Enstar Group LTD
Form 10-Q/A
June 05, 2008

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

Form 10-Q/A

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the Quarterly Period Ended March 31, 2008**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the Transition Period From_____to_____**

001-33289
Commission File Number

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

Bermuda	**N/A**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

P.O. Box HM 2267
Windsor Place, 3rd Floor
18 Queen Street
Hamilton HM JX
Bermuda
(Address of principal executive office, including zip code)

(441) 292-3645
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of May 9, 2008, the registrant had outstanding 11,944,289 ordinary shares, par value $1.00 per share.

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EXPLANATORY NOTE

This amendment to Form 10-Q is being filed to correct an error in the pro forma condensed combined income statement for the three months ended March 31, 2008 contained in Note 2 to the Unaudited Condensed Consolidated Financial Statements set forth in Item 1. Financial Statements. The error did not impact our revenue, net earnings or shareholders equity. Please see Note 11 to the Unaudited Condensed Consolidated Financial Statements for more information. We are also revising Item 4. Controls and Procedures.

Item 1. ***FINANCIAL STATEMENTS***

ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
As of March 31, 2008 and December 31, 2007

	March 31, 2008	December 31, 2007
	(expressed in thousands of U.S. dollars, except share data)	
ASSETS		
Short-term investments, available for sale, at fair value (amortized cost: 2008 $111,058; 2007 $15,480)	$ 111,049	$ 15,480
Fixed maturities, available for sale, at fair value (amortized cost: 2008 $514,523; 2007 $7,006)	516,056	6,878
Fixed maturities, held to maturity, at amortized cost (fair value: 2008 $153,661; 2007 $210,998)	152,785	211,015
Fixed maturities, trading, at fair value (amortized cost: 2008 $316,699; 2007 $318,199)	327,799	323,623
Equities, trading, at fair value (cost: 2008 $4,973; 2007 $5,087)	4,615	4,900
Other investments, at fair value	105,391	75,300
Total investments	1,217,695	637,196
Cash and cash equivalents	1,480,695	995,237
Restricted cash and cash equivalents	317,691	168,096
Accrued interest receivable	21,076	7,200
Accounts receivable, net	35,094	25,379
Income taxes recoverable		658
Reinsurance balances receivable	758,659	465,277
Goodwill	21,222	21,222
Other assets	142,824	96,878
TOTAL ASSETS	$ 3,994,956	$ 2,417,143
LIABILITIES		
Losses and loss adjustment expenses	$ 2,700,687	$ 1,591,449
Reinsurance balances payable	226,949	189,870
Accounts payable and accrued liabilities	25,597	21,383
Income taxes payable	921	
Loans payable	329,963	60,227
Other liabilities	77,891	40,178

TOTAL LIABILITIES	3,362,008	1,903,107
MINORITY INTEREST	168,106	63,437
SHAREHOLDERS EQUITY		
Share capital		
Authorized issued and fully paid, par value $1 each (authorized 2008: 156,000,000; 2007: 156,000,000)		
Ordinary shares (issued and outstanding 2008: 11,947,517; 2007: 11,920,377)	11,948	11,920
Non-voting convertible ordinary shares (issued 2008: 2,972,892; 2007: 2,972,892)	2,973	2,973
Treasury stock at cost (non-voting convertible ordinary shares 2008: 2,972,892; 2007: 2,972,892)	(421,559)	(421,559)
Additional paid-in capital	593,712	590,934
Accumulated other comprehensive income	5,785	6,035
Retained earnings	271,983	260,296
TOTAL SHAREHOLDERS EQUITY	464,842	450,599
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 3,994,956	$ 2,417,143

See accompanying notes to the unaudited condensed consolidated financial statements

ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Three-Month Periods Ended March 31, 2008 and 2007

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
	(expressed in thousands of U.S. dollars, except share and per share data)	
INCOME		
Consulting fees	$ 6,055	$ 4,661
Net investment income	590	19,938
Net realized (losses) gains	(1,084)	571
	5,561	25,170
EXPENSES		
Net increase in loss and loss adjustment expense liabilities	685	2,510
Salaries and benefits	11,357	12,802
General and administrative expenses	11,911	5,673
Interest expense	3,315	3,176
Net foreign exchange (gain) loss	(1,335)	54
	25,933	24,215
(LOSS) EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	(20,372)	955
INCOME TAXES	239	(1,016)
MINORITY INTEREST	(3,376)	(2,248)
(LOSS) BEFORE EXTRAORDINARY GAIN	(23,509)	(2,309)
Extraordinary gain Negative goodwill (net of minority interest of $15,084 and $nil, respectively)	35,196	15,683
NET EARNINGS	$ 11,687	$ 13,374
PER SHARE DATA:		
Loss per share before extraordinary gain basic and diluted	$ (1.97)	$ (0.21)
Extraordinary gain per share basic and diluted	2.95	1.41
Earnings per share basic and diluted	$ 0.98	$ 1.20
Weighted average shares outstanding basic and diluted	11,927,542	11,160,448

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three-Month Periods Ended March 31, 2008 and 2007

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
	(expressed in thousands of U.S. dollars)	
NET EARNINGS	$ 11,687	$ 13,374
Other comprehensive income:		
Unrealized holding gains on investments arising during the period	568	571
Reclassification adjustment for net realized losses (gains) included in net earnings	1,084	(571)
Currency translation adjustment	(1,902)	640
Other comprehensive (loss) income	(250)	640
COMPREHENSIVE INCOME	$ 11,437	$ 14,014

See accompanying notes to the unaudited condensed consolidated financial statements

ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
For the Three-Month Periods Ended March 31, 2008 and 2007

	Three Months Ended March 31, 2008		Three Months Ended March 31, 2007	
	(expressed in thousands of U.S. dollars)			
Share Capital Ordinary Shares				
Balance, beginning of period	$	11,920	$	19
Conversion of shares				6,029
Issue of shares				5,775
Shares repurchased				(7)
Share awards granted/vested		28		38
Balance, end of period	$	11,948	$	11,854
Share Capital Non-Voting Convertible Ordinary Shares				
Balance, beginning of period	$	2,973	$	
Conversion of shares				2,973
Balance, end of period	$	2,973	$	2,973
Treasury Stock				
Balance, beginning of period	$	(421,559)	$	
Shares acquired, at cost				(421,559)
Balance, end of period	$	(421,559)	$	(421,559)
Additional Paid-in Capital				
Balance, beginning of period	$	590,934	$	111,371
Share awards granted/vested		2,562		3,750
Shares repurchased				(16,755)
Issue of shares				490,269
Amortization of share awards		216		1,738
Balance, end of period	$	593,712	$	590,373
Accumulated Other Comprehensive Income				
Balance, beginning of period	$	6,035	$	4,565
Other comprehensive (loss)/income		(250)		640
Balance, end of period	$	5,785	$	5,205

Retained Earnings		
Balance, beginning of period	$ 260,296	$ 202,655
Adjustment to initially apply FIN 48		4,858
Adjusted balance, beginning of period	260,296	207,513
Conversion of shares		(9,002)
Net earnings	11,687	13,374
Balance, end of period	$ 271,983	$ 211,885

See accompanying notes to the unaudited condensed consolidated financial statements

ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three-Month Periods Ended March 31, 2008 and 2007

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
	(expressed in thousands of U.S. dollars)	
OPERATING ACTIVITIES:		
Net earnings	$ 11,687	$ 13,374
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Minority interest	3,376	2,248
Negative goodwill	(35,196)	(15,683)
Share-based compensation expense	216	1,738
Net realized and unrealized investment loss (gain)	1,084	(576)
Share of net loss (earnings) from other investments	26,510	(1,459)
Other items	1,723	1,018
Depreciation and amortization	191	156
Amortization of bond premiums and discounts	(148)	(99)
Net movement of trading securities	(4,202)	117,261
Changes in assets and liabilities:		
Reinsurance balances receivable	(160,775)	29,363
Other assets	(33,814)	(692)
Losses and loss adjustment expenses	520,829	(18,346)
Reinsurance balances payable	14,419	(18,040)
Accounts payable and accrued liabilities	(4,198)	(150)
Other liabilities	32,686	13,522
Net cash flows provided by operating activities	374,388	123,635
INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	7,067	22,899
Purchase of available-for-sale securities	(163,267)	(33,231)
Sales and maturities of available-for-sale securities	21,089	113,084
Maturity of held-to-maturity securities	61,682	16,583
Movement in restricted cash and cash equivalents	(149,595)	(43,119)
Funding of other investments	(20,090)	1,038
Other investing activities	(37)	(127)
Net cash flows (used in) provided by investing activities	(243,151)	77,127
FINANCING ACTIVITIES:		
Contribution to surplus of subsidiary by minority interest	86,209	
Receipt of loans	307,813	26,825
Repayment of loans	(39,800)	(462)

Repurchase of shares				(16,762)
Net cash flows provided by financing activities		354,222		9,601
TRANSLATION ADJUSTMENT		(1)		46
NET INCREASE IN CASH AND CASH EQUIVALENTS		485,458		210,409
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		995,237		450,817
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	1,480,695	$	661,226

Supplement Cash Flow Information				
Net income taxes (paid)	$	(1,037)	$	(1,927)
Interest paid	$	(1,609)	$	(462)

See accompanying notes to the unaudited condensed consolidated financial statements

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008 and December 31, 2007
(Expressed in thousands of U.S. Dollars, except per share amounts)
(unaudited)

1. BASIS OF PREPARATION AND CONSOLIDATION

Our condensed consolidated financial statements have not been audited. These statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of our financial position and results of operations as at the end of and for the periods presented. Results of operations for subsidiaries acquired are included from the dates of their acquisition by the Company. Intercompany transactions are eliminated on consolidation. The results of operations for any interim period are not necessarily indicative of the results for a full year. All significant inter-company accounts and transactions have been eliminated. In these notes, the terms we, us, our, or the Company refer to Enstar Group Limited and its direct and indirect subsidiaries. The following information is unaudited and should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007.

Significant Accounting Policies

Retroactive reinsurance contracts Premiums on ceded retroactive contracts are earned when written with a corresponding reinsurance recoverable established for the amount of reserves ceded. The initial gain, if applicable, is deferred and amortized into income over an actuarially determined expected payout period.

Adoption of New Accounting Standards

The terms FAS and FASB used in these notes refer to Statements of Financial Accounting Standards issued by the United States Financial Accounting Standards Board.

We adopted FAS 157, Fair Value Measurements (FAS 157), effective January 1, 2008. Under this standard, fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, we use various valuation approaches, including market and income approaches. FAS 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

> Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Assets and liabilities utilizing Level 1 inputs include exchange-listed equity securities that are actively traded.

Level 2 Valuations based on quoted prices in markets that are not active or for which significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Assets and liabilities utilizing Level 2 inputs include: exchange-listed equity securities that are not actively traded; U.S. government and agency securities; non-U.S. government obligations; corporate and municipal bonds; mortgage-backed securities (MBS) and asset-backed securities (ABS).

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. BASIS OF PREPARATION AND CONSOLIDATION (cont d)

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect our own assumptions about assumptions that market participants might use.

Assets and liabilities utilizing Level 3 inputs include: hedge funds with partial transparency; and credit funds and short duration high yield funds that are traded in less liquid markets.

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors, including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. We use prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified between levels.

The adoption of FAS 157 did not result in any cumulative-effect adjustment to our beginning retained earnings at January 1, 2008, or any material impact on our results of operations, financial position or liquidity. In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), which permits a one-year deferral of the application of FAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Accordingly, we have also adopted FSP FAS 157-2 effective January 1, 2008, and FAS 157 will not be applied to our goodwill and other intangible assets measured annually for impairment testing purposes only. We will adopt FAS 157 for non-financial assets and non-financial liabilities on January 1, 2009. The Company is currently evaluating the related provisions of FAS 157 and their potential impact on future financial statements.

In February 2007, the FASB issued FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). This standard permits an entity to irrevocably elect fair value on a contract-by-contract basis as the initial and subsequent measurement attribute for many financial instruments and certain other items including insurance contracts. An entity electing the fair value option would be required to recognize changes in fair value in earnings and provide disclosure that will assist investors and other users of financial information to more easily understand the effect of the company s choice to use fair value on its earnings. Further, the entity is required to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. This standard does not eliminate the disclosure requirements about fair value measurements included in FAS 157 and FAS No. 107, Disclosures about Fair Value of Financial Instruments. The adoption of FAS 159 did not impact retained earnings as of January 1, 2008 because the Company did not make any elections.

Accounting Standards Not Yet Adopted

In December 2007, the FASB issued FAS No. 141(R) Business Combinations (FAS 141(R)). FAS 141(R) replaces FAS No. 141 Business Combinations (FAS 141) but retains the fundamental requirements in FAS No. 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. FAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. FAS 141(R) also requires acquisition-related costs to be recognized separately from the acquisition, recognize assets acquired and liabilities assumed arising from contractual contingencies at their acquisition-date fair values and recognize goodwill as the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. BASIS OF PREPARATION AND CONSOLIDATION (cont d)

acquired. FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (January 1, 2009 for calendar year-end companies). The Company is currently evaluating the provisions of FAS 141(R) and its potential impact on future financial statements.

In December 2007, the FASB issued FAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (FAS 160). FAS 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest that should be reported as equity in the consolidated financial statements. FAS 160 requires consolidated net income to be reported at the amounts that include the amounts attributable to both the parent and the noncontrolling interest. This statement also establishes a method of accounting for changes in a parent s ownership interest in a subsidiary that does result in deconsolidation. FAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (January 1, 2009 for calendar year-end companies). The presentation and disclosure of FAS 160 shall be applied retrospectively for all periods presented. The Company is currently evaluating the provisions of FAS 160 and its potential impact on future financial statements.

In March 2008, the FASB issued FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (FAS 161). This Statement expands the disclosure requirements of FAS 133 and requires the reporting entity to provide enhanced disclosures about the objectives and strategies for using derivative instruments, quantitative disclosures about fair values and amounts of gains and losses on derivative contracts, and credit-risk related contingent features in derivative agreements. FAS 161 will be effective for fiscal years beginning after November 15, 2008 (January 1, 2009 for calendar year-end companies), and interim periods within those fiscal years. The Company is currently evaluating the provisions of FAS 161 and its potential impact on future financial statements.

2. ACQUISITIONS

On February 29, 2008, the Company completed the acquisition of Guildhall Insurance Company Limited (Guildhall), a reinsurance company based in the U.K., for total consideration of £33.4 million (approximately $65.9 million). The purchase price was financed by the drawdown of approximately £16.5 million (approximately $32.5 million) from a facility loan agreement with a London-based bank; approximately £5.0 million (approximately $10.0 million) from J.C. Flowers II L.P. (the Flowers Fund), by way of non-voting equity participation; and the balance of approximately £11.9 million (approximately $23.5 million) from available cash on hand. The Flowers Fund is a private investment fund advised by J.C. Flowers & Co. LLC. J. Christopher Flowers, a member of the Company s board of directors and one of its largest shareholders, is the founder and Managing Member of J.C. Flowers & Co. LLC. John J. Oros, the Company s Executive Chairman and a member of its board of directors, is a Managing Director of J.C. Flowers & Co. LLC. Mr. Oros splits his time between J.C. Flowers & Co. LLC and the Company.

The acquisition has been accounted for using the purchase method of accounting, which requires that the acquirer record the assets and liabilities acquired at their estimated fair value.

Purchase price	$ 65,571
Direct costs of acquisition	303
Total purchase price	$ 65,874
Net assets acquired at fair value	$ 65,874

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS (cont d)

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition:

Cash, restricted cash and investments	$ 108,994
Reinsurance balances receivable	33,298
Accounts receivable	4,631
Losses and loss adjustment expenses	(79,107)
Accounts payable	(1,942)
Net assets acquired at fair value	$ 65,874

On March 5, 2008, the Company completed the acquisition from AMP Limited (AMP) of AMP s Australian-based closed reinsurance and insurance operations (Gordian). The purchase price, including acquisition expenses, was approximately AU$436.9 million (approximately $405.4 million) and was financed by AU$301.0 million (approximately $276.5 million), including an arrangement fee of AU$4.5 million (approximately $4.2 million), from bank financing provided jointly by a London-based bank and a German bank; approximately AU$41.6 million (approximately $39.5 million) from the Flowers Fund, by way of non-voting equity participation; and approximately AU$98.7 million (approximately $93.6 million) from available cash on hand.

The acquisition has been accounted for using the purchase method of accounting, which requires that the acquirer record the assets and liabilities acquired at their estimated fair value.

Purchase price	$ 401,086
Direct costs of acquisition	4,326
Total purchase price	$ 405,412
Net assets acquired at fair value	$ 455,692
Excess of net assets over purchase price	$ 50,280
Less minority interest share of negative goodwill	(15,084)
Negative goodwill	$ 35,196

The negative goodwill arose primarily as a result of income earned by Gordian between the date of the balance sheet on which the agreed purchase price was based, June 30, 2007, and the date the acquisition closed, March 5, 2008, and the desire of the vendors to achieve a substantial reduction in regulatory capital requirements and therefore to dispose of Gordian at a discount to fair value.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

Cash, restricted cash and investments	$ 872,755
Reinsurance balances receivable	99,645
Accounts receivable	31,253
Losses and loss adjustment expenses	(509,638)
Insurance and reinsurance balances payable	(22,660)
Accounts payable	(15,663)
Net assets acquired at fair value	$ 455,692

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS (cont d)

The fair values of reinsurance assets and liabilities acquired are derived from probability weighted ranges of the associated projected cash flows, based on actuarially prepared information and management s run-off strategy. Any amendment to the fair values resulting from changes in such information or strategy will be recognized when they occur.

The following proforma condensed combined income statement for the three months ended March 31, 2008 combines the historical consolidated statements of income of the Company with those of Gordian, which was acquired in the first quarter of 2008, giving effect to the business combinations and related transactions as if they had occurred on January 1, 2008.

Three Months Ended March 31, 2008:	**Enstar Group Limited**	**Gordian**	**Proforma Adjustment**	**Enstar Group Limited Proforma**
Total income	$ (1,748)	$ 14,082	$ (5,194)(a)	$ 7,140
Total expenses	(26,262)	15,860	(7,619)(c)	(18,021)
Net (loss) before extraordinary gain	(28,010)	29,942	(12,813)	(10,881)
Extraordinary gain	35,196			35,196
Net earnings (loss)	$ 7,186	$ 29,942	$ (12,813)	$ 24,315
Net (loss) per ordinary share before extraordinary gain basic and diluted				$ (0.91)
Extraordinary gain basic and diluted				2.95
Net earnings per ordinary share basic and diluted				$ 2.04
Weighted average shares basic and diluted				11,927,542

The following proforma condensed combined income statement for the three months ended March 31, 2007 combines the historical consolidated statements of income of the Company with those of The Enstar Group, Inc. (EGI), BH Acquisition Ltd. (BH) and Inter-Ocean Holdings, Ltd. (Inter-Ocean), each of which was acquired in the first quarter of 2007, and Gordian, which was acquired in the first quarter of 2008, giving effect to the business combinations and related transactions as if they had occurred on January 1, 2007.

Enstar	**Proforma**	**Proforma**

s Ended March 2007:	Group	BH	EGI	Inter-Ocean	Adjustment	Sub-total	Gordian	Adjustment	
	$ 21,797	$ 1,252	$ 1,058	$ 6,555	$ (721)(b)	$ 29,941	$ 18,394	$ (3,602)(a)	$
s	(25,128)	(774)	(6,913)	(5,435)	721 (d)	(37,529)	1,539	(8,458)(c)	
nings before									
gain	(3,331)	478	(5,855)	1,120		(7,588)	19,933	(12,060)	
gain	15,683					15,683			
loss)	$ 12,352	$ 478	$ (5,855)	$ 1,120	$	$ 8,095	$ 19,933	$ (12,060)	$
per ordinary share before									
gain basic									$
gain basic									
per ordinary share basic									$
per ordinary share before									
gain diluted									$
gain diluted									
per ordinary share									
									$
rage shares basic									
rage shares diluted									

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS (cont d)

Notes to the Pro Forma Condensed Combined Income Statement

	2008	2007
Income:		
(a) Adjustment to conform the accounting policy for investments to that of the Company	$ (5,194)	$ (3,602)
(b) Elimination of fees earned prior to acquisition		(721)
Expenses:		
(c) (i) Adjustment to interest expense to reflect the financing costs of the acquisition for the period	(3,965)	(5,015)
(ii) Adjustment to recognize the amortization of increased run-off provisions	(236)	(205)
(iii) Adjustment to recognize amortization of fair value adjustments recorded at date of acquisition	(4,976)	(4,319)
(iv) To adjust income taxes for pro forma adjustments at the statutory rate of 30%	1,558	1,081
	(7,619)	(8,458)
(d) Elimination of fees paid prior to acquisition		721

3. SIGNIFICANT NEW BUSINESS

In December 2007, the Company, in conjunction with JCF FPK I L.P. (JCF FPK) and a newly-hired executive management team, formed U.K.-based Shelbourne Group Limited (Shelbourne) to invest in Reinsurance to Close or RITC transactions (the transferring of liabilities from one Lloyd s Syndicate to another) with Lloyd s of London insurance and reinsurance syndicates in run-off. JCF FPK is a joint investment program between Fox-Pitt, Kelton, Cochran, Caronia & Waller (FPKCCW) and the Flowers Fund. Shelbourne is a holding company of a Lloyd s Managing Agency, Shelbourne Syndicate Services Limited. The Company owns 50.1% of Shelbourne, which in turn owns 100% of Shelbourne Syndicate Services Limited, the Managing Agency for Lloyd s Syndicate 2008, a syndicate approved by Lloyd s of London on December 16, 2007 to undertake RITC transactions with Lloyd s syndicates in run-off. In February 2008, Lloyd s Syndicate 2008 entered into RITC agreements with four Lloyd s syndicates with total gross insurance reserves of approximately $471.2 million.

On February 29, 2008, the Company funded its capital commitment of approximately £36.0 million (approximately $72.0 million) by way of a letter of credit issued by a London-based bank to Lloyd s Syndicate 2008. The letter of credit was secured by a parental guarantee from the Company in the amount of £12.0 million (approximately $24.0 million); approximately £11.0 million (approximately $22.0 million) from the Flowers Fund (acting in its own capacity and not through JCF FPK), by way of a non-voting equity participation; and approximately £13.0 million (approximately $26.0 million) from available cash on hand. JCF FPK s capital commitment to Lloyd s Syndicate 2008 is approximately £14.0 million (approximately $28.0 million).

The Flowers Fund is a private investment fund advised by J.C. Flowers & Co. LLC. J. Christopher Flowers, a member of the Company s board of directors and one of its largest shareholders, is the founder and Managing Member of J.C. Flowers & Co. LLC. John J. Oros, the Company s Executive Chairman and a member of its board of directors, is a Managing Director of J.C. Flowers & Co LLC. Mr. Oros splits his time between J.C. Flowers & Co. LLC and the Company. In addition, an affiliate of the Flowers Fund controls approximately 41% of FPKCCW.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS

Available-for-sale

The amortized cost and estimated fair value of investments in debt securities classified as available for sale are as follows:

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
As at March 31, 2008				
U.S. Treasury and Agency securities	$ 142,358	$ 443	$ (6)	$ 142,795
Non-U.S. Government securities	184,394	984	(45)	185,333
Corporate debt securities	180,853	660	(503)	181,010
Other debt securities	6,918			6,918
Short term investments	111,058	36	(45)	111,049
	$ 625,581	$ 2,123	$ (599)	$ 627,105
As at December 31, 2007				
Corporate debt securities	$ 757	$ 42	$ (170)	$ 629
Other debt securities	6,249			6,249
Short term investments	15,480			15,480
	$ 22,486	$ 42	$ (170)	$ 22,358

The gross unrealized losses on available for sale debt securities as at March 31 were split as follows:

	2008	2007
Due within one year	$ 53	$
After 1 through 5 years	243	
After 5 through 10 years	160	
After 10 years	143	170
	$ 599	$ 170

As at March 31, 2008 the number of securities classified as available-for-sale in an unrealized loss position was 50, with a fair value of $77.6 million. None of these securities has been in an unrealized loss position for 12 months or longer.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (cont d)

Held-to-maturity

The amortized cost and estimated fair value of investments in debt securities classified as held-to-maturity are as follows:

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
As at March 31, 2008				
U.S. Treasury and Agency securities	$ 92,078	$ 1,638	$ (208)	$ 93,508
Non-U.S. Government securities	2,636		(9)	2,627
Corporate debt securities	58,071	387	(932)	57,526
	$ 152,785	$ 2,025	$ (1,149)	$ 153,661
As at December 31, 2007				
U.S. Treasury and Agency securities	$ 132,332	$ 816	$ (314)	$ 132,834
Non-U.S. Government securities	2,534		(12)	2,522
Corporate debt securities	76,149	159	(666)	75,642
	$ 211,015	$ 975	$ (992)	$ 210,998

The gross unrealized losses on held-to-maturity debt securities as at March 31 were split as follows:

	2008	2007
Due within one year	$ 113	$ 161
After 1 through 5 years	380	217
After 5 through 10 years	11	13
After 10 years	645	601
	$ 1,149	$ 992

As at March 31, 2008, the number of securities classified as held-to-maturity in an unrealized loss position was 36 with a fair value of $33.8 million. Of these securities, the number of securities that have been in an unrealized loss position for 12 months or longer was 34 with a fair value of $18.2 million. As of March 31, 2008, none of these securities were considered to be other than temporarily impaired. The Company has the intent and ability to hold these securities until their maturities. The unrealized losses from these securities were not a result of credit, collateral or structural issues.

The amortized cost and estimated fair values as at March 31, 2008 of debt securities classified as held-to-maturity by contractual maturity are shown below.

	Amortized Cost	**Fair Value**
Due within one year	$ 42,933	$ 42,936
After 1 through 5 years	100,904	102,245
After 5 through 10 years	161	149
After 10 years	8,787	8,331
	$ 152,785	$ 153,661

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (cont d)

Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Trading

The estimated fair value of investments in debt securities and short-term investments classified as trading securities as of March 31 was as follows:

	2008	2007
U.S. Treasury and Agency securities	$ 255,499	$ 237,943
Non-U.S. Government securities	3,231	3,244
Corporate debt securities	69,069	82,436
	$ 327,799	$ 323,623

Other Investments

At March 31, 2008 and December 31, 2007, the Company had $105.4 million and $75.3 million, respectively, of other investments recorded in limited partnerships, limited liability companies and equity funds. These other investments represented 3.5% and 4.2% of total investments and cash and cash equivalents at March 31, 2008 and December 31, 2007, respectively. All of the Company s other investments relating to our investments in limited partnerships and limited liability companies are subject to restrictions on redemptions and sales which are determined by the governing documents and limit the Company s ability to liquidate these investments in the short term. Due to a lag in the valuations reported by the managers, the Company records changes in the investment value with up to a three-month lag. These investments are accounted for under the equity method. As at March 31, 2008 and December 31, 2007, the Company had unfunded capital commitments relating to its other investments of $62.3 and $74.6 million, respectively. As at March 31, 2008, 61.7% of the other investments are with a related party.

In accordance with FAS 157, we have categorized our investments held at March 31, 2008 between levels as follows:

	March 31, 2008			
	Level 1	Level 2	Level 3	Total Fair Value
Fixed maturities - available for sale	$	$ 627,105	$	$ 627,105
Fixed maturities - trading		326,748	1,051	327,799
Equity securities	4,615			4,615

Other investments			105,391	105,391
Total investments	$ 4,615	$ 953,853	$ 106,442	$ 1,064,910

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (cont d)

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the period ended March 31, 2008:

	Three Months Ended March 31, 2008			
	Fixed Maturity Investments	Equity Securities	Other Investments	Total
Level 3 investments as of January 1, 2008	$ 1,051	$	$ 75,300	$ 76,351
Net purchases (sales and distributions)			55,461	55,461
Total realized and unrealized losses			(25,370)	(25,370)
Net transfers in and/or (out) of Level 3				
Level 3 investments as of March 31, 2008	$ 1,051	$	$ 105,391	$ 106,442

The amount of total losses for the period included in earnings attributable to the fair value of changes in assets still held at the reporting date was $26.5 million.

5. LOANS PAYABLE

On February 18, 2008, the Company fully repaid the outstanding principal and accrued interest on the loans used to partially finance the acquisitions of Cavell Holdings Limited (U.K.), Marlon Insurance Company Limited and Marlon Management Services Limited totaling $40.5 million.

In February 2008, a wholly-owned subsidiary of the Company, Cumberland Holdings Limited (Cumberland), entered into a term facility agreement jointly with a London-based bank and a German bank (the Cumberland Facility). On March 4, 2008, the Company drew down AU$215.0 million (approximately $197.5 million) from the Facility A Commitment (Facility A) and AU$86.0 million (approximately $79.0 million) from the Facility B Commitment (Facility B) to partially fund the Gordian acquisition.

The interest rate on the Facility A is LIBOR plus 2%. Facility A is repayable in five years and is secured by a first charge over Cumberland s shares in Gordian. Facility A contains various financial and business covenants, including limitations on liens on the stock of restricted subsidiaries, restrictions as to the disposition of the stock of restricted subsidiaries and limitations on mergers and consolidations. As of March 31, 2008, all of the financial covenants relating to Facility A were met.

The interest rate on Facility B is LIBOR plus 2.75%. Facility B is repayable in six years and is secured by a first charge over Cumberland s shares in Gordian. Facility B contains various financial and business covenants, including limitations on liens on the stock of restricted subsidiaries, restrictions as to the disposition of the stock of restricted subsidiaries and limitations on mergers and consolidations. As of March 31, 2008, all of the financial covenants relating to Facility B were met.

In February 2008, a wholly-owned subsidiary of the Company, Rombalds Limited (Rombalds), entered into a term facility agreement with a London-based bank (the Rombalds Facility). On February 28, 2008, the Company drew down $32.5 million from the Rombalds Facility to partially fund the acquisition of Guildhall. The interest rate on the Rombalds Facility is LIBOR plus 2%. The facility is repayable in five years and is secured by a first charge over Rombalds shares in Guildhall. The Rombalds Facility contains various financial and business covenants, including limitations on liens on the stock of restricted subsidiaries, restrictions as to the disposition of the stock of restricted subsidiaries and limitations on mergers and consolidations. As of March 31, 2008, all of the financial covenants relating to the Rombalds Facility were met.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On May 6, 2008, the Company fully repaid outstanding principal and accrued interest on the loan used to partially finance the acquisition of Brampton Insurance Company Limited totaling $19.9 million.

6. EMPLOYEE BENEFITS

Our share-based compensation plans provide for the grant of various awards to our employees and to members of the Board of Directors. These are described in Note 12 to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2007. The information below includes both the employee and director components of our share-based compensation.

(a) Employee share plans

	Number of Shares	Weighted Average Fair Value of the Award per Share
Nonvested January 1, 2008	25,862	$ 122.42
Granted	27,140	95.45
Vested	(27,140)	95.45
Nonvested March 31, 2008	25,862	111.27

i) 2004 - 2005 employee share plan

Compensation costs of $0.2 million and $1.7 million relating to the issuance of share-awards to employees of the Company in 2004 and 2005 have been recognized in the Company s statement of earnings for the three months ended March 31, 2008 and 2007, respectively.

The determination of the share-award expenses was based on the fair-market value per common share of EGI as of the grant date and is recognized over the vesting period.

As of March 31, 2008, total unrecognized compensation costs related to the non-vested share awards amounted to $0.4 million. These costs are expected to be recognized over a weighted average period of 0.57 years.

ii) 2006-2010 Annual Incentive Plan and 2006 Equity Incentive Plan

For the three months ended March 31, 2008 and 2007, 27,140 and 38,387 shares were awarded to directors, officers and employees under the 2006 Equity Incentive Plan. The total value of the award for the three months ended March 31, 2008 was $2.6 million and was charged against the 2006-2010 Annual Incentive Plan accrual established for the year ended December 31, 2007. The total value of the award for the three months ended March 31, 2007 was $3.8 million of which $0.5 million was charged as an expense for the three months ended March 31, 2007 and $3.3 million was charged against the 2006-2010 Annual Incentive Plan accrual established for the year ended December 31, 2006.

The accrued expense relating to the 2006-2010 Annual Incentive Plan for the three months ended March 31, 2008 and 2007 was $2.1 million and $2.4 million, respectively.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. EMPLOYEE BENEFITS (cont d)

(b) Options

	Number of Shares	Weighted Average Exercise Price	Intrinsic Value of Shares
Outstanding January 1, 2008	490,371	$ 25.40	
Granted			
Exercised			
Forfeited			
Outstanding March 31, 2008	490,371	$ 25.40	$ 42,108

Stock options outstanding and exercisable as of March 31, 2008 were as follows:

Ranges of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$10 - 20	323,645	$ 17.20	2.9 years
$40 - 60	166,726	41.32	5.4 years

(c) Deferred Compensation and Stock Plan for Non-Employee Directors

EGI, prior to its merger with a subsidiary of the Company (the Merger), had in place a Deferred Compensation and Stock Plan for Non-Employee Directors which permitted non-employee directors to receive all or a portion of their retainer and meeting fees in common stock and to defer all or a portion of their retainer and meeting fees in stock units. Upon completion of the Merger, each stock unit was converted from a right to receive a share of EGI common stock into a right to receive an Enstar Group Limited ordinary share. No additional amounts will be deferred under the plan.

On June 5, 2007, the Compensation Committee of the board of directors of the Company approved the Enstar Group Limited Deferred Compensation and Ordinary Share Plan for Non-Employee Directors (the EGL Deferred Compensation Plan)

The EGL Deferred Compensation Plan became effective immediately. The EGL Deferred Compensation Plan provides each member of the Company s board of directors who is not an officer or employee of the Company or any of its subsidiaries (each, a Non-Employee Director) with the opportunity to elect (i) to receive all or a portion of his or her compensation for services as a director in the form of the Company s ordinary shares instead of cash and (ii) to defer receipt of all or a portion of such compensation until retirement or termination.

Non-Employee Directors electing to receive compensation in the form of ordinary shares will receive whole ordinary shares (with any fractional shares payable in cash) as of the date compensation would otherwise have been payable. Non-Employee Directors electing to defer compensation will have such compensation converted into share units payable as a lump sum distribution after the director s separation from service as defined under Section 409A of the Internal Revenue Code of 1986, as amended. The lump sum share unit distribution will be made in the form of ordinary shares, with fractional shares paid in cash.

For the three months ended March 31, 2008 and 2007, 994 and Nil shares were issued to Non-Employee Directors under the plan.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. EARNINGS PER SHARE

The following table sets forth the comparison of basic and diluted earnings per share for the three-month periods ended March 31, 2008 and 2007.

	2008	2007
Net loss before extraordinary gain	$ (23,509)	$ (2,309)
Weighted average shares outstanding basic and diluted	11,927,542	11,160,448
Loss per share before extraordinary gain basic and diluted	$ (1.97)	$ (0.21)

The following securities have not been included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented.

Share equivalents:	**2008**	**2007**
Unvested shares	$ 25,862	$ 92,293
Restricted share units	2,141	
Options	262,440	