



**Annuity  
& Life Re**

**ANNUITY AND LIFE RE (HOLDINGS), LTD.  
304 International Centre  
26 Bermudiana Road  
Hamilton, HM 11, Bermuda**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

- TIME** 9:00 a.m. local time on June 7, 2006
- PLACE** Grotto Bay Beach Resort  
11 Blue Hole Hill  
Hamilton Parish, CR04, Bermuda
- ITEMS OF BUSINESS**
- (1) To elect one director to hold office as specified in the proxy statement
  - (2) To ratify the selection of Marcum & Kliegman LLP as our independent registered public accounting firm to act as our auditors for the current fiscal year and to authorize our board of directors, acting by our Audit Committee, to set its remuneration and
  - (3) To act upon any other matters properly coming before the meeting or any adjournment thereof.
- RECORD DATE** The close of business on April 17, 2006 has been fixed as the record date for the meeting. All shareholders of record at that time are entitled to notice of and are entitled to vote in person or by proxy at the meeting and any adjournment or postponement thereof.
- IMPORTANT** It is important that your shares be voted at this meeting. Please MARK, SIGN, DATE and MAIL your proxy PROMPTLY in the return envelope provided, even if you plan to attend the meeting. If you later desire to revoke your proxy, you may do so in the manner described in the proxy statement.

By Order of our Board of Directors,

/s/ Martin S. Berkowitz  
MARTIN A. BERKOWITZ  
*Chairman of the Board*

May 3, 2006

The accompanying proxy statement is dated May 3, 2006 and is being mailed to shareholders of record on or about May 5, 2006.



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## PROXY STATEMENT



**ANNUITY AND LIFE RE (HOLDINGS), LTD.  
304 International Centre  
26 Bermudiana Road  
Hamilton, HM 11, Bermuda**

The Annual General Meeting of the Shareholders of Annuity and Life Re (Holdings), Ltd. (the “Company”) will be held at the Grotto Bay Beach Resort, 11 Blue Hill Hole, Hamilton Parish, CR04, Bermuda, at 9:00 a.m. local time on June 7, 2006. We are mailing this proxy statement to each holder of our issued and outstanding common shares entitled to vote at the meeting in order to furnish information relating to the business to be transacted at the annual meeting.

We fixed the close of business on April 17, 2006 as the record date for the annual meeting. All shareholders of record at that time are entitled to notice of and are entitled to vote at the annual meeting and any adjournment or postponement thereof.

At the annual meeting, you will be asked to consider and vote upon:

- (1) the election of one nominee to serve as director for the term as described in this proxy statement;
- (2) the ratification of the selection of Marcum & Kliegman LLP as the independent registered public accounting firm to act as our auditors for the current fiscal year and the authorization of our board of directors, acting by our Audit Committee, to set its remuneration; and
- (3) any other matters properly coming before the meeting or any adjournment thereof.

Descriptions of each of these matters are included in this proxy statement.

The board has nominated the nominee for director to serve as described in this proxy statement. The board has also approved the selection of Marcum & Kliegman, LLP as the independent registered public accounting firm to act as our auditors and has authorized the Audit Committee to set the firm’s remuneration. The board recommends that you vote “FOR” the election of the nominee to serve as director of the Company and “FOR” the ratification and selection of Marcum & Kliegman LLP.

## **Quorum and Voting**

The presence of two or more persons representing in person or by proxy a majority of all outstanding common shares entitled to vote at the annual meeting is necessary to constitute a quorum. On each matter voted upon at the annual meeting and any adjournment or postponement thereof, each record holder of common shares will be entitled to one vote per share, except that certain provisions of our Bye-laws reduce the total voting power of any shareholder who:

- is a “United States person,” as defined in our Bye-laws, and who beneficially owns 10% or more of our common shares, to less than 10% of the total voting power of our share capital; and
- is not a “United States person,” as defined in our Bye-laws, and who beneficially owns 17% or more of the common shares, to less than 17% of the total voting power of our share capital.

As a result of these provisions, the voting rights of two institutional shareholders of the Company will be restricted such that these shareholders will effectively have less than one vote per share.

## **Vote Required**

Under Proposal 1, each of our directors is elected by the affirmative vote of a majority of the votes cast on the election of that director at the annual meeting. Proposal 2 similarly will be decided by the affirmative vote of a majority of the votes cast on that proposal at the annual meeting. If you mark your proxy as “Abstain” on any matter, or if you give specific instructions that no vote be cast on any specific matter, the shares represented by your proxy will not be voted on such matter and will not count as votes cast at the meeting for the purpose of determining whether the proposal is approved, but will count in determining whether a quorum is present. Proxies submitted by brokers that do not indicate a vote for some or all of the proposals because they do not have discretionary voting authority and have not received instructions as to how to vote on those proposals (so called “broker nonvotes”) are also considered in determining whether a quorum is present, but will not affect the outcome of any vote.

## **Voting and Revocation of Proxies**

You may vote your shares at the annual meeting in person or by proxy. We hope you will attend the annual meeting. Whether or not you plan to attend, please complete, sign, date and return the enclosed proxy in the accompanying envelope so that your common shares will be represented. The envelope is addressed to our transfer agent and requires no postage. If you receive more than one proxy card – because you have multiple accounts or hold common shares in more than one way – you should sign and return all proxies received in order to be sure all of your common shares are voted. The enclosed proxy also confers discretionary authority with respect to amendments or variations to the matters identified in the Notice of Annual Meeting and with respect to other matters that may be properly brought before the annual meeting.

All valid proxies received before the annual meeting will be voted according to their terms. If you complete your proxy properly, but do not provide instructions as to how to vote your shares, your proxy will be voted “FOR” the election of the nominee for director under Proposal 1 and “FOR” Proposal 2 as described herein and set forth on the accompanying proxy card. If any other business is brought before the annual meeting, proxies without voting instructions will be voted, to the extent permitted under Bermuda law and the Company’s By-laws, in accordance with the judgment of the persons voting the proxies. After providing your proxy, you may revoke it at any time before it is voted at the annual meeting by filing with the Secretary of the Company an instrument revoking it or a duly executed proxy bearing a later date. You may also revoke your proxy by attending the annual meeting and giving notice of revocation. Attendance at the annual meeting will not by itself constitute revocation of a proxy.

### **Solicitation of Proxies**

We will bear the cost of preparing and soliciting proxies, including the reasonable charges and expenses of brokerage firms or other nominees for forwarding proxy materials to beneficial owners of common shares. In addition to solicitation by mail, we may solicit proxies by telephone or other electronic means, or personally by certain directors, officers and employees of the Company and its subsidiaries who will receive no extra compensation, other than reimbursement for actual expenses incurred in connection with the solicitation. The enclosed proxy is solicited by and on behalf of our board of directors of the Company.

### **PROPOSAL ONE: Election of Director**

#### **Nominee for Director**

Our board has nominated William H. Mawdsley for election as a director with a term expiring at the adjournment of the annual general meeting of shareholders in the year 2009. Mr. Mawdsley currently serves as a director of the Company and as Chief Executive Officer.

Mr. Mawdsley will be elected by the affirmative vote of a majority of the votes cast on his election at the annual meeting. The board recommends that you vote for the election of Mr. Mawdsley as director.

- While our board has no reason to believe that Mr. Mawdsley will be unavailable to continue to serve as a director if for any reason Mr. Mawdsley should become unavailable to serve as a director, the common shares represented by proxies may be voted for the election of such substitute nominee as may be designated (and appointed as Mr. Mawdsley’s replacement on the board pending such vote) by our board, to serve the remainder of a term that expires as of our 2007 annual general meeting.

Set forth below is biographical information concerning the nominee for election as a director and each person who is continuing as a director, including the individual’s principal occupation and, if applicable, the period during which such person has served as a director of the Company.

## ***Nominee For Director***

*William H. Mawdsley*, age 54, was appointed Chief Executive Officer of the Company in October 2005. From January 2002 through October 2005, he served as Vice President of the Company and Chief Actuary of the Company's Bermuda operating subsidiary. Mr. Mawdsley has over 30 years of experience in the life insurance and annuity industries, and held multiple positions with Allmerica Financial from 1973 through October 2001. Mr. Mawdsley's responsibilities at Allmerica included all actuarial aspects of individual insurance, and he focused on new individual product development and pricing. Mr. Mawdsley has been a Fellow of the Society of Actuaries since 1976, a Member of the American Academy of Actuaries since 1979, and a Chartered Life Underwriter since 1982.

## **Continuing Directors**

### ***Directors Whose Terms Expire in 2007***

*Martin A. Berkowitz*, age 57, has served as a director of the Company since being appointed by the board in 2003, and became Chairman of the Board in August 2005. On January 2, 2005, Mr. Berkowitz was named Chief Financial Officer of Miami-Dade County Public School District. From March 2004 until December 2004, Mr. Berkowitz served as President and Chief Executive Officer of the National Veterans Business Development Corporation, a provider of assistance to small businesses owned by veterans, where he had served as Senior Vice President and Chief Financial Officer since January 2001. From November 2000 through January 2001, Mr. Berkowitz was an independent consultant. Prior thereto, Mr. Berkowitz held various positions, including as a Senior Vice President and as Principal Controller, at Prudential Insurance Company of America Inc., a financial services company. Mr. Berkowitz serves as a director of the National Center for the Employment of the Disabled, a not-for-profit (under United States Internal Revenue Code Section 501(c)3) organization.

*Michael P. Esposito, Jr.*, age 66, has served as a director of the Company since its formation in 1997. He has been non-executive Chairman of the Board of XL Capital Ltd since 1995 and a director since 1986. XL Capital Ltd provides asset management and other financial advisory insurance and reinsurance coverages and financial products and services to industrial, commercial and professional service firms, insurance companies and other enterprises. He also serves as a director of Forest City Enterprises, Inc. and has been the Chairman of the Board of Primus Guaranty Ltd. since March 2002. Mr. Esposito served as Co-Chairman of Inter-Atlantic Capital Partners, Inc. from 1998 to 2000, having previously served as Vice Chairman from 1994 to 1998. Inter-Atlantic provides asset management and other financial advisory services to institutional investors. Mr. Esposito served as Executive Vice President and Chief Corporate Compliance, Control and Administration Officer of The Chase Manhattan Corporation from 1992 to 1995, having previously served as Executive Vice President and Chief Financial Officer from 1987 to 1992.

*Jeffrey D. Watkins*, age 45, has served as a director of the Company since 2003. Mr. Watkins is currently the President of Prescott Group Capital Management, LLC, a registered investment advisor, and serves as the co-manager of the Prescott Tradition Fund, L.P. and Prescott Mid Cap, L.P. Mr. Watkins also serves as a director of Carreker Corporation. Prior to joining Prescott in July 2001, Mr. Watkins served for 18 years as a portfolio manager for Capital Advisors, Inc., a registered investment advisor, located in Tulsa, Oklahoma.

## ***Directors Whose Terms Expire in 2008***

*Albert R. Dowden*, age 64, has served as a director of the Company since 2003. Prior to his retirement in 1998, Mr. Dowden served as President and Chief Executive Officer of Volvo Group North America, Inc. and Senior Vice President of its Swedish parent company, AB Volvo. Prior to joining Volvo in 1974 as General Counsel to its North American operations, he practiced law with the New York based international law firm of Rogers & Wells (now Clifford Chance). Mr. Dowden currently serves as a director of the AIM Mutual Funds and CompuDyne Corporation and is a founder and Managing Director of The Boss Group, a Houston and London based private investment and management firm. Mr. Dowden also serves as Chairman of The Cortland Trust, a New York based money market fund and as director of Homeowners of America Holding Corporation. He also serves as a director or chairman of various New York based, and as well as internationally focused, charities. Mr. Dowden had previously served as a director of the Company from 1998 to 2000.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING  
“FOR” THE ELECTION OF THE NOMINEE FOR DIRECTOR.**

### **PROPOSAL TWO: Ratification of the selection of Marcum & Kliegman, LLP as our independent registered public accounting firm to act as our auditors and authorization of our Audit Committee to set its remuneration**

The Audit Committee has selected, subject to ratification by our shareholders, Marcum & Kliegman LLP as the independent registered public accounting firm to act as our auditors for 2006. The Audit Committee asks you to ratify the selection of Marcum & Kliegman LLP to serve as our independent registered public accounting firm and act as our auditors for 2006. In addition to this ratification, holders of common shares are requested to authorize the board of directors of the Company, acting by the Audit Committee, to set the remuneration for Marcum & Kliegman LLP.

The affirmative vote of a majority of the votes cast at the annual meeting is required to ratify the selection of Marcum & Kliegman LLP. If a majority of the votes cast on this matter are not cast in favor of the appointment of Marcum & Kliegman LLP, our board of directors, acting by the Audit Committee, in its discretion may select another independent registered public accounting firm as soon as practicable.

A representative of Marcum & Kliegman LLP is expected to be present telephonically the annual meeting and will be available to respond to appropriate questions. The representative will also have the opportunity to make a statement if he or she so desires.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING  
“FOR” THE RATIFICATION OF THE SELECTION OF MARCUM &  
KIEGMAN LLP AS THE COMPANY’S INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM AND AS AUDITORS FOR 2006 AND THE  
AUTHORIZATION OF THE BOARD OF DIRECTORS, ACTING THROUGH  
THE AUDIT COMMITTEE, TO SET MARCUM AND KIEGMAN LLP’S  
COMPENSATION.**

## **OTHER MATTERS**

Our board of directors knows of no matters to be presented for action at the annual meeting other than those set forth in the attached notice and customary procedural matters. However, if any other matters should properly come before the annual meeting or any adjournment or postponement thereof, the proxies solicited hereby will be voted on such matters, to the extent permitted under Bermuda law and the Company's Bye-laws, in accordance with the judgment of the persons voting such proxies.

## CORPORATE GOVERNANCE

### Independence

Our board of directors has adopted categorical standards for determining director independence. To satisfy these categorical standards, a director:

- must not have a “material relationship” with the Company, which we have defined as a relationship (*e.g.*, commercial, banking, consulting, legal, accounting, charitable or familial) that would require disclosure as a related party transaction under the United States Securities and Exchange Commission’s (“SEC”) rules and regulations; and
- must otherwise satisfy the requirements for “independence” under the listing standards of the New York Stock Exchange (“NYSE”).

Although we are no longer subject to any independence standards, we have chosen to assess the independence of our directors in reference to the definition of “independence” under Sections 303.01(b)(2)(a) and (3) of the NYSE’s listing standards.

Based on these categorical standards, our board has determined that, of the five directors who currently comprise our full board, the following three directors are independent: Messrs. Berkowitz, Dowden, and Watkins.

### Committees of the Board

Our board of directors currently has an active Audit Committee. Our board also previously had active Corporate Governance, Compensation, Executive, Finance and Investment, Litigation and Strategic Review Committees in 2005, and a Special Committee which was active for a period of time in 2005. The duties of the Corporate Governance and Compensation Committees were assumed by the Board of Directors following our 2005 annual meeting and all committees other than the Audit Committee were disbanded at that time. Each committee reports or reported to the full board.

*Audit Committee.* Our board appointed an Audit Committee to assist the board in its oversight of (i) the integrity of our financial statements; (ii) the independent registered public accounting firm’s qualifications, independence and performance; (iii) the performance of our internal audit function; and (iv) our compliance with legal and regulatory requirements. The Audit Committee presently consists of three directors (Messrs. Berkowitz (Chairman), Dowden, and Watkins). Our board determined that Mr. Berkowitz qualifies as an “audit committee financial expert,” as defined by SEC regulations. During 2005, the Audit Committee met eight times.

The Audit Committee has adopted a written charter, which was amended in 2004. A copy of the charter is posted on our website at [www.alre.bm](http://www.alre.bm)

## **Information Concerning Meetings**

The board held thirteen meetings during 2005. Each director attended at least 75% of the aggregate meetings of our board and the committees of which he was a member during 2005. In addition, the non-management directors routinely met in executive session without members of management present. Mr. Berkowitz, as the non-management Chairman of the Board, served as the presiding director for these executive sessions.

The board encourages directors to attend each annual meeting of our shareholders. All five current directors attended last year's annual meeting.

## **Director Nominations**

The independent members of the Company's board of directors currently recommend director nominees to the full board. The Company seeks individuals who are qualified to be directors, and if needed, will use a third-party search firm to assist in finding director candidates. The board of directors has established certain minimum qualifications that each individual director candidate must possess. These qualifications include that each director candidate: (a) should be an individual of the highest character and integrity; (b) should have sufficient experience to enable the director to make a meaningful contribution to the company and the board; (c) should be chosen without regard to sex, race, religion, national origin or age; and (d) should have sufficient time available to devote to the affairs of the Company to carry out the responsibilities of a director. After determining that a director candidate meets these qualifications, our board will review the requisite skills and characteristics of the potential new director, as well as the composition of our board as a whole. This review includes an assessment of the director's qualification as an independent director, as well as considerations of diversity, skills and experience in the context of the overall needs of our board.

The board will consider director candidates recommended by shareholders in the same manner as set forth above, if the recommendation is accompanied by sufficient information to assess the candidate's qualifications and contains the candidate's consent to serve as a director if elected. Shareholder recommendations may be submitted in writing to the board of directors at Annuity and Life Re (Holdings), Ltd., 304 International Centre, 26 Bermudiana Road, Hamilton, HM 11, Bermuda. Shareholder recommendations must be made in accordance with our By-laws and the notice provisions set forth below under "—Proposals of Shareholders."

No third parties were engaged to evaluate or assist in identifying potential director nominees for the 2006 annual general meeting of shareholders.

## **Shareholder Communications with the Board**

Shareholders may communicate directly with members of our board of directors by writing, as applicable, to the full board, a particular committee or a specific director c/o Annuity and Life Re (Holdings), Ltd., 304 International Centre, 26 Bermudiana Road, Hamilton, HM 11, Bermuda.

## **Compensation of Directors**

Our non-employee directors are paid a \$15,000 annual cash retainer each year on April 4 (or, if such date is not a business day, on the next business day thereafter). In addition, each non-employee director is entitled to receive \$2,500 per board meeting personally attended. The Chairman of the Board is entitled to receive an additional \$15,000 retainer. Our non-employee directors are compensated \$500 for attending telephonic meetings of 30 minutes or more. All directors are reimbursed for travel and other expenses incurred in attending meetings of our board or committees thereof. Directors who are employees of the Company or its subsidiaries are not paid any fees or additional compensation for service as members of our board or any committee thereof.

All new non-employee directors are automatically granted options to acquire 15,000 common shares upon their initial election to our board. Such options become exercisable in three equal annual installments commencing on the first anniversary of the date of grant. All options granted to non-employee directors under the Stock Option Plan have an exercise price equal to the greater of the fair market value of our common shares on the date of grant or \$1.00.

Michael P. Esposito, Jr., one of our directors and Chairman of the Board of XL Capital Ltd, pursuant to a corporate policy at XL Capital, waived his right to receive compensation for service as a non-employee director of the Company during 2005, including any option grants or cash compensation to which he would otherwise be entitled.

**AUDIT-RELATED MATTERS AND INFORMATION RELATING TO OUR  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM/AUDITORS**

The following summarizes the fees billed to the Company by Marcum & Kliegman LLP during 2005 in connection with the audit of our annual financial statements for the year ended December 31, 2005 and for the review of the financial statements included in each of our quarterly reports on Form 10-Q filed during 2005, as well as similar services performed in 2004:

**Audit Fees:**

2005: \$157,326

2004: \$868,546

**Audit-Related Fees:**

2005: None

2004: None

**Tax Fees:**

2005: None

2004: None

**All Other Fees:**

2005: None

2004: None

## ADDITIONAL INFORMATION

### Executive Officers

#### *Biographical Information*

Biographical information concerning William H. Mawdsley, our Chief Executive Officer, is set forth above under “PROPOSAL ONE: Election of Director – Nominee for Director.”

*John W. Lockwood*, age 48, became Chief Financial Officer of the Company and its Bermuda operating subsidiary in February 2004. Mr. Lockwood joined the Company’s United States based operating subsidiary in December 1999 as Controller and Treasurer. From October 1998 until November 1999, Mr. Lockwood was the Director of Statutory Reporting and Reinsurance Accounting at Hartford Steam Boiler Inspection and Insurance Company, a property and casualty insurance company. Mr. Lockwood is currently President of and oversees our United States operations. Mr. Lockwood has 20 years of experience in the life insurance industry and held various positions over a 10 year period with Security-Connecticut Life Insurance Company, including Controller and Corporate Risk Officer. Mr. Lockwood is a graduate of Central Connecticut State University (B.S. Accounting, 1980) and University of Hartford (M.S. Taxation, 1996) and passed the uniform certified public accountant examination in 1988. Mr. Lockwood is also a Fellow of the Life Office Management Institute of the Life Office Management Association.

### Executive Compensation

The following table sets forth certain information for the Company’s last three fiscal years concerning the annual and long-term compensation paid to William H. Mawdsley, the Chief Executive Officer and Chief Actuary and John W. Lockwood, the Chief Financial Officer.

Name	Principal Position	Year	Annual Compensation			Long-Term Compensation		All Other Compensation(4)
			Salary	Bonus(1)	Other Annual Compensation(2)	Restricted Share Awards(3)	Securities Underlying Options	
William H. Mawdsley .....	President, Chief Executive Officer and Chief Actuary (5)	2005	\$210,064	\$209,000	\$130,000	\$ 0		\$ 21,006
		2004	\$190,000	\$125,000	\$100,000	\$ 0	0	\$ 19,000
		2003	\$190,000	\$130,000	\$100,000	\$ 72,000	0	\$ 19,000
John W. Lockwood .....	Senior Vice President	2005	\$200,000	\$130,000	\$ 37,100	\$ 0		\$ 20,000
	Chief Financial Officer	2004	\$195,000	\$100,000	\$ 0	\$ 0	0	\$ 19,500
	and Secretary (6)	2003	\$140,000	\$ 90,000	\$ 0	\$ 60,000	0	\$ 14,000

- (1) The amounts listed as bonuses for 2003, 2004 and 2005 are cash bonuses earned in each of those respective years. A portion of the amounts listed as bonuses were paid during subsequent fiscal years.
- (2) The amounts listed represent housing and travel allowances.
- (3) Represents the dollar value of restricted share awards made to the Company’s employees during 2003, as issued under the Company’s Restricted Stock Plan, based on the closing market price of the Company’s common shares on the grant dates. We did not grant any stock-based compensation, including restricted stock and stock options, to Messrs. Mawdsley and Lockwood during 2004 or 2005.
- (4) The amounts listed include payments to the Company’s defined contribution retirement program.
- (5) Effective October 19, 2005, Mr. Mawdsley assumed responsibility as Chief Executive Officer of the Company,
- (6) Effective February 19, 2004, Mr. Lockwood assumed responsibility as Secretary and Chief Financial Officer of the Company.

## **Employment Arrangements**

On October 19, 2005, we entered into letter agreements with William H. Mawdsley and John W. Lockwood setting forth the terms of their continued employment by the Company. Pursuant to the letter agreement with Mr. Mawdsley, he became Chief Executive Officer of the Company and its Bermuda operating company. He is entitled to an annual salary of \$250,000 and an additional \$10,000 per month as a housing and travel allowance. Pursuant to the letter agreement with Mr. Lockwood, he is entitled to an annual salary of \$200,000 and an additional \$7,500 per month as a housing and travel allowance. Mr. Lockwood will continue to serve as our Chief Financial Officer and President of our United States based subsidiaries.

We have also agreed to continue to provide Messrs. Mawdsley and Lockwood with the same benefits they were currently receiving from us, and they will be eligible for bonus compensation at the discretion of our board of directors.

We may terminate Mr. Mawdsley and Mr. Lockwood at any time for any reason, but if such termination is without "cause" (as defined in the letter agreements), Mr. Mawdsley would be entitled to receive a severance payment of \$620,000 plus reasonable relocation expenses from Bermuda to the United States, and Mr. Lockwood would be entitled to receive a severance payment of \$490,000. Both men would also receive the foregoing severance payments if they resign because of a reduction in their base salary or housing allowance to which they did not agree.

## **Audit Committee Report**

In connection with management's preparation of our financial statements for the year ended December 31, 2005, the Audit Committee reviewed and discussed the audited financial statements with management and Marcum & Kliegman LLP, our independent registered public accounting firm and auditors for the year ended December 31, 2005.

Management has the primary responsibility for preparing our financial statements and the overall reporting process, including our system of internal controls. Marcum & Kliegman, LLP audits the annual financial statements prepared by management, expresses an opinion as to whether those financial statements present fairly, in all material respects, the financial condition, results of operations and cash flows of the Company in conformity with accounting principles generally accepted in the United States and discusses with the Audit Committee its independence and any other matters it is required to discuss or that it believes should be raised with the Audit Committee. The Audit Committee oversees these processes, although it must rely on the information provided to it and on the representations made by management and the independent registered public accounting firm.

The Audit Committee has discussed with Marcum & Kliegman the results of its audit and the matters required by Statement of Auditing Standard No. 61. In addition, the Audit Committee has received from Marcum & Kliegman a letter providing the disclosure required by Independence Standard Board Standard No. 1 and has discussed with Marcum & Kliegman the information required to determine the auditor's independence. Based on the results of these reviews and discussions, the Audit Committee recommended to our board that the audited financial statements be included in our 2005 Annual Report to Shareholders.

### **THE AUDIT COMMITTEE**

Martin A. Berkowitz (Chairman)

Albert R. Dowden

Jeffrey D. Watkins

## Principal Shareholders

The table below sets forth certain information regarding the beneficial ownership of common shares by (a) each director of the Company, (b) each of our executive officers, and (c) all current executive officers and directors of the Company as a group. Each of the shareholders named below has sole voting power and sole investment power with respect to the shares indicated as beneficially owned, unless otherwise indicated. Unless otherwise indicated below, the information in the table represents beneficial ownership as of January 31, 2006 and the address for each beneficial owner is c/o Annuity and Life Re (Holdings), Ltd., P.O. Box HM 98, Hamilton, HM AX, Bermuda.

<u>Name of Beneficial Owner</u>	<u>Amount of common shares</u>	<u>Percent of Class</u>
Michael P. Esposito, Jr. (1) .....	642,403	2.4%
William H. Mawdsley, III (2) .....	96,100	*
John Lockwood (3) .....	90,000	*
Jeffrey D. Watkins (4).....	20,000	*
Albert R. Dowden (5).....	20,000	*
Martin A. Berkowitz (5).....	20,000	*
All current directors and executive officers as a group (six persons) (6) .....	888,503	3.6%
* Less than 1%.		

- (1) Includes 12,000 common shares issuable upon exercise of options that are currently exercisable. Includes 540,653 common shares issuable upon exercise of Class A Warrants that are currently exercisable. Does not include 160,075 common shares issuable upon exercise of Class A Warrants owned by adult children of Mr. Esposito. Mr. Esposito may be considered to have voting and investment control over 3,340,380 of our common shares and warrants owned by XL, as to which he disclaims beneficial ownership.
- (2) Includes 10,000 common shares issuable upon exercise of options that are currently exercisable.
- (3) Includes 20,000 common shares issuable upon exercise of options that are currently exercisable.
- (4) Includes 20,000 common shares issuable upon exercise of options that are currently exercisable. Does not include 5,000 common shares issuable upon exercise of options that are not currently exercisable. Mr. Watkins, a director of the Company, is currently the President of Prescott Group Capital Management L.L.C. and may be considered to have voting and investment control over 3,662,000 common shares owned by it or its affiliated entities; Mr. Watkins disclaims beneficial ownership with respect to such shares, except to the extent of any indirect pecuniary interest he may have by virtue of any ownership interest in the Prescott Group entities.
- (5) Includes 20,000 common shares issuable upon exercise of options that are currently exercisable. Does not include 5,000 common shares issuable upon exercise of options that are not currently exercisable.
- (6) Includes 540,653 common shares issuable upon exercise of warrants that are currently exercisable and 102,000 common shares issuable upon exercise of options that are currently exercisable.

## **Certain Relationships and Related Party Transactions**

### ***Director Nominee Arrangements***

XL Capital Ltd has the right to nominate one person for election as a director of the Company for so long as it owns at least 500,000 common shares. Michael P. Esposito, Jr., a director of the Company, currently serves as the non-executive Chairman of the Board of XL Capital Ltd.

### ***Transactions with Shareholders***

#### ***Overseas Partners, Ltd.***

On September 14, 2005, pursuant to a purchase agreement of the same date, we purchased from Overseas Partners, Ltd. 1,773,050 shares of our common stock and Class B warrants to purchase an additional 133,396 shares of our common stock for a total cash purchase price of \$1,453,901. The warrants had an exercise price of \$14.06 per share. The repurchased shares represented approximately 6.74% of our outstanding common shares at that time. Following the repurchase, the shares and the warrants were cancelled. As a consequence of the share purchase transaction Overseas Partners no longer owned any common shares and therefore lost its director nomination rights.

MANAGEMENT HOPES THAT SHAREHOLDERS WILL ATTEND THE MEETING. WHETHER OR NOT YOU PLAN TO ATTEND, YOU ARE URGED TO COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY IN THE ACCOMPANYING ENVELOPE. A PROMPT RESPONSE WILL GREATLY FACILITATE ARRANGEMENTS FOR THE MEETING AND YOUR COOPERATION IS APPRECIATED. SHAREHOLDERS WHO ATTEND THE MEETING MAY VOTE THEIR STOCK PERSONALLY EVEN THOUGH THEY HAVE SENT IN THEIR PROXIES.

By Order of our Board of Directors,

/s/ Martin S. Berkowitz

MARTIN A. BERKOWITZ

*Chairman of the Board*

May 3, 2006

