial statements.

Amendments to FASB Interpretation No. 46(R): In June 2009, FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" (ASC 810). The objective of this new guidance is to amend certain requirements of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The Company's adoption of this new guidance on January 1, 2010 had no impact on Park's consolidated financial statements.

Improving Disclosures About Fair Value Measurements: In January 2010, the FASB issued an amendment to Fair Value Measurements and Disclosures, Topic 820, Improving Disclosures About Fair Value Measurements. This amendment requires new disclosures regarding significant transfers in and out of Level 1 and 2 fair value measurements and the reasons for the transfers. This amendment also requires that a reporting entity present separately information about purchases, sales, issuances and settlements, on a gross basis rather than a net basis for activity in Level 3 fair value measurements using significant unobservable inputs. This amendment also clarifies existing disclosures on the level of disaggregation, in that the reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities, and that a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for Level 2 and 3. The new disclosures and clarifications of existing disclosures for ASC 820 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of ASC 820 did not have a material effect on the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses: In July 2010, FASB issued Accounting Standards Update 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20), to address concerns about the sufficiency, transparency, and robustness of credit risk disclosures for finance receivables and the related allowance for credit losses. This ASU requires new and enhanced disclosures at disaggregated levels, specifically defined as “portfolio segments” and “classes”. Among other things, the expanded disclosures include roll-forward schedules of the allowance for credit losses and information regarding the credit quality of receivables as of the end of a reporting period. New and enhanced disclosures are required for interim and annual periods ending after December 15, 2010, although the disclosures of reporting period activity are required for interim and annual periods beginning after December 15, 2010. The adoption of the new guidance impacts annual disclosures within the Annual Report for the period ended December 31, 2010 and will impact disclosures within interim financial statements in future periods, but will not have an impact on the Company’s consolidated financial statements.

No. 2011-01 | Receivables (Topic 310) Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20: In January 2011, FASB issued Accounting Standards Update 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 (ASU 2011-01). ASU 2011-01 was issued as a result of concerns raised from stakeholders that the introduction of new disclosure requirements (paragraphs 310-10-50-31 through 50-34 of the FASB Accounting Standards Codification) about troubled debt restructurings in one reporting period followed by a change in what constitutes a troubled debt restructuring shortly thereafter would be burdensome for preparers and may not provide financial statement users with useful information.

2. ORGANIZATION AND ACQUISITIONS

Park National Corporation is a multi-bank holding company headquartered in Newark, Ohio. Through its banking subsidiaries, The Park National Bank (PNB) and Vision Bank (VB), Park is engaged in a general commercial banking and trust business, primarily in Ohio, Baldwin County, Alabama and the panhandle of Florida. A wholly-owned subsidiary of Park, Guardian Financial Services Company (GFSC) began operating in May 1999. GFSC is a consumer finance company located in Central Ohio. PNB operates through eleven banking divisions with the Park National Division headquartered in Newark, Ohio, the Fairfield National Division headquartered in Lancaster, Ohio, The Park National Bank of Southwest Ohio & Northern Kentucky Division headquartered in Milford, Ohio, the First-Knox National Division headquartered in Mount Vernon, Ohio, the Farmers and Savings Division headquartered in Loudonville, Ohio, the Security National Division headquartered in Springfield, Ohio, the Unity National Division headquartered in Piqua, Ohio, the Richland Bank Division headquartered in Mansfield, Ohio, the Century National Division headquartered in Zanesville, Ohio, the United Bank Division headquartered in Bucyrus, Ohio and the Second National Division headquartered in Greenville, Ohio. VB operates through two banking divisions with the Vision Bank Florida Division headquartered in Panama City, Florida and the Vision Bank Alabama Division headquartered in Gulf Shores, Alabama. All of the Ohio-based banking divisions provide the following principal services: the acceptance of deposits for demand, savings and time accounts; commercial, industrial, consumer and real estate lending, including installment loans, credit cards, home equity lines of credit, commercial leasing; trust services; cash management; safe deposit operations; electronic funds transfers and a variety of additional banking-related services. VB, with its two banking divisions, provides the services mentioned above, with the exception of commercial leasing. See Note 23 of these Notes to Consolidated Financial Statements for financial information on the Corporation’s operating segments.

On March 9, 2007, Park acquired all of the stock and outstanding stock options of Vision Bancshares, Inc. for $87.8 million in cash and 792,937 shares of Park common stock valued at $83.3 million or $105.00 per share.

The goodwill recognized as a result of this acquisition was $109.0 million. The fair value of the acquired assets of Vision was $686.5 million and the fair value of the liabilities assumed was $624.4 million at March 9, 2007. During the fourth quarter of 2007, Park recognized a $54.0 million impairment charge to the Vision goodwill. In addition, Park recognized an additional impairment charge to the remaining Vision goodwill of $55.0 million during the third quarter of 2008. The goodwill impairment charge of $55.0 million in 2008 reduced income tax expense by approximately $1 million. The goodwill impairment charge of $54.0 million in 2007 had no impact on income tax expense.

At the time of the acquisition, Vision operated two bank subsidiaries (both named Vision Bank) which became bank subsidiaries of Park on March 9, 2007. On July 20, 2007, the bank operations of the two Vision Banks were consolidated under a single charter through the merger of the Vision Bank headquartered in Gulf Shores, Alabama with and into the Vision Bank headquartered in Panama City, Florida. Vision Bank operates under a Florida banking charter and has 17 branch locations in Baldwin County, Alabama and in the Florida panhandle.

3. RESTRICTIONS ON CASH AND DUE FROM BANKS
The Corporation’s two bank subsidiaries are required to maintain average reserve balances with the Federal Reserve Bank. The average required reserve balance was approximately $37.8 million at December 31, 2010 and $31.9 million at December 31, 2009. No other compensating balance arrangements were in existence at December 31, 2010.

4. INVESTMENT SECURITIES
The amortized cost and fair value of investment securities are shown in the following table. Management performs a quarterly evaluation of investment securities for any other-than-temporary impairment.

During 2010, Park recognized an other-than-temporary impairment charge of $23,000, related to an equity investment in a financial institution, which is recorded in “other expenses” within the Consolidated Statements of Income. During 2009, Park recognized impairment losses of $0.6 million related to equity investments in several financial institutions. Since these are equity securities, no amounts were recognized in other comprehensive income at the time of the impairment recognition.

Investment securities at December 31, 2010 were as follows:

(In thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
2010:				
Securities Available-for-Sale				
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$ 272,301	$ 2,968	$ 1,956	$ 273,313
Obligations of states and political subdivisions	10,815	281	52	11,044
U.S. Government sponsored entities asset-backed securities	990,204	30,633	9,425	1,011,412
Other equity securities	938	858	43	1,753
Total	$ 1,274,258	$ 34,740	$ 11,476	$ 1,297,522
2010:				
Securities Held-to-Maturity				
Obligations of states and political subdivisions	$ 3,167	$ 7	$ —	$ 3,174
U.S. Government sponsored entities asset-backed securities	670,403	17,157	4,620	682,940
Total	$ 673,570	$ 17,164	$ 4,620	$ 686,114

Park’s U.S. Government sponsored entity asset-backed securities consisted of 15-year residential mortgage-backed securities and collateralized mortgage obligations (CMOs). At December 31, 2010, the amortized cost of Park’s AFS and held-to-maturity mortgage-backed securities was $988.5 million and $0.1 million, respectively. At December 31, 2010, the amortized cost of Park’s AFS and held-to-maturity CMOs was $1.7 million and $670.3 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other investment securities (as shown on the Consolidated Balance Sheets) consist of stock investments in the Federal Home Loan Bank and the Federal Reserve Bank. Park owned $61.8 million of Federal Home Loan Bank stock and $6.9 million of Federal Reserve stock at December 31, 2010. Park owned $62.0 million of Federal Home Loan Bank stock and $6.9 million of Federal Reserve Bank stock at December 31, 2009.

Management does not believe any individual unrealized loss as of December 31, 2010 or December 31, 2009, represents an other-than-temporary impairment. The unrealized losses on debt securities are primarily the result of interest rate changes. These conditions will not prohibit Park from receiving its contractual principal and interest payments on these debt securities. The fair value of these debt securities is expected to recover as payments are received on these securities and they approach maturity.

Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

The following table provides detail on investment securities with unrealized losses aggregated by investment category and length of time the individual securities had been in a continuous loss position at December 31, 2010:

	Less than 12 Months		12 Months or Longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2010:						
Securities Available-for-Sale						
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$ 74,379	$ 1,956	$ —	$ —	$ 74,379	$ 1,956
Obligations of states and political subdivisions	1,459	52	—	—	1,459	52
U.S. Government sponsored entities asset-backed securities	418,156	9,425	—	—	418,156	9,425
Other equity securities	74	29	221	14	295	43
Total	$ 494,068	$ 11,462	$ 221	$ 14	$ 494,289	$ 11,476
2010:						
Securities Held-to-Maturity						
U.S. Government sponsored entities asset-backed securities	$ 297,584	$ 4,620	$ —	$ —	$ 297,584	$ 4,620

Investment securities at December 31, 2009 were as follows:

(In thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
2009:				
Securities Available-for-Sale				
	$ 349,899	$ 389	$ 2,693	$ 347,595

Obligations of U.S. Treasury and other U.S. Government sponsored entities				
Obligations of states and political subdivisions	15,189	493	15	15,667
U.S. Government sponsored entities asset-backed securities	875,331	47,572	—	922,903
Other equity securities	962	656	56	1,562
Total	$ 1,241,381	$ 49,110	$ 2,764	$ 1,287,727
2009:				
Securities Held-to-Maturity				
Obligations of states and political subdivisions	$ 4,456	$ 25	$ —	$ 4,481
U.S. Government sponsored entities asset-backed securities	502,458	16,512	1	518,969
Total	$ 506,914	$ 16,537	$ 1	$ 523,450

The following table provides detail on investment securities with unrealized losses aggregated by investment category and length of time the individual securities had been in a continuous loss position at December 31, 2009:

	Less than 12 Months		12 Months or Longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2009:						
Securities Available-for-Sale						
Obligations of states and political subdivisions	$ 257,206	$ 2,693	$ —	$ —	$ 257,206	$ 2,693
U.S. Government sponsored entities asset-backed securities	295	15	—	—	295	15
Other equity securities	—	—	202	56	202	56
Total	$ 257,501	$ 2,708	$ 202	$ 56	$ 257,703	$ 2,764
2009:						
Securities Held-to-Maturity						
U.S. Government sponsored entities asset-backed securities	$ 50	$ 1	$ —	$ —	$ 50	$ 1

The amortized cost and estimated fair value of investments in debt securities at December 31, 2010, are shown in the following table by contractual maturity or the expected call date, except for asset-backed securities, which are shown as a single total, due to the unpredictability of the timing in principal repayments.

(In thousands)	Amortized Cost	Estimated Fair Value
Securities Available-for-Sale		
U.S. Treasury and sponsored entities notes:		
Due within one year	$ 149,986	$ 152,913
Due one through five years	54,335	52,627
Due five through ten years	67,980	67,773
Total	$ 272,301	$ 273,313
Obligations of states and political subdivisions:		
Due within one year	$ 7,999	$ 8,195
Due one through five years	1,805	1,879
Due over ten years	1,011	970
Total	$ 10,815	$ 11,044
U.S. Government sponsored entities asset-backed securities:		
Total	$ 990,204	$ 1,011,412
Securities Held-to-Maturity		

Obligations of states and political subdivisions:		
Due within one year	$ 2,382	$ 2,389
Due one through five years	785	785
Total	$ 3,167	$ 3,174
U.S. Government sponsored entities asset-backed securities:		
Total	$ 670,403	$ 682,940

All of Park's securities shown in the above table as U.S. Treasury and sponsored entities notes are callable notes. These callable securities have a final maturity in 8 to 12 years, but are shown in the table at their expected call date.

Investment securities having a book value of $1,481 million and $1,720 million at December 31, 2010 and 2009, respectively, were pledged to collateralize government and trust department deposits in accordance with federal and state requirements and to secure repurchase agreements sold, and as collateral for Federal Home Loan Bank (FHLB) advance borrowings.

At December 31, 2010, $736 million was pledged for government and trust department deposits, $668 million was pledged to secure repurchase agreements and $77 million was pledged as collateral for FHLB advance borrowings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2009, $952 million was pledged for government and trust department deposits, $658 million was pledged to secure repurchase agreements and $110 million was pledged as collateral for FHLB advance borrowings.

At December 31, 2010, there were no holdings of securities of any one issuer, other than the U.S. Government and its sponsored entities, in an amount greater than 10% of shareholders' equity.

During 2010, Park's management sold investment securities during the first, second and fourth quarters. In total, these sales resulted in proceeds of $460.2 million and a pre-tax gain of $11.9 million.

During the first quarter of 2010, Park sold $200.7 million of U.S. Government sponsored entity mortgage-backed securities for a pre-tax gain of $8.3 million. During the second quarter of 2010, Park sold $57 million of U.S. Government sponsored entity mortgage-backed securities for a pre-tax gain of $3.5 million. During the fourth quarter of 2010, Park sold $115.8 million of U.S. Government sponsored entity callable notes for a small gain of $45,000.

During 2009, Park sold $204.3 million of U.S. Government sponsored entity mortgage-backed securities, realizing a pre-tax gain of $7.3 million. No gross losses were realized in 2010 or 2009.

5. LOANS

The composition of the loan portfolio is as follows:

December 31 (In thousands)	2010	2009
Commercial, financial and agricultural	$ 737,902	$ 751,277
Real estate:		
Commercial	1,226,616	1,130,672
Construction	406,480	495,518
Residential	1,692,209	1,555,390
Consumer	666,871	704,430
Leases	2,607	3,145
Total loans	$ 4,732,685	$ 4,640,432

The composition of the loan portfolio, by class of loan, as of December 31, 2010 is as follows:

(In thousands)	Loan Balance	Accrued Interest Receivable	Recorded Investment
Commercial, financial and agricultural*	$ 737,902	$ 2,886	$ 740,788
Commercial real estate*	1,226,616	4,804	1,231,420
Construction real estate:			
Vision commercial land and development	171,334	282	171,616
Remaining commercial	195,693	622	196,315
Mortgage	26,326	95	26,421
Installment	13,127	54	13,181
Residential real estate:			
Commercial	464,903	1,403	466,306
Mortgage	906,648	2,789	909,437
HELOC	260,463	1,014	261,477

Installment	60,195	255	60,450
Consumer	666,871	3,245	670,116
Leases	2,607	56	2,663
Total loans	$ 4,732,685	$ 17,505	$ 4,750,190

* Included within commercial, financial and agricultural loans and commercial real estate loans are an immaterial amount of consumer loans that are not broken out by class.

Loans are shown net of deferred origination fees, costs and unearned income of $6.7 million at December 31, 2010 and $6.3 million at December 31, 2009.

Overdrawn deposit accounts of $2.6 million and $3.3 million have been reclassified to loans at December 31, 2010 and 2009, respectively.

Nonperforming loans are summarized as follows at December 31, 2009:

December 31 (In thousands)	2009
Impaired loans:	
Nonaccrual	$ 201,001
Restructured (accruing)	142
Total impaired loans	201,143
Other nonaccrual loans	32,543
Total nonaccrual and restructured loans	$ 233,686
Loans past due 90 days or more and accruing	14,773
Total nonperforming loans	$ 248,459

The following table presents the recorded investment in nonaccrual, restructured, and loans past due 90 days or more and still accruing by class of loans as of December 31, 2010:

(In thousands)	Nonaccrual Loans	Accruing Restructured Loans	Loans Past Due 90 Days or More and Accruing	Total Nonperforming Loans
Commercial, financial and agricultural	$ 19,276	$ —	$ —	$ 19,276
Commercial real estate	57,941	—	20	57,961
Construction real estate:				
Vision commercial land and development	87,424	—	—	87,424
Remaining commercial	27,080	—	—	27,080
Mortgage	354	—	—	354
Installment	417	—	13	430
Residential real estate:				
Commercial	60,227	—	—	60,227
Mortgage	32,479	—	2,175	34,654
HELOC	964	—	149	1,113
Installment	1,195	—	277	1,472
Consumer	1,911	—	1,059	2,970
Leases	—	—	—	—
Total loans	$ 289,268	$ —	$ 3,693	$ 292,961

The following table provides additional information regarding those nonaccrual loans that are individually evaluated for impairment and those collectively evaluated for impairment at December 31, 2010.

(In thousands)	Nonaccrual	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment
Commercial, financial and agricultural	$ 19,276	$ 19,205	$ 71
Commercial real estate	57,941	57,930	11
Construction real estate:			
Vision commercial land and development	87,424	86,491	933
Remaining commercial	27,080	27,080	—
Mortgage	354	—	354
Installment	417	—	417
Residential real estate:			
Commercial	60,227	60,227	—
Mortgage	32,479	—	32,479
HELOC	964	—	964
Installment	1,195	—	1,195
Consumer	1,911	—	1,911
Leases	—	—	—
Total loans	$ 289,268	$ 250,933	$ 38,335

The majority of the loans individually evaluated for impairment were evaluated using the fair value of the collateral or present value of expected future cash flows as the measurement method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impaired loans were as follows at December 31, 2009:

December 31 (In thousands)	2009
Year-end loans with no allocated allowance for loan losses	$ 77,487
Year-end loans with allocated allowance for loan losses	123,656
Total	$ 201,143
Amount of the allowance for loan losses allocated	$ 36,721

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2010.

(In thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded			
Commercial, financial and agricultural	$ 9,347	$ 8,891	$ —
Commercial real estate	24,052	19,697	—
Construction real estate:			
Vision commercial land and development	23,021	20,162	—
Remaining commercial	15,192	14,630	—
Residential real estate:			
Commercial	51,261	47,009	—
With an allowance recorded			
Commercial, financial and agricultural	11,801	10,314	3,028
Commercial real estate	42,263	38,233	10,001
Construction real estate:			
Vision commercial land and development	92,122	66,329	23,585
Remaining commercial	20,676	12,450	2,802
Residential real estate:			
Commercial	14,799	13,218	4,043
Total	$ 304,534	$ 250,933	$ 43,459

Management's general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral. At December 31, 2010, there were $12.5 million in partial charge-offs on loans individually evaluated for impairment with no related allowance recorded and an additional $41.1 million of partial charge-offs on loans individually evaluated for impairment that also had a specific reserve allocated.

The allowance for loan losses included specific reserves related to loans individually evaluated for impairment at December 31, 2010 and 2009, of $43.5 million and $36.7 million, respectively, related to loans with a recorded investment of $140.5 million and $123.7 million.

The average balance of loans individually evaluated for impairment was $210.4 million, $184.7 million and $130.6 million for 2010, 2009 and 2008, respectively.

Interest income on loans individually evaluated for impairment is recognized on a cash basis after all past due and current principal payments have been made. For the year ended December 31, 2010, the Corporation recognized a net reversal to interest income of $1.3 million, consisting of $948,000 in interest recognized at PNB and $2.2 million in interest reversed at Vision, on loans that were individually evaluated for impairment as of the end of the year. For the year ended December 31, 2009, the Corporation recognized a net reversal to interest income of $1.3 million, consisting of $1.8 million in interest recognized at PNB and $3.1 million in interest reversed at Vision, on loans that were individually evaluated for impairment as of the end of the year. For the year ended December 31, 2008, the Corporation recognized $0.9 million in interest income, consisting of $2.8 million in interest recognized at PNB and $1.9 million in interest reversed at Vision.

The following table presents the aging of the recorded investment in past due loans as of December 31, 2010 by class of loans.

(In thousands)	Accruing Loans Past Due 30–89 Days	Past Due Nonaccrual Loans and Loans Past Due 90 Days or More and Accruing	Total Past Due	Total Current	Total Recorded Investment
Commercial, financial and agricultural	$ 2,247	$ 15,622	$ 17,869	$ 722,919	$ 740,788
Commercial real estate	9,521	53,269	62,790	1,168,630	1,231,420
Construction real estate:					
Vision commercial land and development	2,406	65,130	67,536	104,080	171,616
Remaining commercial	141	19,687	19,828	176,487	196,315
Mortgage	479	148	627	25,794	26,421
Installment	235	399	634	12,547	13,181
Residential real estate:					
Commercial	3,281	26,845	30,126	436,180	466,306
Mortgage	17,460	24,422	41,882	867,555	909,437
HELOC	1,396	667	2,063	259,414	261,477
Installment	1,018	892	1,910	58,540	60,450
Consumer	11,204	2,465	13,669	656,447	670,116
Leases	5	—	5	2,658	2,663
Total loans	$ 49,393	$ 209,546	$ 258,939	$ 4,491,251	$ 4,750,190

Management's policy is to initially place all renegotiated loans (troubled debt restructurings) on nonaccrual status. At December 31, 2010, there were $80.7 million of troubled debt restructurings included in nonaccrual loan totals. Many of these troubled debt restructurings are performing under the renegotiated terms. At December 31, 2010, of the $80.7 million in troubled debt restructurings, $50.3 million were included within current loans presented above. Management will continue to review the renegotiated loans and may determine it appropriate to move certain of these loans back to accrual status in the future. At December 31, 2010, Park had commitments to lend $434,000 of additional funds to borrowers whose terms had been modified in a troubled debt restructuring.

Management utilizes past due information as a credit quality indicator across the loan portfolio. The past due information is the primary credit quality indicator within the following classes of loans: (1) mortgage loans and installment loans in the construction real estate segment; (2) mortgage loans, HELOC and installment loans in the residential real estate segment; and (3) consumer loans. The primary credit indicator for commercial loans is based on an internal grading system that grades all commercial loans from 1 to 8. Credit grades are continuously monitored by the respective loan officer and adjustments are made when appropriate. A grade of 1 indicates little or no credit risk and a grade of 8 is considered a loss. Commercial loans with grades of 1 to 4 (pass-rated) are considered to be of acceptable credit risk. Commercial loans graded a 5 (special mention) are considered to be watch list credits and a higher loan loss reserve percentage is allocated to these loans. Loans classified as special mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Commercial loans graded 6 (substandard), also considered watch list credits, are considered to represent higher credit risk and, as a result, a higher loan loss reserve percentage is allocated to these loans. Loans classified as substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Commercial loans that are graded a 7 (doubtful) are shown as nonperforming and Park generally charges these loans down to their fair value by taking a partial charge-off or recording a specific reserve. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Any commercial loan graded an 8 (loss) is completely charged-off. The table below presents the recorded investment by loan grade at December 31, 2010 for all commercial loans:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)	5 Rated	6 Rated	Nonaccrual	Pass Rated	Recorded Investment
Commercial, financial and agricultural	$ 26,322	$ 11,447	$ 19,276	$ 683,743	$ 740,788
Commercial real estate	57,394	26,992	57,941	1,089,093	1,231,420
Construction real estate:					
Vision commercial land and development	10,220	7,941	87,424	66,031	171,616
Remaining commercial	14,021	39,062	27,080	116,152	196,315
Residential real estate:					
Commercial	29,206	18,117	60,227	358,756	466,306
Leases	—	—	—	2,663	2,663
Total commercial loans	$ 137,163	$ 103,559	$ 251,948	$ 2,316,438	$ 2,809,108

Management transfers a loan to other real estate owned at the time that Park takes possession of the asset. At December 31, 2010 and 2009, Park had $44.3 million and $41.2 million, respectively, of other real estate owned. Other real estate owned at Vision Bank has increased from $35.2 million at December 31, 2009 to $35.9 million at December 31, 2010.

Certain of the Corporation's executive officers and directors are loan customers of the Corporation's two banking subsidiaries. As of December 31, 2010 and 2009, loans and lines of credit aggregating approximately $53.6 million and $56.8 million, respectively, were outstanding to such parties. During 2010, $2.1 million of new loans were made to these executive officers and directors and repayments totaled $5.3 million. New loans and repayments for 2009 were $27.9 million and $9.5 million, respectively. Additionally, during 2009, $20.8 million in loans were removed from the aggregate amount reported due to the resignation of certain directors.

6. ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses is summarized as follows:

(In thousands)	2010	2009	2008
Average loans	$ 4,642,478	$ 4,594,436	$ 4,354,520
Allowance for loan losses:			
Beginning balance	$ 116,717	$ 100,088	$ 87,102
Charge-offs:			
Commercial, financial and agricultural	8,484	10,047	2,953
Commercial real estate	7,748	5,662	4,126
Construction real estate	23,308	21,956	34,052
Residential real estate	18,401	11,765	12,600
Consumer	8,373	9,583	9,181
Lease financing	—	9	4
Total charge-offs	66,314	59,022	62,916
Recoveries:			
Commercial, financial and agricultural	1,237	1,010	861
Commercial real estate	850	771	451
Construction real estate	813	1,322	137
Residential real estate	1,429	1,723	1,128
Consumer	1,763	2,001	2,807
Lease financing	—	3	31

Total recoveries	6,092	6,830	5,415
Net charge-offs	60,222	52,192	57,501
Provision for loan losses	64,902	68,821	70,487
Ending balance	$ 121,397	$ 116,717	$ 100,088
Ratio of net charge-offs to average loans	1.30%	1.14%	1.32%
Ratio of allowance for loan losses to end of period loans	2.57%	2.52%	2.23%

The composition of the allowance for loan losses at December 31, 2010 was as follows:

(In thousands)	Commercial, Financial and Agricultural	Commercial Real Estate	Construction Real Estate	Residential Real Estate	Consumer	Leases	Total
Allowance for loan losses:							
Ending allowance balance attributed to loans							
Individually evaluated for impairment	$ 3,028	$ 10,001	$ 26,387	$ 4,043	$ —	$ —	$ 43,459
Collectively evaluated for impairment	10,556	18,514	19,807	21,802	7,228	31	77,938
Total ending allowance balance	$ 13,584	$ 28,515	$ 46,194	$ 25,845	$ 7,228	$ 31	$ 121,397
Loan balance:							
Loans individually evaluated for impairment	$ 19,205	$ 57,930	$ 113,571	$ 60,227	$ —	$ —	$ 250,933
Loans collectively evaluated for impairment	718,697	1,168,686	292,909	1,631,982	666,871	2,607	4,481,752
Total ending loan balance	$ 737,902	$ 1,226,616	$ 406,480	$ 1,692,209	$ 666,871	$ 2,607	$ 4,732,685
Allowance for loan losses as a percentage of loan balance:							
Loans individually evaluated for impairment	15.77%	17.26%	23.23%	6.71%	—	—	17.32%
Loans collectively evaluated for impairment	1.47%	1.58%	6.76%	1.34%	1.08%	1.19%	1.74%
Total ending loan balance	1.84%	2.32%	11.36%	1.53%	1.08%	1.19%	2.57%
Recorded investment:							
Loans individually evaluated for impairment	$ 19,205	$ 57,930	$ 113,571	$ 60,227	$ —	$ —	$ 250,933

Loans collectively evaluated for impairment	721,583	1,173,490	293,962	1,637,443	670,116	2,663	4,499,257
Total ending loan balance	$ 740,788	$ 1,231,420	$ 407,533	$ 1,697,670	$ 670,116	$ 2,663	$ 4,750,190

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The composition of the allowance for loan losses at December 31, 2009 was as follows:

(In thousands)	Outstanding Loan Balance	Allowance for Loan Losses	ALL as a % of Loan Balance
Loans collectively evaluated for impairment	$ 4,439,289	$ 79,996	1.80%
Loans indivdually evaluated for impairment	201,143	36,721	18.26%
Total loans and allowance for loan losses	$ 4,640,432	$ 116,717	2.52%

Loans collectively evaluated for impairment above include all performing loans at December 31, 2010 and 2009, as well as nonperforming loans internally classified as consumer loans. Nonperforming consumer loans are not typically evaluated for impairment, but receive a portion of the statistical allocation of the allowance for loan losses. Loans individually evaluated for impairment above include all impaired loans internally classified as commercial loans at December 31, 2010 and 2009, which are evaluated for impairment in accordance with GAAP (see Note 1 of these Notes to Consolidated Financial Statements).

7. PREMISES AND EQUIPMENT

The major categories of premises and equipment and accumulated depreciation are summarized as follows:

December 31 (In thousands)	2010	2009
Land	$ 23,827	$ 23,257
Buildings	78,185	75,583
Equipment, furniture and fixtures	61,086	56,822
Leasehold improvements	6,031	6,080
Total	$ 169,129	$ 161,742
Less accumulated depreciation and amortization	(99,562)	(92,651)
Premises and equipment, net	$ 69,567	$ 69,091

Depreciation and amortization expense amounted to $7.1 million, $7.5 million and $7.5 million for the years ended December 31, 2010, 2009 and 2008, respectively.

The Corporation leases certain premises and equipment accounted for as operating leases. The following is a schedule of the future minimum rental payments required for the next five years under such leases with initial terms in excess of one year:

(In thousands)	
2011	$ 1,987
2012	1,786
2013	1,629
2014	1,416
2015	1,161
Thereafter	4,103
Total	$ 12,082

Rent expense was $2.6 million, $2.8 million and $2.8 million, for the years ended December 31, 2010, 2009 and 2008, respectively.

8. DEPOSITS

At December 31, 2010 and 2009, noninterest bearing and interest bearing deposits were as follows:

December 31 (In thousands)	2010	2009
Noninterest bearing	$ 937,719	$ 897,243
Interest bearing	4,157,701	4,290,809
Total	$ 5,095,420	$ 5,188,052

At December 31, 2010, the maturities of time deposits were as follows:

(In thousands)	
2011	$ 1,421,409
2012	323,421
2013	83,557
2014	69,535
2015	73,612
After 5 years	2,369
Total	$ 1,973,903

At December 31, 2010, Park had approximately $17.2 million of deposits received from executive officers, directors, and their related interests.

Maturities of time deposits of over $100,000 as of December 31, 2010 were:

December 31 (In thousands)	
3 months or less	$ 344,820
Over 3 months through 6 months	162,069
Over 6 months through 12 months	212,494
Over 12 months	180,454
Total	$ 899,837

Note: The table above includes brokered deposits of $104.1 million that are included within the 3 months or less maturity category.

9. SHORT-TERM BORROWINGS

Short-term borrowings were as follows:

December 31 (In thousands)	2010	2009
Securities sold under agreements to repurchase and federal funds purchased	$ 279,669	$ 294,219
Federal Home Loan Bank advances	384,000	30,000
Total short-term borrowings	$ 663,669	$ 324,219

The outstanding balances for all short-term borrowings as of December 31, 2010 and 2009 and the weighted-average interest rates as of and paid during each of the years then ended were as follows:

(In thousands)	Repurchase Agreements and Federal Funds Purchased	Federal Home Loan Bank Advances	Demand Notes Due U.S. Treasury and Other
2010:			

Ending balance	$ 279,669	$ 384,000	$ —
Highest month-end balance	295,467	384,000	—
Average daily balance	269,260	31,679	—
Weighted-average interest rate:			
As of year-end	0.32%	0.19%	—
Paid during the year	0.39%	0.39%	—
2009:			
Ending balance	$ 294,219	$ 30,000	$ —
Highest month-end balance	303,972	442,000	—
Average daily balance	281,941	137,792	—
Weighted-average interest rate:			
As of year-end	0.49%	0.49%	—
Paid during the year	0.82%	0.66%	—

At December 31, 2010, 2009 and 2008, Federal Home Loan Bank (FHLB) advances were collateralized by investment securities owned by the Corporation’s subsidiary banks and by various loans pledged under a blanket agreement by the Corporation’s subsidiary banks.

See Note 4 of these Notes to Consolidated Financial Statements for the amount of investment securities that are pledged. At December 31, 2010, $2,071 million of commercial real estate and residential mortgage loans were pledged under a blanket agreement to the FHLB by Park’s subsidiary banks. At December 31, 2009, $1,959 million of commercial real estate and residential mortgage loans were pledged under a blanket agreement to the FHLB by Park’s subsidiary banks.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 states that $668 million and $658 million of securities were pledged to secure repurchase agreements as of December 31, 2010 and 2009, respectively. Park's repurchase agreements in short-term borrowings consist of customer accounts and securities which are pledged on an individual security basis. Park's repurchase agreements with a third-party financial institution are classified in long-term debt. See Note 10 of these Notes to Consolidated Financial Statements.

10. LONG-TERM DEBT
Long-term debt is listed below:

December 31	2010		2009	
(In thousands)	Outstanding Balance	Average Rate	Outstanding Balance	Average Rate
Total Federal Home Loan Bank advances by year of maturity:				
2010	$ —	—	$ 17,560	5.68%
2011	16,460	1.99%	16,460	1.99%
2012	15,500	2.09%	15,500	2.09%
2013	500	4.03%	500	4.03%
2014	500	4.23%	500	4.23%
2015	—	0.00%	—	—
Thereafter	302,342	3.02%	302,371	3.02%
Total	$ 335,302	2.93%	$ 352,891	3.05%
Total broker repurchase agreements by year of maturity:				
After 2015	$ 300,000	4.04%	$ 300,000	4.04%
Total	$ 300,000	4.04%	$ 300,000	4.04%
Other borrowings by year of maturity:				
2010	$ —	—	$ 59	7.97%
2011	63	7.97%	63	7.97%
2012	69	7.97%	69	7.97%
2013	74	7.97%	74	7.97%
2014	81	7.97%	81	7.97%
2015	87	7.97%	87	7.97%
Thereafter	1,057	7.97%	1,057	7.97%
Total	$ 1,431	7.97%	$ 1,490	7.97%
Total combined long-term debt by year of maturity:				
2010	$ —	—	$ 17,619	5.69%
2011	16,523	2.01%	16,523	2.01%
2012	15,569	2.12%	15,569	2.12%
2013	574	4.54%	574	4.54%
2014	581	4.75%	581	4.75%
2015	87	7.97%	87	7.97%
Thereafter	603,399	3.54%	603,428	3.54%
Total	$ 636,733	3.46%	$ 654,381	3.52%

Other borrowings consist of a capital lease obligation of $1.4 million, pertaining to an arrangement that was part of the acquisition of Vision on March 9, 2007 and its associated minimum lease payments.

Park had approximately $603.4 million of long-term debt at December 31, 2010 with a contractual maturity longer than five years. However, approximately $600 million of this debt is callable by the issuer in 2011.

At December 31, 2010 and 2009, Federal Home Loan Bank (FHLB) advances were collateralized by investment securities owned by the Corporation's subsidiary banks and by various loans pledged under a blanket agreement by the Corporation's subsidiary banks.

See Note 4 of these Notes to Consolidated Financial Statements for the amount of investment securities that are pledged. See Note 9 of these Notes to Consolidated Financial Statements for the amount of commercial real estate and residential mortgage loans that are pledged to the FHLB.

11. SUBORDINATED DEBENTURES/NOTES

As part of the acquisition of Vision on March 9, 2007, Park became the successor to Vision under (i) the Amended and Restated Trust Agreement of Vision Bancshares Trust I (the "Trust"), dated as of December 5, 2005, (ii) the Junior Subordinated Indenture, dated as of December 5, 2005, and (iii) the Guarantee Agreement, also dated as of December 5, 2005.

On December 1, 2005, Vision formed a wholly-owned Delaware statutory business trust, Vision Bancshares Trust I ("Trust I"), which issued $15.0 million of the Trust's floating rate preferred securities (the "Trust Preferred Securities") to institutional investors. These Trust Preferred Securities qualify as Tier I capital under Federal Reserve Board guidelines. All of the common securities of Trust I are owned by Park. The proceeds from the issuance of the common securities and the Trust Preferred Securities were used by Trust I to purchase $15.5 million of junior subordinated notes, which carry a floating rate based on a three-month LIBOR plus 148 basis points. The debentures represent the sole asset of Trust I. The Trust Preferred Securities accrue and pay distributions at a floating rate of three-month LIBOR plus 148 basis points per annum. The Trust Preferred Securities are mandatorily redeemable upon maturity of the notes in December 2035, or upon earlier redemption as provided in the notes. Park has the right to redeem the notes purchased by Trust I in whole or in part, on or after December 30, 2010. As specified in the indenture, if the notes are redeemed prior to maturity, the redemption price will be the principal amount, plus any unpaid accrued interest.

In accordance with GAAP, Trust I is not consolidated with Park's financial statements, but rather the subordinated notes are reflected as a liability.

On December 28, 2007, one of Park's wholly-owned subsidiary banks, The Park National Bank ("PNB"), entered into a Subordinated Debenture Purchase Agreement with USB Capital Funding Corp. Under the terms of the Purchase Agreement, USB Capital Funding Corp. purchased from PNB a Subordinated Debenture dated December 28, 2007, in the principal amount of $25 million, which matures on December 29, 2017. The Subordinated Debenture is intended to qualify as Tier 2 capital under the applicable regulations of the Office of the Comptroller of the Currency of the United States of America (the "OCC"). The Subordinated Debenture accrues and pays interest at a floating rate of three-month LIBOR plus 200 basis points. The Subordinated Debenture may not be prepaid in any amount prior to December 28, 2012; however, subsequent to that date, PNB may prepay, without penalty, all or a portion of the principal amount outstanding in a minimum amount of $5 million or any larger multiple of $5 million. The three-month LIBOR rate was 0.30% at December 31, 2010. On January 2, 2008, Park entered into an interest rate swap transaction, which was designated as a cash flow hedge against the variability of cash flows related to the Subordinated Debenture of $25 million (see Note 19 of these Notes to Consolidated Financial Statements).

On December 23, 2009, Park entered into a Note Purchase Agreement, dated December 23, 2009, with 38 purchasers (the "Purchasers"). Under the terms of the Note Purchase Agreement, the Purchasers purchased from Park an aggregate principal amount of $35.25 million of 10% Subordinated Notes due December 23, 2019 (the "Notes"). The Notes are intended to qualify as Tier 2 Capital under applicable rules and regulations of the Board of Governors of the Federal

Reserve System (the “Federal Reserve Board”). The Notes may not be prepaid in any amount prior to December 23, 2014; however, subsequent to that date, Park may prepay, without penalty, all or a portion of the principal amount outstanding. Of the $35.25 million in Notes, $14.05 million were purchased by related parties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. STOCK OPTION PLAN
The Park National Corporation 2005 Incentive Stock Option Plan (the "2005 Plan") was adopted by the Board of Directors of Park on January 18, 2005, and was approved by the shareholders at the Annual Meeting of Shareholders on April 18, 2005. Under the 2005 Plan, 1,500,000 common shares are authorized for delivery upon the exercise of incentive stock options. All of the common shares delivered upon the exercise of incentive stock options granted under the 2005 Plan are to be treasury shares. At December 31, 2010, 1,421,925 common shares were available for future grants under the 2005 Plan. Under the terms of the 2005 Plan, incentive stock options may be granted at a price not less than the fair market value at the date of the grant, and for an option term of up to five years. No additional incentive stock options may be granted under the 2005 Plan after January 17, 2015.

The fair value of each incentive stock option granted is estimated on the date of grant using a closed form option valuation (Black-Scholes) model. Expected volatilities are based on historical volatilities of Park's common stock. The Corporation uses historical data to estimate option exercise behavior. The expected term of incentive stock options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the incentive stock options is based on the U.S. Treasury yield curve in effect at the time of the grant.

The activity in the 2005 Plan is listed in the following table for 2010:

	Number	Weighted Average Exercise Price per Share
January 1, 2010	254,892	$ 97.78
Granted	—	—
Exercised	—	—
Forfeited/Expired	176,817	107.85
December 31, 2010	78,075	$ 74.96
Exercisable at year end		78,075
Weighted-average remaining contractual life		1.94 years
Aggregate intrinsic value		$ 0

There were no options granted or exercised in 2010, 2009 or 2008. Additionally, no expense was recognized for 2010, 2009 or 2008.

13. BENEFIT PLANS
The Corporation has a noncontributory Defined Benefit Pension Plan (the "Pension Plan") covering substantially all of the employees of the Corporation and its subsidiaries. The Pension Plan provides benefits based on an employee's years of service and compensation.

The Corporation's funding policy is to contribute annually an amount that can be deducted for federal income tax purposes using a different actuarial cost method and different assumptions from those used for financial reporting purposes. Management made a $20 million contribution in January 2009, which was deductible on the 2008 tax return and as such was reflected as part of the deferred tax liabilities at December 31, 2008. In addition, management made a $10 million contribution in November 2009, which was deductible on the 2009 tax return and as such is reflected as part of deferred tax liabilities at December 31, 2009. Management contributed $2 million in September 2010, which will be deductible on the 2010 tax return and is reflected in deferred tax liabilities at December 31, 2010. In January 2011, management contributed $14 million, of which $12.4 million will be deductible on the 2010 tax return and $1.6

million on the 2011 tax return. The entire $12.4 million deductible on the 2010 tax return is reflected as part of the deferred tax liabilities at December 31, 2010. See Note 14 of these Notes to Consolidated Financial Statements. Park does not expect to make any additional contributions to the Pension Plan in 2011.

Using an accrual measurement date of December 31, 2010 and 2009, plan assets and benefit obligation activity for the Pension Plan are listed below:

(In thousands)	2010	2009
Change in fair value of plan assets		
Fair value at beginning of measurement period	$ 75,815	$ 38,506
Actual return on plan assets	11,296	11,689
Company contributions	2,000	30,000
Benefits paid	(3,647)	(4,380)
Fair value at end of measurement period	$ 85,464	$ 75,815
Change in benefit obligation		
Projected benefit obligation at beginning of measurement period	$ 60,342	$ 57,804
Service cost	3,671	3,813
Interest cost	3,583	3,432
Actuarial loss or (gain)	10,215	(327)
Benefits paid	(3,647)	(4,380)
Projected benefit obligation at the end of measurement period	$ 74,164	$ 60,342
Funded status at end of year (assets less benefit obligation)	$ 11,300	$ 15,473

The asset allocation for the Pension Plan as of the measurement date, by asset category, was as follows:

		Percentage of Plan Assets	
Asset Category	Target Allocation	2010	2009
Equity securities	50% – 100%	86%	83%
Fixed income and cash equivalents	remaining balance	14%	17%
Total	—	100%	100%

The investment policy, as established by the Retirement Plan Committee, is to invest assets according to the target allocation stated above. Assets will be reallocated periodically based on the investment strategy of the Retirement Plan Committee. The investment policy is reviewed periodically.

The expected long-term rate of return on plan assets was 7.75% in 2010 and 2009. This return was based on the expected return of each of the asset categories, weighted based on the median of the target allocation for each class.

The accumulated benefit obligation for the Pension Plan was $63.5 million and $52.6 million at December 31, 2010 and 2009, respectively.

On November 17, 2009, the Park Pension Plan completed the purchase of 115,800 common shares of Park for $7.0 million or $60.45 per share. At December 31, 2010 and 2009, the fair value of the 115,800 common shares held by the Pension Plan was $8.4 million, or $72.67 per share and $6.8 million, or $58.88 per share, respectively.

The weighted average assumptions used to determine benefit obligations at December 31, 2010 and December 31, 2009 were as follows:

	2010	2009
Discount rate	5.50%	6.00%

Rate of compensation increase	3.00%	3.00%

The estimated future pension benefit payments reflecting expected future service for the next ten years are shown below in thousands:

2011	$ 4,114
2012	4,372
2013	5,432
2014	5,957
2015	6,146
2016 – 2020	35,867
Total	$ 61,888

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table shows ending balances of accumulated other comprehensive income (loss) at December 31, 2010 and 2009.

(In thousands)	2010	2009
Prior service cost	$ (93)	$ (115)
Net actuarial loss	(24,410)	(20,654)
Total	(24,503)	(20,769)
Deferred taxes	8,576	7,269
Accumulated other comprehensive loss	$ (15,927)	$ (13,500)

Using an actuarial measurement date of December 31 for 2010, 2009 and 2008, components of net periodic benefit cost and other amounts recognized in other comprehensive income (loss) were as follows:

(In thousands)	2010	2009	2008
Components of net periodic benefit cost and other amounts recognized in Other Comprehensive Income (Loss)			
Service cost	$ (3,671)	$ (3,813)	$ (3,451)
Interest cost	(3,583)	(3,432)	(3,157)
Expected return on plan assets	5,867	4,487	4,608
Amortization of prior service cost	(22)	(34)	(34)
Recognized net actuarial loss	(1,079)	(2,041)	—
Net periodic benefit cost	$ (2,488)	$ (4,833)	$ (2,034)
Change to net actuarial (loss)/gain for the period	$ (4,835)	$ 7,591	$ (25,000)
Amortization of prior service cost	22	34	42
Amortization of net loss	1,079	2,041	—
Total recognized in other comprehensive (loss)/income	(3,734)	9,666	(24,958)
Total recognized in net benefit cost and other comprehensive (loss)/income	$ (6,222)	$ 4,833	$ (26,992)

The estimated prior service costs for the Pension Plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $20 thousand. The estimated net actuarial (loss) expected to be recognized in the next fiscal year is ($1.4) million.

The weighted average assumptions used to determine net periodic benefit cost for the years ended December 31, 2010 and 2009, are listed below:

	2010	2009
Discount rate	6.00%	6.00%
Rate of compensation increase	3.00%	3.00%
Expected long-term return on plan assets	7.75%	7.75%

Management believes the 7.75% expected long-term rate of return is an appropriate assumption given historical performance of the S&P 500 Index, which management believes is a good indicator of future performance of Pension Plan assets.

The Pension Plan maintains cash in a Park National Bank savings account, with a balance of $0.7 million at December 31, 2010.

GAAP defines fair value as the price that would be received by Park for an asset or paid by Park to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date, using the most advantageous market for the asset or liability. The fair values of equity securities, consisting of mutual fund investments and common stock held by the Pension Plan and the fixed income and cash equivalents, are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). The market value of Pension Plan assets at December 31, 2010 was $85.5 million. At December 31, 2010, $73.5 million of equity investments in the Pension Plan were categorized as Level 1 inputs; $12.0 million of plan investments in corporate and U.S. government agency bonds are categorized as Level 2 inputs, as fair value is based on quoted market prices of comparable instruments; and no investments are categorized as Level 3 inputs. The market value of Pension Plan assets was $75.8 million at December 31, 2009. At December 31, 2009, $63.0 million of investments in the Pension Plan were categorized as Level 1 inputs; $12.8 million were categorized as Level 2; and no investments were categorized as Level 3.

The Corporation has a voluntary salary deferral plan covering substantially all of the employees of the Corporation and its subsidiaries. Eligible employees may contribute a portion of their compensation subject to a maximum statutory limitation. The Corporation provides a matching contribution established annually by the Corporation. Contribution expense for the Corporation was $1.0 million, $1.5 million, and $2.0 million for 2010, 2009 and 2008, respectively.

The Corporation has a Supplemental Executive Retirement Plan (SERP) covering certain key officers of the Corporation and its subsidiaries with defined pension benefits in excess of limits imposed by federal tax law. At December 31, 2010 and 2009, the accrued benefit cost for the SERP totaled $7.2 million and $7.4 million, respectively. The expense for the Corporation was $0.5 million for both 2010 and 2009 and $0.6 million for 2008.

14. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's deferred tax assets and liabilities are as follows:

December 31 (in thousands)	2010	2009
Deferred tax assets:		
Allowance for loan losses	$ 43,958	$ 42,236
Accumulated other comprehensive loss – interest rate swap	572	519
Accumulated other comprehensive loss – pension plan	8,576	7,269
Intangible assets	2,156	2,756
Deferred compensation	4,123	4,348
OREO devaluations	6,174	2,380
State net operating loss carryforwards	2,812	1,725
Other	4,988	5,273
Valuation allowance	(712)	—
Total deferred tax assets	$ 72,647	$ 66,506
Deferred tax liabilities:		
Accumulated other comprehensive income – unrealized gains on securities	$ 8,142	$ 16,221
Deferred investment income	10,199	10,201
Pension plan	16,835	12,664
Mortgage servicing rights	3,671	3,773
Purchase accounting adjustments	2,150	3,228
Other	2,176	1,285
Total deferred tax liabilities	$ 43,173	$ 47,372
Net deferred tax assets	$ 29,474	$ 19,134

Park performs an analysis to determine if a valuation allowance against deferred tax assets is required in accordance with GAAP. Vision Bank is subject to state income tax in Alabama and Florida. A state tax benefit of $1.16 million was recorded by Vision Bank, consisting of a gross benefit of $2.26 million and a valuation allowance of $1.10 million. In the schedule of deferred taxes, the valuation allowance is shown net of the federal tax benefit of $384,000. Management has determined that the likelihood of realizing the full deferred tax asset on state net operating loss carryforwards fails to meet the more likely than not level. The net operating loss carryforward period for the state of Alabama and Florida are 8 years and 20 years, respectively. A merger of Vision Bank into Park National Bank would ensure the future utilization of the state net operating loss carryforward at Vision Bank. However, management is not certain when a merger of Vision Bank into Park National Bank can take place and as a result has decided to record a valuation allowance against new state tax benefit of losses at Vision Bank until management has a better understanding of the timing and likelihood of a merger of Vision Bank into Park National Bank.

Management has determined that it is not required to establish a valuation allowance against remaining deferred tax assets in accordance with GAAP since it is more likely than not that the deferred tax assets will be fully utilized in future periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The components of the provision for federal and state income taxes are shown below:

December 31 (in thousands)	2010	2009	2008
Currently payable			
Federal	$ 26,130	$ 32,148	$ 23,645
State	109	(273)	(44)
Deferred			
Federal	345	(6,745)	697
State	(2,366)	(2,187)	(2,287)
Valuation allowance			
Federal	—	—	—
State	1,096	—	—
Total	$ 25,314	$ 22,943	$ 22,011

The following is a reconciliation of federal income tax expense to the amount computed at the statutory rate of 35% for the years ended December 31, 2010, 2009 and 2008.

December 31	2010	2009	2008
Statutory federal corporate tax rate	35.0%	35.0%	35.0%
Changes in rates resulting from:			
Tax-exempt interest income, net of disallowed interest	(1.2)%	(1.3)%	(3.5)%
Bank owned life insurance	(1.8)%	(1.8)%	(5.0)%
Tax credits (low income housing)	(5.0)%	(4.8)%	(11.7)%
Goodwill impairment	—	—	50.7%
State income tax expense, net of federal benefit	(1.5)%	(1.6)%	(4.2)%
Valuation allowance, net of federal benefit	0.7%	—	—
Other	(0.8)%	(1.9)%	0.3%
Effective tax rate	25.4%	23.6%	61.6%

Park and its Ohio-based subsidiaries do not pay state income tax to the state of Ohio, but pay a franchise tax based on their year-end equity. The franchise tax expense is included in the state tax expense and is shown in "state taxes" on Park's Consolidated Statements of Income. Vision Bank is subject to state income tax, in the states of Alabama and Florida. State income tax benefit for Vision Bank is included in "income taxes" on Park's Consolidated Statements of Income. Vision Bank's 2010 state income tax benefit was $1.16 million, net of the recorded valuation allowance.

Unrecognized Tax Benefits

The following is a reconciliation of the beginning and ending amount of unrecognized tax benefits.

(In thousands)	2010	2009	2008
January 1 Balance	$ 595	$ 783	$ 828
Additions based on tax positions related to the current year	69	64	102
Additions for tax positions of prior years	7	—	18
Reductions for tax positions of prior years	(131)	(189)	(15)
Reductions due to statute of limitations	(63)	(63)	(150)
December 31 Balance	$ 477	$ 595	$ 783

The amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in the future periods at December 31, 2010, 2009 and 2008 was $370,000, $504,000 and $704,000, respectively. Park does not expect the total amount of unrecognized tax benefits to significantly increase or decrease during the next year.

The (income)/expense related to interest and penalties recorded in the Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008 was $(10,500), $(18,000) and $16,000, respectively. The amount accrued for interest and penalties at December 31, 2010, 2009 and 2008 was $60,500, $71,000 and $89,000, respectively.

Park and its subsidiaries are subject to U.S. federal income tax. Some of Park's subsidiaries are subject to state income tax in the following states: Alabama, Florida, California and Kentucky. Park is no longer subject to examination by federal or state taxing authorities for the tax year 2006 and the years prior.

The 2007 and 2008 federal income tax returns of Park National Corporation are currently under examination by the Internal Revenue Service. Additionally, the 2009 State of Ohio franchise tax return is currently under examination. Park does not expect material adjustments from the examinations.

15. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) components and related taxes are shown in the following table for the years ended December 31, 2010, 2009 and 2008.

Year ended December 31 (In thousands)	Before-Tax Amount	Tax Effect	Net-of-Tax Amount
2010:			
Unrealized losses on available-for-sale securities	$ (11,218)	$ (3,926)	$ (7,292)
Reclassification adjustment for gains realized in net income	(11,864)	(4,152)	(7,712)
Unrealized net holding loss on cash flow hedge	(151)	(53)	(98)
Changes in pension plan assets and benefit obligations recognized in Other Comprehensive Income	(3,734)	(1,307)	(2,427)
Other comprehensive loss	$ (26,967)	$ (9,438)	$ (17,529)
2009:			
Unrealized gains on available-for-sale securities	$ 5,012	$ 1,754	$ 3,258
Reclassification adjustment for gains realized in net income	(7,340)	(2,569)	(4,771)
Unrealized net holding gain on cash flow hedge	454	159	295
Changes in pension plan assets and benefit obligations recognized in Other Comprehensive Income	9,666	3,383	6,283
Other comprehensive income	$ 7,792	$ 2,727	$ 5,065
2008:			
Unrealized gains on available-for-sale securities	$ 48,324	$ 16,913	$ 31,411
Reclassification adjustment for gains realized in net income	(1,115)	(390)	(725)
Unrealized net holding loss on cash flow hedge	(1,937)	(678)	(1,259)
Changes in pension plan assets and benefit obligations recognized in Other Comprehensive Income	(24,958)	(8,735)	(16,223)
Other comprehensive income	$ 20,314	$ 7,110	$ 13,204

The ending balance of each component of accumulated other comprehensive income (loss) was as follows as of December 31:

(In thousands)	2010	2009
Pension benefit adjustments	$ (15,927)	$ (13,500)
Unrealized net holding loss on cash flow hedge	(1,062)	(964)

Unrealized net holding gains on AFS Securities	15,121	30,125
Total accumulated other comprehensive income (loss)	$ (1,868)	$ 15,661

F-22

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. EARNINGS PER COMMON SHARE

GAAP requires the reporting of basic and diluted earnings per common share. Basic earnings per common share excludes any dilutive effects of options, warrants and convertible securities.

The following table sets forth the computation of basic and diluted earnings per common share:

Year ended December 31 (in thousands, except per share data)	2010	2009	2008
Numerator:			
Net income available to common shareholders	$ 68,410	$ 68,430	$ 13,566
Denominator:			
Basic earnings per common share:			
Weighted-average shares	15,152,692	14,206,335	13,965,219
Effect of dilutive securities – stock options and warrants	3,043	—	114
Diluted earnings per common share:			
Adjusted weighted-average shares and assumed conversions	15,155,735	14,206,335	13,965,333
Earnings per common share:			
Basic earnings per common share	$ 4.51	$ 4.82	$ 0.97
Diluted earnings per common share	$ 4.51	$ 4.82	$ 0.97

As of December 31, 2010 and 2009, options to purchase 78,075 and 254,892 common shares, respectively, were outstanding under Park's 2005 Plan. A warrant to purchase 227,376 common shares was outstanding at both December 31, 2010 and 2009 as a result of Park's participation in the CPP. Warrants to purchase an aggregate of 71,984 common shares were outstanding at December 31, 2010 as a result of the issuance of common stock and warrants which closed on December 10, 2010. In addition, warrants to purchase an aggregate of 500,000 common shares were outstanding at December 31, 2009 as a result of the issuance of common stock and warrants which closed on October 30, 2009. All warrants issued on October 30, 2009 had been exercised or expired as of December 31, 2010.

The common shares represented by the options and the warrants at December 31, 2010 and 2009, totaling a weighted average of 382,445 and 642,405, respectively, were not included in the computation of diluted earnings per common share because the respective exercise prices exceeded the market value of the underlying common shares such that their inclusion would have had an anti-dilutive effect. The warrant to purchase 227,376 common shares is not included in the 382,445 at December 31, 2010, as the dilutive effect of this warrant pertaining to the CPP was 3,043 shares of common stock at December 31, 2010. The exercise price of this warrant is $65.97.

17. DIVIDEND RESTRICTIONS

Bank regulators limit the amount of dividends a subsidiary bank can declare in any calendar year without obtaining prior approval. At December 31, 2010, approximately $52.8 million of the total stockholders' equity of PNB was available for the payment of dividends to the Corporation, without approval by the applicable regulatory authorities. Vision Bank is currently not permitted to pay dividends to the Corporation.

18. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

The Corporation is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include loan commitments and standby letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Since many of the loan commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers.

The total amounts of off-balance sheet financial instruments with credit risk were as follows:

December 31 (in thousands)	2010	2009
Loan commitments	$ 716,598	$ 955,257
Standby letters of credit	24,462	36,340

The loan commitments are generally for variable rates of interest.

The Corporation grants retail, commercial and commercial real estate loans to customers primarily located in Ohio, Baldwin County, Alabama and the panhandle of Florida. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Although the Corporation has a diversified loan portfolio, a substantial portion of the borrowers' ability to honor their contracts is dependent upon the economic conditions in each borrower's geographic location and industry.

19. DERIVATIVE INSTRUMENTS

FASB ASC 815, Derivatives and Hedging, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by GAAP, the Company records all derivatives on the Consolidated Balance Sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivatives and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivatives is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified into earnings when the hedged transaction affects earnings, with any ineffective portion of changes in the fair value of the derivative recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transaction.

During the first quarter of 2008, the Company executed an interest rate swap to hedge a $25 million floating-rate subordinated note that was entered into by PNB during the fourth quarter of 2007. The Company's objective in using this derivative is to add stability to interest expense and to manage its exposure to interest rate risk. Our interest rate swap involves the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreement without exchange of the underlying principal amount, and has been designated as a cash flow hedge.

At December 31, 2010 and 2009, the interest rate swap's fair value of ($1.6) million and ($1.5) million, respectively, was included in other liabilities. No hedge ineffectiveness on the cash flow hedge was recognized during the twelve months ended December 31, 2010 or 2009. At December 31, 2010, the variable rate on the $25 million subordinated note was 2.30% (3-month LIBOR plus 200 basis points) and Park was paying 6.01% (4.01% fixed rate on the interest rate swap plus 200 basis points).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended December 31, 2010 and 2009, the change in the fair value of the interest rate swap reported in other comprehensive income was a loss of $98,000 (net of taxes of $53,000) and income of $295,000 (net of taxes of $159,000), respectively. Amounts reported in accumulated other comprehensive income related to the interest rate swap will be reclassified to interest expense as interest payments are made on the Company’s variable-rate debt.

As of December 31, 2010 and 2009, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Company does not use derivatives for trading or speculative purposes.

As of December 31, 2010 and December 31, 2009, Park had mortgage loan interest rate lock commitments outstanding of approximately $14.5 million and $17.5 million, respectively. Park has specific forward contracts to sell each of these loans to a third party investor. These loan commitments represent derivative instruments, which are required to be carried at fair value. The derivative instruments used are not designed as hedges under GAAP. The fair value of the derivative instruments was approximately $166,000 at December 31, 2010 and $214,000 at December 31, 2009. The fair value of the derivative instruments is included within loans held for sale and the corresponding income is included within non-yield loan fee income. Gains and losses resulting from expected sales of mortgage loans are recognized when the respective loan contract is entered into between the borrower, Park, and the third party investor. The fair value of Park’s mortgage interest rate lock commitments (IRLCs) is based on current secondary market pricing.

In connection with the sale of Park’s Class B Visa shares during the 2009 year, Park entered into a swap agreement with the purchaser of the shares. The swap agreement adjusts for dilution in the conversion ratio of Class B Visa shares resulting from certain Visa litigation. At December 31, 2010 and December 31, 2009, the fair value of the swap liability of $60,000 and $500,000, respectively, is an estimate of the exposure based upon probability-weighted potential Visa litigation losses.

20. LOAN SERVICING

Park serviced sold mortgage loans of $1,471 million at December 31, 2010 compared to $1,518 million at December 31, 2009, and $1,369 million at December 31, 2008. At December 31, 2010, $36.0 million of the sold mortgage loans were sold with recourse compared to $53 million at December 31, 2009. Management closely monitors the delinquency rates on the mortgage loans sold with recourse. At December 31, 2010, management determined that no liability was deemed necessary for these loans.

Park capitalized $3.1 million in mortgage servicing rights in 2010, $5.5 million in 2009 and $1.5 million in 2008. Park’s amortization of mortgage servicing rights was $3.2 million in 2010, $4.0 million in 2009 and $1.7 million in 2008. The amortization of mortgage loan servicing rights is included within “Other service income”. Generally, mortgage servicing rights are capitalized and amortized on an individual sold loan basis. When a sold mortgage loan is paid off, the related mortgage servicing rights are fully amortized.

Activity for mortgage servicing rights and the related valuation allowance follows:

December 31 (In thousands)	2010	2009
Mortgage servicing rights:		
Carrying amount, net, beginning of year	$ 10,780	$ 8,306
Additions	3,062	5,480
Amortization	(3,180)	(4,077)

Change in valuation allowance	(174)	1,071
Carrying amount, net, end of year	$ 10,488	$ 10,780
Valuation allowance:		
Beginning of year	$ 574	$ 1,645
Additions/(reductions) expensed	174	(1,071)
End of year	$ 748	$ 574

21. FAIR VALUES

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that Park uses to measure fair value are as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that Park has the ability to access as of the measurement date.

Level 2: Level 1 inputs for assets or liabilities that are not actively traded. Also consists of an observable market price for a similar asset or liability. This includes the use of "matrix pricing" used to value debt securities absent the exclusive use of quoted prices.

Level 3: Consists of unobservable inputs that are used to measure fair value when observable market inputs are not available. This could include the use of internally developed models, financial forecasting and similar inputs.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability between market participants at the balance sheet date. When possible, the Company looks to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, the Company looks to observable market data for similar assets and liabilities. However, certain assets and liabilities are not traded in observable markets and Park must use other valuation methods to develop a fair value. The fair value of impaired loans is based on the fair value of the underlying collateral, which is estimated through third party appraisals or internal estimates of collateral values.

Assets and Liabilities Measured on a Recurring Basis

The following table presents financial assets and liabilities measured on a recurring basis:

Fair Value Measurements at December 31, 2010 Using:

(In thousands)	Level 1	Level 2	Level 3	Balance at 12/31/10
ASSETS				
Investment Securities				
Obligations of U.S. Treasury and Other				
U.S. Government sponsored entities	$ —	$ 273,313	$ —	$ 273,313
Obligations of states and political subdivisions	—	8,446	2,598	11,044
U.S. Government sponsored entities' asset-backed securities	—	1,011,412	—	1,011,412
Equity securities	$ 1,008	—	745	1,753
Mortgage loans held for sale	—	8,340	—	8,340
Mortgage IRLCs	—	166	—	166
LIABILITIES				
Interest rate swap	$ —	$ (1,634)	$ —	$ (1,634)
Fair value swap	—	—	(60)	(60)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements at December 31, 2009 Using:

(In thousands)	Level 1	Level 2	Level 3	Balance at 12/31/09
ASSETS				
Investment Securities				
Obligations of U.S. Treasury and Other				
U.S. Government sponsored entities	$ —	$ 347,595	$ —	$ 347,595
Obligations of states and political subdivisions	—	12,916	2,751	15,667
U.S. Government sponsored entities' asset-backed securities	—	922,903	—	922,903
Equity securities	1,562	—	—	1,562
Mortgage loans held for sale	—	9,551	—	9,551
Mortgage IRLCs	—	214	—	214
LIABILITIES				
Interest rate swap	$ —	$ (1,483)	$ —	$ (1,483)
Fair value swap	—	—	(500)	(500)

The following methods and assumptions were used by the Corporation in determining fair value of the financial assets and liabilities discussed above:

Investment Securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The Fair Value Measurements tables exclude Park's Federal Home Loan Bank stock and Federal Reserve Bank stock. These assets are carried at their respective redemption values, as it is not practicable to calculate their fair values. For securities where quoted prices or market prices of similar securities are not available, which include municipal securities, fair values are calculated using discounted cash flows.

Interest Rate Swap: The fair value of the interest rate swap represents the estimated amount Park would pay or receive to terminate the agreement, considering current interest rates and the current creditworthiness of the counterparty.

Fair Value Swap: The fair value of the swap agreement entered into with the purchaser of the Visa Class B shares represents an internally developed estimate of the exposure based upon probability-weighted potential Visa litigation losses.

Interest Rate Lock Commitments (IRLCs): IRLCs are based on current secondary market pricing and are classified as Level 2.

Mortgage Loans Held for Sale: Mortgage loans held for sale are carried at their fair value. Mortgage loans held for sale are estimated using security prices for similar product types and, therefore, are classified in Level 2.

The table below is a reconciliation of the beginning and ending balances of the Level 3 inputs for the years ended December 31, 2010 and 2009, for financial instruments measured on a recurring basis and classified as Level 3:
Level 3 Fair Value Measurements

(in thousands)	Obligations of States and Political Subdivisions	Equity Securities	Fair Value Swap

Balance at December 31, 2009	$ 2,751	$ —	$ (500)
Total gains/(losses)			
Included in earnings – realized	—	—	—
Included in earnings – unrealized	—	—	—
Included in Other Comprehensive Income	(43)	—	—
Purchases, sales, issuances and settlements, other, net	(110)	—	—
Other	—	—	(440)
Transfers in and/or out of Level 3	—	745	—
Balance at December 31, 2010	$ 2,598	$ 745	$ (60)
Balance at December 31, 2008	$ 2,705	$ —	$ —
Total gains/(losses)			
Included in earnings	—	—	—
Included in Other Comprehensive Income	46	—	—
Fair value swap	—	—	(500)
Balance at December 31, 2009	$ 2,751	$ —	$ (500)

The fair value for several equity securities with a fair value of $745,000 as of December 31, 2010 was transferred out of Level 1 and into Level 3 because of a lack of observable market data for these investments. The Company's policy is to recognize transfers as of the end of the reporting period. As a result, the fair value for these equity securities was transferred on December 31, 2010.

Assets and Liabilities Measured on a Nonrecurring Basis

The following table presents financial assets and liabilities measured at fair value on a nonrecurring basis:

Fair Value Measurements at December 31, 2010 Using:

(In thousands)	(Level 1)	(Level 2)	(Level 3)	Balance at 12/31/10
Impaired loans:				
Commercial, financial and agricultural	$ —	$ —	$ 8,276	$ 8,276
Commercial real estate	—	—	32,354	32,354
Construction real estate:				
Vision commercial land and development	—	—	45,121	45,121
Remaining commercial	—	—	10,202	10,202
Residential real estate	—	—	15,304	15,304
Total impaired loans	$ —	$ —	$ 111,257	$ 111,257
Mortgage servicing rights	—	3,813	—	3,813
Other real estate owned	—	—	44,325	44,325

Fair Value Measurements at December 31, 2009 Using:

(In thousands)	(Level 1)	(Level 2)	(Level 3)	Balance at 12/31/09
Impaired loans	$ —	$ —	$ 109,818	$ 109,818
Mortgage servicing rights	—	10,780	—	10,780
Other real estate owned	—	—	41,240	41,240

Impaired loans, which are usually measured for impairment using the fair value of collateral or present value of expected future cash flows, had a book value of $250.9 million at December 31, 2010, after partial charge-offs of $53.6 million. In addition, these loans had a specific valuation allowance of $43.5 million. Of the $250.9 million impaired loan portfolio, loans with a book value of $154.7 million were carried at their fair value of $111.3 million, as a result of the aforementioned charge-offs and specific valuation allowance. The remaining $96.2 million of impaired loans were carried at cost, as the fair value of the underlying collateral or present value of expected future cash flows on these loans exceeded the book value for each individual credit. At December 31, 2009, impaired loans had a book value of $201.1 million. Of these, $109.8 million were carried at fair value, as a result of partial charge-offs of $43.4

million and a specific valuation allowance of $36.7 million. The remaining $91.3 million of impaired loans at December 31, 2009 were carried at cost.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mortgage servicing rights (MSRs), which are carried at the lower of cost or fair value, were recorded at $10.5 million at December 31, 2010. Of the $10.5 million MSR carrying balance at December 31, 2010, $3.8 million was recorded at fair value and included a valuation allowance of $748,000. The remaining $6.7 million was recorded at cost, as the fair value exceeded the cost at December 31, 2010. MSRs do not trade in active, open markets with readily observable prices. For example, sales of MSRs do occur, but precise terms and conditions typically are not readily available. As such, management, with the assistance of a third party specialist, determined fair value based on the discounted value of the future cash flows estimated to be received. Significant inputs include the discount rate and assumed prepayment speeds utilized. The calculated fair value was then compared to market vales where possible to ascertain the reasonableness of the valuation in relation to current market expectations for similar products. Accordingly, MSRs are classified in Level 2. At December 31, 2009, MSRs were recorded at a fair value of $10.8 million, including a valuation allowance of $574,000.

Other real estate owned (OREO) is recorded at fair value based on property appraisals, less estimated selling costs, at the date of transfer. The carrying value of OREO is not re-measured to fair value on a recurring basis, but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs. At December 31, 2010 and 2009, the estimated fair value of OREO, less estimated selling costs amounted to $44.3 million and $41.2 million, respectively. The financial impact of OREO valuation adjustments for the year ended December 31, 2010 was $10.6 million.

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for assets and liabilities not discussed above:

Cash and cash equivalents: The carrying amounts reported in the Consolidated Balance Sheets for cash and short-term instruments approximate those assets' fair values.

Interest bearing deposits with other banks: The carrying amounts reported in the Consolidated Balance Sheets for interest bearing deposits with other banks approximate those assets' fair values.

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for certain mortgage loans (e.g., one-to-four family residential) are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. The fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Off-balance sheet instruments: Fair values for the Corporation's loan commitments and standby letters of credit are based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The carrying amount and fair value were not material.

Deposit liabilities: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts for variable-rate, fixed-term certificates of deposit approximate their fair values at the reporting date. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities of time deposits.

Short-term borrowings: The carrying amounts of federal funds purchased, borrowings under repurchase agreements and other short-term borrowings approximate their fair values.

Long-term debt: Fair values for long-term debt are estimated using a discounted cash flow calculation that applies interest rates currently being offered on long-term debt to a schedule of monthly maturities.

Subordinated debentures/notes: Fair values for subordinated debentures and notes are estimated using a discounted cash flow calculation that applies interest rate spreads currently being offered on similar debt structures to a schedule of monthly maturities.

The fair value of financial instruments at December 31, 2010 and December 31, 2009, was as follows:

December 31, (In thousands)	2010 Carrying Value	2010 Fair Value	2009 Carrying Value	2009 Fair Value
Financial assets:				
Cash and money market instruments	$ 133,780	$ 133,780	$ 159,091	$ 159,091
Investment securities	1,971,092	1,983,636	1,794,641	1,811,177
Accrued interest receivable	24,137	24,137	24,354	24,354
Mortgage loans held for sale	8,340	8,340	9,551	9,551
Impaired loans carried at fair value	111,257	111,257	109,818	109,818
Other loans	4,491,691	4,511,419	4,404,346	4,411,526
Loans receivable, net	$ 4,611,288	$ 4,631,016	$ 4,523,715	$ 4,530,895
Financial liabilities:				
Noninterest bearing checking	$ 937,719	$ 937,719	$ 897,243	$ 897,243
Interest bearing transaction accounts	1,283,159	1,283,159	1,193,845	1,193,845
Savings	899,288	899,288	873,137	873,137
Time deposits	1,973,903	1,990,163	2,222,537	2,234,599
Other	1,351	1,351	1,290	1,290
Total deposits	$ 5,095,420	$ 5,111,680	$ 5,188,052	$ 5,200,114
Short-term borrowings	663,669	663,669	324,219	324,219
Long-term debt	636,733	699,080	654,381	703,699
Subordinated debentures/notes	75,250	63,099	75,250	64,262
Accrued interest payable	6,123	6,123	9,330	9,330
Derivative financial instruments:				
Interest rate swap	$ 1,634	$ 1,634	$ 1,483	$ 1,483
Fair value swap	60	60	500	500

22. CAPITAL RATIOS

At December 31, 2010 and 2009, the Corporation and each of its two separately chartered banks had Tier 1, total risk-based capital and leverage ratios which were well above both the required minimum levels of 4.00%, 8.00% and 4.00%, respectively, and the well-capitalized levels of 6.00%, 10.00% and 5.00%, respectively.

The following table indicates the capital ratios for Park and each subsidiary at December 31, 2010 and December 31, 2009.

	2010 Tier 1 Risk-Based	2010 Total Risk-Based	2010 Leverage	2009 Tier 1 Risk-Based	2009 Total Risk-Based	2009 Leverage
Park National Bank	9.43%	11.38%	6.68%	8.81%	10.89%	6.27%
Vision Bank	18.22%	19.55%	14.05%	13.15%	14.46%	10.77%
Park	13.52%	15.98%	9.77%	12.45%	14.89%	9.04%

Failure to meet the minimum requirements above could cause the Federal Reserve Board to take action. Park's bank subsidiaries are also subject to these capital requirements by their primary regulators. As of December 31, 2010 and 2009, Park and its banking subsidiaries were well-capitalized and met all capital requirements to which each was subject. There are no conditions or events since the most recent regulatory report filings, by PNB or Vision Bank ("VB"), that management believes have changed the risk categories for either of the two banks.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table reflects various measures of capital for Park and each of PNB and VB:

(In thousands)	Actual Amount	Ratio	To Be Adequately Capitalized Amount	Ratio	To Be Well Capitalized Amount	Ratio
At December 31, 2010:						
Total risk-based capital (to risk-weighted assets)						
PNB	$ 495,668	11.38%	$ 348,452	8.00%	$ 435,565	10.00%
VB (1)	122,803	19.55%	50,249	8.00%	62,812	10.00%
Park	802,324	15.98%	401,590	8.00%	501,988	10.00%
Tier 1 risk-based capital (to risk-weighted assets)						
PNB	$ 410,879	9.43%	$ 174,226	4.00%	$ 261,339	6.00%
VB	114,471	18.22%	25,125	4.00%	37,687	6.00%
Park	678,506	13.52%	200,795	4.00%	301,193	6.00%
Leverage ratio (to average total assets)						
PNB	$ 410,879	6.68%	$ 246,084	4.00%	$ 307,605	5.00%
VB (1)	114,471	14.05%	32,585	4.00%	40,732	5.00%
Park	678,506	9.77%	277,824	4.00%	347,280	5.00%
At December 31, 2009:						
Total risk-based capital (to risk-weighted assets)						
PNB	$ 473,694	10.89%	$ 348,013	8.00%	$ 435,016	10.00%
VB	103,819	14.46%	57,454	8.00%	71,817	10.00%
Park	758,291	14.89%	407,366	8.00%	509,207	10.00%
Tier 1 risk-based capital (to risk-weighted assets)						
PNB	$ 383,296	8.81%	$ 174,006	4.00%	$ 261,010	6.00%
VB	94,408	13.15%	28,727	4.00%	43,090	6.00%
Park	633,726	12.45%	203,683	4.00%	305,524	6.00%
Leverage ratio (to average total assets)						
PNB	$ 383,296	6.27%	$ 244,368	4.00%	$ 305,460	5.00%
VB	94,408	10.77%	35,054	4.00%	43,818	5.00%
Park	633,726	9.04%	280,286	4.00%	350,357	5.00%

(1) Park management has agreed to maintain Vision Bank's total risk-based capital at 16.00% and the leverage ratio at 12.00%.

23. SEGMENT INFORMATION

The Corporation is a multi-bank holding company headquartered in Newark, Ohio. The operating segments for the Corporation are its two chartered bank subsidiaries, The Park National Bank (headquartered in Newark, Ohio) ("PNB") and Vision Bank (headquartered in Panama City, Florida) ("VB"). Guardian Financial Services Company ("GFSC") is a consumer finance company and is excluded from PNB for segment reporting purposes. GFSC is included within the presentation of "All Other" in the segment reporting tables that follow. During the third quarter of 2008, Park combined the eight separately chartered Ohio-based bank subsidiaries into one national bank charter, that of The Park National Bank. Prior to the charter mergers that were consummated in the third quarter of 2008, Park considered each of its nine chartered bank subsidiaries as a separate segment for financial reporting purposes. GAAP requires management to disclose information about the different types of business activities in which a company engages and also information on the different economic environments in which a company operates, so that the users of the financial statements can better understand a company's performance, better understand the potential for future cash flows, and make more informed judgments about the company as a whole. The change to two operating segments is in line with GAAP as there are: (i) two separate and distinct geographic markets in which Park operates; (ii) discrete financial information is available for each operating segment; and (iii) the segments are aligned with internal reporting to Park's Chief Executive Officer, who is the chief operating decision maker.

Operating Results for the year ended December 31, 2010 (In thousands)

	PNB	VB	All Other	Total
Net interest income	$ 237,281	$ 27,867	$ 8,896	$ 274,044
Provision for loan losses	23,474	39,229	2,199	64,902
Other income (loss)	80,512	(3,407)	391	77,496
Other expense	144,051	31,623	11,433	187,107
Income (loss) before taxes	150,268	(46,392)	(4,345)	99,531
Income taxes (benefit)	47,320	(17,095)	(4,911)	25,314
Net income (loss)	$ 102,948	$ (29,297)	$ 566	$ 74,217
Balances at December 31, 2010:				
Assets	$ 6,495,558	$ 808,061	$ (5,242)	$ 7,298,377
Loans	4,074,775	640,580	17,330	4,732,685
Deposits	4,622,693	633,432	(160,705)	5,095,420

Operating Results for the year ended December 31, 2009 (In thousands)

	PNB	VB	All Other	Total
Net interest income	$ 236,107	$ 25,634	$ 11,750	$ 273,491
Provision for loan losses	22,339	44,430	2,052	68,821
Other income (loss)	82,770	(2,047)	467	81,190
Other expense	148,048	28,091	12,586	188,725
Income (loss) before taxes	148,490	(48,934)	(2,421)	97,135
Income taxes (benefit)	47,032	(18,824)	(5,265)	22,943
Net income (loss)	$ 101,458	$ (30,110)	$ 2,844	$ 74,192
Balances at December 31, 2009:				
Assets	$ 6,182,257	$ 897,981	$ (39,909)	$ 7,040,329
Loans	3,950,599	677,018	12,815	4,640,432
Deposits	4,670,113	688,900	$ (170,961)	5,188,052

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Operating Results for the year ended December 31, 2008 (In thousands)

	PNB	VB	All Other	Total
Net interest income	$ 219,843	$ 27,065	$ 8,965	$ 255,873
Provision for loan losses	21,512	46,963	2,012	70,487
Other income	81,310	3,014	510	84,834
Goodwill impairment charge	—	54,986	—	54,986
Other expense	137,295	27,149	15,071	179,515
Income (loss) before taxes	142,346	(99,019)	(7,608)	35,719
Income taxes (benefit)	47,081	(17,832)	(7,238)	22,011
Net income (loss)	$ 95,265	$ (81,187)	$ (370)	$ 13,708
Balances at December 31, 2008:				
Assets	$ 6,243,365	$ 917,041	$ (89,686)	$ 7,070,720
Loans	3,790,867	690,472	9,998	4,491,337
Deposits	4,210,439	636,635	(85,324)	4,761,750

Reconciliation of financial information for the reportable segments to the Corporation’s consolidated totals:

(In thousands)	Net Interest Income	Depreciation Expense	Other Expense	Income Taxes	Assets	Deposits
2010:						
Totals for reportable segments	$ 265,148	$ 7,109	$ 168,565	$ 30,225	$ 7,303,619	$ 5,256,125
Elimination of intersegment items	—	—	—	—	(77,876)	(160,705)
Parent Co. and GFC totals – not eliminated	8,896	17	11,416	(4,911)	72,634	—
Totals	$ 274,044	$ 7,126	$ 179,981	$ 25,314	$ 7,298,377	$ 5,095,420
2009:						
Totals for reportable segments	$ 261,741	$ 7,451	$ 168,688	$ 28,208	$ 7,080,238	$ 5,359,013
Elimination of intersegment items	—	—	—	—	(114,214)	(170,961)
Parent Co. and GFC totals – not eliminated	11,750	22	12,564	(5,265)	74,305	—
Totals	$ 273,491	$ 7,473	$ 181,252	$ 22,943	$ 7,040,329	$ 5,188,052
2008:						
Totals for reportable segments	$ 246,908	$ 7,488	$ 211,942	$ 29,249	$ 7,160,406	$ 4,847,074
Elimination of intersegment items	—	—	—	—	(186,809)	(85,324)
Parent Co. and GFC totals – not eliminated	8,965	29	15,042	(7,238)	97,123	—
Totals	$ 255,873	$ 7,517	$ 226,984	$ 22,011	$ 7,070,720	$ 4,761,750

24. PARENT COMPANY STATEMENTS

The Parent Company statements should be read in conjunction with the consolidated financial statements and the information set forth below.

Investments in subsidiaries are accounted for using the equity method of accounting.

The effective tax rate for the Parent Company is substantially less than the statutory rate due principally to tax-exempt dividends from subsidiaries.

Cash represents noninterest bearing deposits with a bank subsidiary.

Net cash provided by operating activities reflects cash payments (received from subsidiaries) for income taxes of $5.97 million, $5.22 million and $8.23 million in 2010, 2009 and 2008, respectively.

At December 31, 2010 and 2009, stockholders' equity reflected in the Parent Company balance sheet includes $143 million and $125 million, respectively, of undistributed earnings of the Corporation's subsidiaries which are restricted from transfer as dividends to the Corporation.

Balance Sheets
December 31, 2010 and 2009

(In thousands)	2010	2009
Assets:		
Cash	$ 160,011	$ 155,908
Investment in subsidiaries	617,317	587,309
Debentures receivable from subsidiary banks	5,000	7,500
Other investments	1,451	1,288
Other assets	69,845	76,821
Total assets	$ 853,624	$ 828,826
Liabilities:		
Dividends payable	$ —	$ 651
Subordinated notes	50,250	50,250
Other liabilities	57,550	60,661
Total liabilities	107,800	111,562
Total stockholders' equity	745,824	717,264
Total liabilities and stockholders' equity	$ 853,624	$ 828,826

Statements of Income
for the years ended December 31, 2010, 2009 and 2008

(In thousands)	2010	2009	2008
Income:			
Dividends from subsidiaries	$ 80,000	$ 75,000	$ 93,850
Interest and dividends	4,789	4,715	3,639
Other	411	489	575
Total income	85,200	80,204	98,064
Expense:			
Other, net	12,632	10,322	14,158
Total expense	12,632	10,322	14,158
Income before federal taxes and equity in undistributed losses of subsidiaries	72,568	69,882	83,906
Federal income tax benefit	5,993	6,210	8,057
Income before equity in undistributed losses of subsidiaries	78,561	76,092	91,963
Equity in undistributed losses of subsidiaries	(4,344)	(1,900)	(78,255)
Net income	$ 74,217	$ 74,192	$ 13,708

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Statements of Cash Flows
for the years ended December 31, 2010, 2009 and 2008

(In thousands)	2010	2009	2008
Operating activities:			
Net income	$ 74,217	$ 74,192	$ 13,708
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed losses of subsidiaries	4,344	1,900	78,255
Other than temporary impairment charge, investments	23	140	774
Decrease (increase) in other assets	7,321	(18,420)	9,244
(Decrease) increase in other liabilities	(3,763)	24,178	2,042
Net cash provided by operating activities	82,142	81,990	104,023
Investing activities:			
Purchase of investment securities	—	(113)	(158)
Capital contribution to subsidiary	(52,000)	(37,000)	(76,000)
Repayment of debentures receivable from subsidiaries	2,500	—	—
Net cash used in investing activities	(49,500)	(37,113)	(76,158)
Financing activities:			
Cash dividends paid	$ (62,076)	$ (58,035)	$ (65,781)
Proceeds from issuance of common stock and warrants	33,541	53,475	—
Proceeds from issuance of subordinated notes	—	35,250	—
Cash payment for fractional shares	(4)	(2)	(3)
Proceeds from issuance of preferred stock	—	—	95,721
Net cash (used in) provided by financing activities	(28,539)	30,688	29,937
Increase in cash	4,103	75,565	57,802
Cash at beginning of year	155,908	80,343	22,541
Cash at end of year	$ 160,011	$ 155,908	$ 80,343

25. PARTICIPATION IN THE U.S. TREASURY CAPITAL PURCHASE PROGRAM

On December 23, 2008, Park issued $100 million of cumulative perpetual preferred shares, with a liquidation preference of $1,000 per share (the “Senior Preferred Shares”). The Senior Preferred Shares constitute Tier 1 capital and rank senior to Park’s common shares. The Senior Preferred Shares pay cumulative dividends at a rate of 5% per annum through February 14, 2014 and will reset to a rate of 9% per annum thereafter. For the year ended December 31, 2010, Park recognized a charge to retained earnings of $5.8 million representing the preferred stock dividend and accretion of the discount on the preferred stock, associated with its participation in the CPP.

As part of its participation in the CPP, Park also issued a warrant to the U.S. Treasury to purchase 227,376 common shares, which is equal to 15% of the aggregate amount of the Senior Preferred Shares purchased by the U.S. Treasury, having an exercise price of $65.97. The initial exercise price for the warrant and the market price for determining the number of common shares subject to the warrant were determined by reference to the market price of the common shares on the date the Company’s application for participation in the CPP was approved by the United States Department of the Treasury (calculated on a 20-day trailing average). The warrant has a term of 10 years.

A company that participates in the CPP must adopt certain standards for compensation and corporate governance, established under the American Recovery and Reinvestment Act of 2009 (the “ARRA”), which amended and replaced the executive compensation provisions of the Emergency Economic Stabilization Act of 2008 (“EESA”) in their entirety, and the Interim Final Rule promulgated by the Secretary of the U.S. Treasury under 31 C.F.R. Part 30 (collectively, the "Troubled Asset Relief Program (TARP) Compensation Standards"). In addition, Park's ability to declare or pay dividends on or repurchase its common shares is partially restricted as a result of its participation in the CPP.

26. SALE OF COMMON SHARES AND ISSUANCE OF COMMON STOCK WARRANTS

During 2009, Park sold a total of 904,072 common shares, out of treasury shares, and issued, in conjunction with the October 30, 2009 registered public offering, 500,000 Series A/Series B Common Share Warrants. The common shares were issued at a weighted average sales price of $61.20 with net proceeds of $53.6 million. Through December 31, 2009, there were no exercises of the Series A/Series B Common Share Warrants.

During the year ended December 31, 2010, 437,200 common shares were issued upon the exercise of the Series A and Series B Common Share Warrants at a price of $67.75 per common share. Park raised $28.7 million, net of all selling costs, from the sale of the 437,200 common shares. The remaining portion of the Series B Common Share Warrants Park issued in October 2009 (covering 62,800 common shares) expired on October 30, 2010.

In addition, on December 10, 2010, Park sold, in a registered direct public offering, 71,984 common shares, out of treasury shares, for gross proceeds of $5.0 million. In addition to the common shares, Park also issued:

Series A Common Share Warrants, which are exercisable within six months of the closing date, to purchase up to an aggregate of 35,992 common shares at an exercise price of $76.41.

Series B Common Share Warrants, which are exercisable within twelve months of the closing date, to purchase up to an aggregate of 35,922 common shares at an exercise price of $76.41.

Net proceeds (net of all selling and legal expenses) from the December 10, 2010 sale of 71,984 Common Shares and Series A/Series B Common Share Warrants was $4.8 million. Through December 31, 2010, there were no exercises of the Series A/Series B Common Share Warrants issued in this registered direct public offering.

27. REGULATORY MATTERS

Management of Vision Bank received reports of examination from the Federal Deposit Insurance Corporation ("FDIC") and the Office of Financial Regulation ("OFR") on August 1, 2011 and August 29, 2011, respectively. The FDIC and the OFR have taken exception to approximately $18 million of expected cash flows from guarantors underlying certain impaired commercial loans, which had been incorporated into our analysis of the allowance for loan losses at Vision Bank. Additionally, Park received the report of inspection from the Federal Reserve Bank of Cleveland on September 14, 2011, whose findings as of their June 30, 2011 inspection date were consistent regarding the use of cash flows expected from guarantors in management's impairment analysis under ASC 310. Management intends to appeal the findings from the FDIC, OFR and Federal Reserve Bank of Cleveland. It remains possible that management could be required to re-file the December 31, 2010 call report for Vision Bank if we are unsuccessful upon appeal.

As a result of the preliminary examination findings communicated by the FDIC and OFR, management initiated a thorough review of those cash flows expected from guarantors and incorporated into our impairment analysis for certain impaired commercial loans at Vision Bank as of December 31, 2010. As a result of this review, management determined no changes were necessary to the Company's statements of condition or results of operations as of and for the fiscal year ended December 31, 2010.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

With the participation of the Chairman of the Board and Chief Executive Officer (the principal executive officer) and the Chief Financial Officer (the principal financial officer) of Park, Park's management has evaluated the effectiveness of Park's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the fiscal year covered by this Annual Report on Form 10-K. Based on that evaluation, Park's Chairman of the Board and Chief Executive Officer and Park's Chief Financial Officer have concluded that:

- information required to be disclosed by Park in this Annual Report on Form 10-K and the other reports that Park files or submits under the Exchange Act would be accumulated and communicated to Park's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure;

- information required to be disclosed by Park in this Annual Report on Form 10-K and the other reports that Park files or submits under the Exchange Act would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and

- Park's disclosure controls and procedures were effective as of the end of the fiscal year covered by this Annual Report on Form 10-K.

Management's Annual Report on Internal Control over Financial Reporting

The "Management's Report on Internal Control Over Financial Reporting" on page 5 hereof is incorporated herein by reference.

Attestation Report of the Registered Public Accounting Firm

The "Report of Independent Registered Public Accounting Firm" on page F-1 hereof is incorporated herein by reference.

Changes in Internal Control over Financial Reporting

There were no changes in Park's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Park's fiscal quarter ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, Park's internal control over financial reporting.

Please see the discussion under the caption "EXPLANATORY NOTE – Remediation of the Material Weakness", on page 3 hereof, of the changes and enhancements to Park's internal control processes that have occurred since December 31, 2010, which process improvements management believes represent significant progress in addressing the material weakness that existed at December 31, 2010 as described in "Management's Report on Internal Control Over Financial Reporting" on page 5 hereof.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)(1) Financial Statements.

The consolidated financial statements (and report thereon) listed below are filed as part of this Annual Report on Form 10-K/A in "Item 8. Financial Statements and Supplementary Data":

Report of Independent Registered Public Accounting Firm (Crowe Horwath LLP)

Consolidated Balance Sheets at December 31, 2010 and 2009

Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2010, 2009 and 2008

Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008

Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules.

All schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are inapplicable and have been omitted.

(a)(3) Exhibits.

The documents listed below are filed with this Annual Report on Form 10-K/A as exhibits or incorporated into this Annual Report on Form 10-K/A by reference as noted:

Exhibit No.	Description of Exhibit
3.1(a)	Articles of Incorporation of Park National Corporation as filed with the Ohio Secretary of State on March 24, 1992 (incorporated herein by reference to Exhibit 3(a) to Park National Corporation's Form 8-B, filed on May 20, 1992 (File No. 0-18772) ("Park's Form 8-B"))
3.1(b)	Certificate of Amendment to the Articles of Incorporation of Park National Corporation as filed with the Ohio Secretary of State on May 6, 1993 (incorporated herein by reference to Exhibit 3(b) to Park National Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 (File No. 0-18772))

7

3.1(c)	Certificate of Amendment to the Articles of Incorporation of Park National Corporation as filed with the Ohio Secretary of State on April 16, 1996 (incorporated herein by reference to Exhibit 3(a) to Park National Corporation's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1996 (File No. 1-13006))
3.1(d)	Certificate of Amendment by Shareholders to the Articles of Incorporation of Park National Corporation as filed with the Ohio Secretary of State on April 22, 1997 (incorporated herein by reference to Exhibit 3(a)(1) to Park National Corporation's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997 (File No. 1-13006) ("Park's June 30, 1997 Form 10-Q"))
3.1(e)	Certificate of Amendment by Shareholders or Members as filed with the Secretary of State of the State of Ohio on December 18, 2008 in order to evidence the adoption by the shareholders of Park National Corporation on December 18, 2008 of an amendment to Article FOURTH of Park National Corporation's Articles of Incorporation to authorize Park National Corporation to issue up to 200,000 preferred shares, without par value (incorporated herein by reference to Exhibit 3.1 to Park National Corporation's Current Report on Form 8-K dated and filed December 19, 2008 (File No. 1-13006))
3.1(f)	Certificate of Amendment by Directors or Incorporators to Articles as filed with the Secretary of State of the State of Ohio on December 19, 2008, evidencing adoption of amendment by Board of Directors of Park National Corporation to Article FOURTH of Articles of Incorporation to establish express terms of Fixed Rate Cumulative Perpetual Preferred Shares, Series A, each without par value, of Park National Corporation (incorporated herein by reference to Exhibit 3.1 to Park National Corporation's Current Report on Form 8-K dated and filed December 23, 2008 (File No. 1-13006) ("Park's December 23, 2008 Form 8-K"))
3.1(g)	Articles of Incorporation of Park National Corporation (reflecting amendments through December 19, 2008) [for SEC reporting compliance purposes only – not filed with Ohio Secretary of State] (incorporated herein by reference to Exhibit 3.1(g) to Park National Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (File No. 1-13006) ("Park's 2008 Form 10-K"))
3.2(a)	Regulations of Park National Corporation (incorporated herein by reference to Exhibit 3(b) to Park's Form 8-B)
3.2(b)	Certified Resolution regarding Adoption of Amendment to Subsection 2.02(A) of the Regulations of Park National Corporation by Shareholders on April 21, 1997 (incorporated herein by reference to Exhibit 3(b)(1) to Park's June 30, 1997 Form 10-Q)
3.2(c)	Certificate Regarding Adoption of Amendments to Sections 1.04 and 1.11 of Park National Corporation's Regulations by the Shareholders on April 17, 2006 (incorporated herein by reference to Exhibit 3.1 to Park National Corporation's Current Report on Form 8-K dated and filed on April 18, 2006 (File No. 1-13006))
3.2(d)	Certificate Regarding Adoption by the Shareholders of Park National Corporation on April 21, 2008 of Amendment to Regulations to Add New Section 5.10 to Article FIVE (incorporated herein by reference to Exhibit 3.2(d) to Park National Corporation's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008 ("Park's March 31, 2008 Form 10-Q") (File No. 1-13006))
3.2(e)	Regulations of Park National Corporation (reflecting amendments through April 21, 2008) [For purposes of SEC reporting compliance only] (incorporated herein by reference to Exhibit 3.2 (e) to

Park's March 31, 2008 Form 10-Q)

8

4.1(a)	Junior Subordinated Indenture, dated as of December 5, 2005, between Vision Bancshares, Inc. and Wilmington Trust Company, as Trustee (incorporated herein by reference to Exhibit 10.16 to Vision Bancshares, Inc.'s Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005 (File No. 000-50719))
4.1(b)	First Supplemental Indenture, dated to be effective as of 6:00 p.m., Eastern Standard Time, on March 9, 2007, among Wilmington Trust Company, as Trustee; Park National Corporation; and Vision Bancshares, Inc. (incorporated herein by reference to Exhibit 4.1(b) to Park National Corporation's Current Report on Form 8-K dated and filed March 15, 2007 (File No. 1-13006) ("Park's March 15, 2007 Form 8-K"))
4.2(a)	Amended and Restated Trust Agreement, dated as of December 5, 2005, among Vision Bancshares, Inc., as Depositor; Wilmington Trust Company, as Property Trustee and as Delaware Trustee; and the Administrative Trustees named therein, in respect of Vision Bancshares Trust I (incorporated herein by reference to Exhibit 10.15 to Vision Bancshares, Inc.'s Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005 (File No. 000-50719))
	Note: Pursuant to the First Supplemental Indenture, dated to be effective as of 6:00 p.m., Eastern Standard Time, on March 9, 2007, among Wilmington Trust Company, as Trustee; Park National Corporation; and Vision Bancshares, Inc., Park National Corporation succeeded to and was substituted for Vision Bancshares, Inc. as "Depositor"
4.2(b)	Notice of Resignation of Administrative Trustees and Appointment of Successors, dated March 9, 2007, delivered to Wilmington Trust Company by the Resigning Administrative Trustees named therein, the Successor Administrative Trustees named therein and Park National Corporation (incorporated herein by reference to Exhibit 4.2(b) to Park's March 15, 2007 Form 8-K)
4.3	Guarantee Agreement, dated as of December 5, 2005, between Vision Bancshares, Inc., as Guarantor, and Wilmington Trust Company, as Guarantee Trustee, in respect of Vision Bancshares Trust I (incorporated herein by reference to Exhibit 10.17 to Vision Bancshares, Inc.'s Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005 (File No. 000-50719))
	Note: Pursuant to the First Supplemental Indenture, dated to be effective as of 6:00 p.m., Eastern Standard Time, on March 9, 2007, among Wilmington Trust Company, as Trustee; Park National Corporation; and Vision Bancshares, Inc., Park National Corporation succeeded to and was substituted for Vision Bancshares, Inc. as "Guarantor"
4.4	Subordinated Debenture, dated December 28, 2007, in the principal amount of $25,000,000, issued by The Park National Bank to USB Capital Funding Corp. (incorporated herein by reference to Park National Corporation's Current Report on Form 8-K dated and filed on January 2, 2008 ("Park's January 2, 2008 Form 8-K"))
4.5	Warrant to Purchase 227,376 Shares of Common Stock (Common Shares) of Park National Corporation issued to the United States Department of the Treasury on December 23, 2008 (incorporated herein by reference to Exhibit 4.1 to Park's December 23, 2008 Form 8-K)
4.6	Letter Agreement, dated December 23, 2008, including Securities Purchase Agreement – Standard Terms attached thereto as Exhibit A, between Park National Corporation and the United States Department of the Treasury (incorporated herein by reference to Exhibit 10.1 to Park's December 23, 2008 Form 8-K)

[NOTE: Annex A to Securities Purchase Agreement is not included therewith; filed as Exhibit 3.1 to Park's December 23, 2008 Form 8-K and incorporated by reference at Exhibit 3.1(f) of this Annual Report on Form 10-K/A]

4.7	Form of Series A / Series B Common Share Warrant (incorporated herein by reference to Exhibit 4.1 to Park National Corporation's Current Report on Form 8-K dated and filed on October 28, 2009 (File No. 1-13006) ("Park's October 28, 2009 Form 8-K"))
4.8	Note Purchase Agreement, dated December 23, 2009, between Park National Corporation and 38 accredited investors (incorporated herein by reference to Exhibit 4.1 to Park National Corporation's Current Report on Form 8-K dated and filed on December 28, 2009 (File No. 1-13006) ("Park's December 28, 2009 Form 8-K"))
4.9	Form of 10% Subordinated Note due December 23, 2019 (incorporated herein by reference to Exhibit 4.2 to Park's December 28, 2009 Form 8-K)
4.10	Form of Series A / Series B Common Share Warrant (incorporated herein by reference to Exhibit 4.1 to Park National Corporation's Current Report on Form 8-K dated and filed on December 8, 2010 (File No. 1-13006) ("Park's December 8, 2010 Form 8-K"))
4.11	Agreement to furnish instruments and agreements defining rights of holders of long-term debt (previously filed as Exhibit 4.11 to the Annual Report on Form 10-K of Park National Corporation for the fiscal year ended December 31, 2010 (File No. 1-13006) filed on February 28, 2011 ("Park's 2010 Form 10-K filed on February 28, 2011"))
10.1†	Summary of Base Salaries for Executive Officers of Park National Corporation (previously filed as Exhibit 10.1 to Park's 2010 Form 10-K filed on February 28, 2011)
10.2(a)†	Split-Dollar Agreement, dated May 17, 1993, between William T. McConnell and The Park National Bank (incorporated herein by reference to Exhibit 10(f) to Park National Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 (File No. 0-18772))
10.2(b)†	Schedule identifying Split-Dollar Agreements covering executive officers or employees of The Park National Bank or one of its divisions who are also directors or executive officers of Park National Corporation, which Split-Dollar Agreements are identical to the Split-Dollar Agreement, dated May 17, 1993, between William T. McConnell and The Park National Bank (incorporated herein by reference to Exhibit 10.3(b) to Park's 2008 Form 10-K)
10.3(a)†	Description of Park National Corporation Supplemental Executive Retirement Benefits as in effect from and after February 18, 2008 (incorporated herein by reference to Exhibit 10.7(a) to Park's 2008 Form 10-K)
10.3(b)†	Supplemental Executive Retirement Benefits Agreement, made as of February 18, 2008, between Park National Corporation and David L. Trautman (incorporated herein by reference to Exhibit 10.1 to Park National Corporation's Current Report on Form 8-K dated and filed February 19, 2008 (File No. 1-13006) ("Park's February 19, 2008 Form 8-K"))
10.3(c)†	Form of Amended and Restated Supplemental Executive Retirement Benefits Agreement, made as of February 18, 2008, between Park National Corporation and each of C. Daniel DeLawder, John W. Kozak and William T. McConnell (incorporated herein by reference to Exhibit 10.2 to Park's February 19, 2008 Form 8-K)

10

10.4†	Security Banc Corporation 1998 Stock Option Plan, which was assumed by Park National Corporation (incorporated herein by reference to Exhibit 10(c) to Park National Corporation's Registration Statement on Form S-8 filed April 23, 2001 (Registration No. 333-59378))
10.5†	Employment Agreement, made and entered into as of December 22, 1999, and the Amendment thereto, dated March 23, 2001, between The Security National Bank and Trust Co. (also known as Security National Bank and Trust Co.) and Harry O. Egger (incorporated herein by reference to Exhibit 10(e) to Park National Corporation's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001 (File No. 1-13006))
10.6†	Park National Corporation Stock Plan for Non-Employee Directors of Park National Corporation and Subsidiaries (incorporated herein by reference to Exhibit 10 to Park National Corporation's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 (File No. 1-13006))
10.7†	Summary of Certain Compensation for Directors of Park National Corporation (previously filed as Exhibit 10.7 to Park's 2010 Form 10-K filed on February 28, 2011)
10.8†	Security National Bank and Trust Co. Second Amended and Restated 1988 Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.12 to Park's 2008 Form 10-K)
10.9†	Park National Corporation 2005 Incentive Stock Option Plan (incorporated herein by reference to Exhibit 10.1 to Park National Corporation's Current Report on Form 8-K dated and filed on April 20, 2005 (File No. 1-13006) ("Park's April 20, 2005 Form 8-K"))
10.10†	Form of Stock Option Agreement to be used in connection with the grant of incentive stock options under the Park National Corporation 2005 Incentive Stock Option Plan (incorporated herein by reference to Exhibit 10.2 to Park's April 20, 2005 Form 8-K)
10.11	Subordinated Debenture Purchase Agreement, dated as of December 28, 2007, between The Park National Bank, as "Borrower," and USB Capital Funding Corp., as "Lender" (incorporated herein by reference to Exhibit 10.1 to Park's January 2, 2008 Form 8-K)
10.12(a)†	Form of Split-Dollar Agreement, made and entered into effective as of December 28, 2007, covering Non-Employee Directors of Park National Corporation (incorporated herein by reference to Exhibit 10.2(a) to Park's January 2, 2008 Form 8-K)
10.12(b)†	Schedule identifying Non-Employee Directors of Park National Corporation covered by Split-Dollar Agreement, made and entered into effective as of December 28, 2007 (previously filed as Exhibit 10.12 (b) to Park's 2010 Form 10-K filed on February 28, 2011)
10.13†	Split-Dollar Agreement, made and entered into effective as of May 19, 2008, between Park National Bank and David L. Trautman (incorporated herein by reference to Exhibit 10.1 to Park National Corporation's Current Report on Form 8-K dated and filed on May 20, 2008 (File No. 1-13006))
10.14†	Park National Corporation Bonus Program adopted on December 16, 2008 (incorporated herein by reference to Exhibit 10.1 to Park National Corporation's Current Report on Form 8-K dated and filed on December 19, 2008 (File No. 1-13006))

11

10.15(a)†	Letter Agreement, dated July 20, 2009, between Park National Corporation and C. Daniel DeLawder (incorporated herein by reference to Exhibit 10.1 to Park National Corporation's Current Report on Form 8-K dated and filed on July 20, 2009 (File No. 1-13006) ("Park's July 20, 2009 Form 8-K"))
10.15(b)†	Letter Agreement, dated July 20, 2009, between Park National Corporation and David L. Trautman (incorporated herein by reference to Exhibit 10.2 to Park's July 20, 2009 Form 8-K)
10.15(c)†	Letter Agreement, dated July 20, 2009, between Park National Corporation and John W. Kozak (incorporated herein by reference to Exhibit 10.3 to Park's July 20, 2009 Form 8-K)
10.16	Letter Agreement, dated October 26, 2009, by and between Park and Rodman & Renshaw, LLC (incorporated herein by reference to Exhibit 10.1 to Park's October 28, 2009 Form 8-K)
10.17	Form of Securities Purchase Agreement — Common Shares and Warrants (incorporated herein by reference to Exhibit 10.2 to Park's October 28, 2009 Form 8-K)
10.18	Form of Securities Purchase Agreement — Common Shares Only (incorporated herein by reference to Exhibit 10.3 to Park's October 28, 2009 Form 8-K)
10.19	Form of Securities Purchase Agreement — Warrants Only (incorporated herein by reference to Exhibit 10.4 to Park's October 28, 2009 Form 8-K)
10.20	Subscription Agreement for Common Shares of Park National Corporation, dated November 17, 2009, by and between Park National Corporation and the Park National Corporation Defined Benefit Pension Plan (incorporated herein by reference to Exhibit 10.1 to Park National Corporation's Current Report on Form 8-K dated and filed on November 17, 2009 (File No. 1-13006))
10.21	Letter Agreement, dated December 7, 2010, by and between Park and Rodman & Renshaw, LLC (incorporated herein by reference to Exhibit 10.1 to Park's December 8, 2010 Form 8-K)
10.22	Form of Securities Purchase Agreement — Common Shares and Warrants (incorporated herein by reference to Exhibit 10.2 to Park's December 8, 2010 Form 8-K)
12	Computation of ratios (previously filed as Exhibit 12 to Park's 2010 Form 10-K filed on February 28, 2011)
13	2010 Annual Report (not deemed filed except for portions thereof which are specifically incorporated by reference in Park's 2010 Form 10-K filed on February 28, 2011, as amended by this Annual Report on Form 10-K/A) (previously filed as Exhibit 13 to Park's 2010 Form 10-K filed on February 28, 2011)
14	Code of Business Conduct and Ethics, as amended July 19, 2010 and updated July 20, 2010 (previously filed as Exhibit 14 to Park's 2010 Form 10-K filed on February 28, 2011)
21	Subsidiaries of Park National Corporation (previously filed as Exhibit 21 to Park's 2010 Form 10-K filed on February 28, 2011)
23	Consent of Crowe Horwath LLP (filed herewith)

12

24	Powers of Attorney of Directors and Executive Officers of Park National Corporation (previously filed as Exhibit 24 to Park's 2010 Form 10-K filed on February 28, 2011)
31.1	Rule 13a-14(a)/15d-14(a) Certifications – Principal Executive Officer (filed herewith)
31.2	Rule 13a-14(a)/15d-14(a) Certifications – Principal Financial Officer (filed herewith)
32	Certifications Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code – Principal Executive Officer and Principal Financial Officer (furnished herewith)
99.1	Certification Pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008 and 31 CFR § 30.15 — Principal Executive Officer (previously filed as Exhibit 99.1 to Park's 2010 Form 10-K filed on February 28, 2011)
99.2	Certification Pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008 and 31 CFR § 30.15 — Principal Financial Officer (previously filed as Exhibit 99.2 to Park's 2010 Form 10-K filed on February 28, 2011)
101	The following materials from Park National Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, formatted in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of December 31, 2010 and December 31, 2009; (ii) the Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008; (iii) the Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2010, 2009 and 2008; (iv) the Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008; and (v) the Notes to Consolidated Financial Statements tagged as blocks of text (previously furnished as Exhibit 101 to Park's 2010 Form 10-K filed on February 28, 2011)*

---

* Pursuant to Rule 406T of SEC Regulation S-T, the Interactive Data Files previously furnished as Exhibit 101 to Park's 2010 Form 10-K filed on February 28, 2011, are furnished and not deemed filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those Sections.

† Management contract or compensatory plan or arrangement.

(b) Exhibits.

The documents listed in Item 15(a)(3) are filed with this Annual Report on Form 10-K/A as exhibits or incorporated into this Annual Report on Form 10-K/A by reference.

(c) Financial Statement Schedules.

None

[Remainder of page intentionally left blank; signatures on following page]

13

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

	PARK NATIONAL CORPORATION	
Date: October 11, 2011	By:	/s/ C. Daniel DeLawder C. Daniel DeLawder, Chairman of the Board and Chief Executive Officer