PENN AMERICA GROUP INC
Form 10-K
March 28, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to __________

Commission file Number 022316

PENN-AMERICA GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	23-2731409
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
420 S. York Road, Hatboro, PA	19040
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code (215) 443-3600

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, par value, per share	New York

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

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 X No _____.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of March 22, 2002, the aggregate market value of the outstanding Common Stock held by non-affiliates of the Registrant was approximately $69,149,535. As of March 22, 2002, there were 7,697,469 shares of the Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's annual report to stockholders for the fiscal year-ended December 31, 2001 are incorporated by reference in Parts I, II and IV of this report.

Portions of the Registrant's definitive Proxy Statement with respect to the Registrant's 2002 Annual Meeting of Shareholders, to be filed not later than 120 days after the close of the Registrant's fiscal year, are incorporated by reference in Part III of this report.

PENN-AMERICA GROUP, INC.
ANNUAL REPORT ON FORM 10-K
DECEMBER 31, 2001

PART I

ITEM 1. BUSINESS

General

Penn-America Group, Inc. ("PAGI") is a specialty property and casualty insurance holding company which, through its subsidiary, Penn-America Insurance Company ("Penn-America") and its subsidiary, Penn-Star Insurance Company ("Penn-Star") (collectively the "Company"), markets and underwrites commercial property, general liability and multi-peril insurance for small businesses located primarily in small towns and suburban and rural areas. Penn-America can write business in all fifty states and the District of Columbia. The Company writes business on both an admitted and non-admitted (excess and surplus lines) basis in thirty-six states, on only an admitted basis in two states and on only a non-admitted basis in twelve states and the District of Columbia.

Penn-America Insurance Company was formed in 1975 by Irvin Saltzman, who began working in the insurance industry in 1947 when he founded a general agency. The Company completed an initial public offering ("IPO") on October 28, 1993, at a price of $6.00 per share, which was then followed by a secondary offering in July of 1997 where 3,025,000 shares were sold by the Company for net proceeds of approximately $14.50 per share. Currently, the Saltzman family, substantially through their ownership of Penn Independent Corporation ("Penn-Independent"), owns approximately 40% of the Company's Common Stock. Jon S. Saltzman, Irvin Saltzman's son, is President and Chief Executive Officer of the Company and has been employed by the Company since 1986. Prior to 1986, Jon Saltzman was employed by Penn Independent from 1976 to 1986.

Marketing and Distribution

Penn-America's commercial insureds consist primarily of small, "Main Street" businesses including restaurants, mercantiles and non-residential service contractors. In addition, the Company has developed customized products and coverages for other small commercial insureds such as daycare facilities, fitness centers and special events. The Company believes it has benefited from a general migration of small businesses out of urban centers and into suburban and rural areas. Industry consolidation, corporate downsizing and the increased use of communications technology and personal computers, among other factors, have contributed to the high growth in the number of small businesses in these areas. The Company selects only insurance lines of business and industry segments for which it reasonably can estimate future loss costs and the resulting price levels needed to produce a satisfactory return to the Company. Therefore, the

Company avoids high-hazard risks and high-hazard lines of business such as medical malpractice and environmental liability.

Penn-America markets its products through fifty-seven general agents, who in turn produce business through more than 25,000 retail insurance brokers located throughout the United States. The Company focuses on serving the insurance needs of small businesses in small towns and rural areas that are serviced by retail insurance brokers with limited access to larger, standard lines insurers. The Company believes that larger, standard lines insurers, which often limit their underwriting to larger policies and to certain risk classes, generally underserve these markets. Penn-America believes that its distribution network enables it to effectively access these numerous small markets at a relatively low fixed-cost through the marketing, underwriting and administrative support of its general agents. This access also is enabled by the local market knowledge and expertise of these general agents and their retail insurance brokers.

Penn-America's distribution strategy is to maintain strong relationships with a select group of high-quality general agents. The Company believes that its network comprises a smaller, higher-quality group of agents than its competitors. The Company carefully selects a limited number of general agents based on their experience and reputation and strives to preserve each agent's franchise value within its marketing territory. The Company seeks to grow with

these general agents and develop strong, long-standing relationships by providing a high level of service and support. The success of the Company's strategy is demonstrated by its strong and consistent growth. From 1992 to 2001, commercial gross written premiums grew at an 18% compound annual rate from $22.6 million to $98.4 million while the number of general agents rose from 38 to 57.

Core Commercial Business

The Company underwrites its core commercial business (excluding the Company's exited commercial automobile business - see Exited Lines, below) on a Binding Authority, Submit and Specialty Lines basis.

Binding Authority business accounted for approximately 88% of the Company's core commercial gross written premiums in 2001. Of this amount, approximately 85% is bound by general agents in accordance with the Company's underwriting manual. New and renewal Binding Authority business issued by the general agents is reviewed on a continuous basis to ensure that the Company's underwriting guidelines are followed. The Company provides its general agents with a comprehensive, regularly updated underwriting manual, which also is available online through a private intranet site called PennLink. This manual clearly outlines the Company's risk eligibility, pricing, underwriting guidelines and policy issuance instructions. Penn-America closely monitors the underwriting quality of its business through online system edits and in-force account reviews. The Company also periodically audits each agent's office to determine if the Company's underwriting guidelines are followed in all aspects of risk selection, underwriting compliance, policy issuance and pricing. In addition to standard commissions, the Company provides strong incentives to its general agents to produce profitable business through a contingent profit commission structure that is tied directly to underwriting profitability. Payments of these contingent profit commissions have been through the issuance of shares of PAGI common stock and cash. Since 1996, the Company has awarded agents approximately 184,000 shares of PAGI common stock through its contingent profit commission structure.

The Company began writing business on a Submit basis in 1999 in response to general agents who had risks similar to the Company's risk profile but were outside of their underwriting authority. This provides a market to the Company's general agents for approximately fifty classes of business. One hundred percent of the business is quoted and bound by Penn-America underwriters; general agents have no binding authority. This business accounted for approximately 5% of core commercial gross written premiums in 2001.

Specialty Lines business, which accounted for 7% of the Company's core commercial gross written premiums in 2001, represents specialized underwriting and marketing programs for individual general agents based upon specific territorial needs and opportunities. An individual general agent typically is given exclusive marketing authority for a special program subject to territorial limitations. The Company believes it can achieve superior underwriting results and expense savings on these programs. The Company continuously is developing specialized programs for certain industry segments to meet the needs of insureds in these segments. For example, Penn-America has developed programs for cargo and Alaskan dwellings. Collectively, these programs are a significant benefit to Penn-America's marketing efforts.

Exited Lines

The Company offered commercial automobile coverage from 1998 through the first quarter of 2001. In late 2000, the Company announced that it was exiting this line of business due to unsatisfactory underwriting results. No new policies have been written since the first quarter of 2001 and all policies are being non-renewed. Gross written premiums for commercial automobile business decreased to $1.1 million in 2001 from $11.5 million in 2000 and $7.0 million in 1999.

The Company exited the non-standard personal automobile business in 1999 and, as a result, gross written premiums declined to $2,000 in 2001 from $2.8 million in 2000 and $11.5 million in 1999.

Financial Information About Business Segments

The Company has two reportable segments: personal lines and commercial lines. The Company exited the non-standard personal automobile business in 1999 and announced that it would run-off its remaining portfolio of such business. The Company will continue to report on this segment separately until the amounts relating to the non-standard personal automobile business become immaterial to the financial statements presented. These segments were managed separately because they have different customers, pricing and expense structures. The Company does not allocate assets between segments because assets are reviewed in total by management for decision-making purposes.

The accounting policies of the segments are the same as those more fully described in the summary of significant accounting policies in Note 1 to the audited financial statements, incorporated herein by reference. The Company evaluates segment profit based on profit or loss from operating activities. Segment profit or loss from operations is pre-tax and does not include unallocated expenses but does include investment income attributable to insurance transactions. Segment profit or loss therefore excludes income taxes, unallocated expenses and investment income attributable to equity. The aforementioned segment information is presented in Note 8 to the audited financial statements incorporated herein by reference.

The following table sets forth the geographic distribution of the Company's gross written premiums for the periods indicated:

	Years ended December 31,			
	2001		2000	
(Dollars in Thousands)	Amount	Percent	Amount	Percent
Pacific	$ 15,613	15.9%	$ 19,961	18.2%
Midwest	17,338	17.6	21,768	19.8
South	17,021	17.3	16,539	15.1
Southwest	12,306	12.5	15,532	14.1
Mid-Atlantic	17,633	17.9	17,253	15.7
Mountain/Northwest	8,088	8.2	10,457	9.5
New England	10,413	10.6	8,281	7.6
	$ 98,412	100.0%	$109,791	100.0%

Lines of Business

The following table sets forth an analysis of gross written premiums by specific product lines during the periods indicated:

	Years ended December 3			
	2001		2000	
(Dollars in thousands)	Amount	Percent	Amount	Percent
Core commercial lines				
Special property	$10,118	10.3%	$5,930	5.4%
CMP - property	36,381	37.0	32,677	29.8
CMP - liability	27,348	27.8	27,660	25.2
Other & product liability	23,483	23.8	29,268	26.6
Total core commercial	97,330	98.9	95,535	87.0
Exited lines				

Commercial auto liability	874	0.9	8,779	8.0
Commercial auto physical damage	206	0.2	2,690	2.5
Personal lines	2	-	2,787	2.5
Total exited lines	1,082	1.1	14,256	13.0
Total gross written premiums	$ 98,412	100.0%	$109,791	100.0%

- The Company's Commercial General Liability insurance is written on an occurrence policy form (as opposed to a claims-made policy form) and provides limits generally ranging from $25,000 to $3 million per occurrence, with the majority of such policies having limits between $500,000 and $1 million. The Company's general liability policies provide for defense and related expenses in addition to per occurrence and aggregate policy limits.

- The Company's Commercial Property lines provide limits usually no higher than $2 million per risk, with almost all of the policies being written at limits of $1 million per risk or less.

- The Company writes Commercial Multi-Peril policies that provide the same commercial property and general liability coverages bundled together as a "package" for its insureds. The limits on these policies are the same as if written on a monoline basis.

- The Company also offers Commercial Umbrella policies to enhance its commercial multi-peril and commercial general liability writings. Commercial umbrella insurance is written for limits up to $5 million per occurrence. For commercial umbrella coverage, Penn-America usually writes the primary $1 million liability limit.

- Commercial Automobile policies were written with liability limits up to $1 million per occurrence.

- Non-Standard Personal Automobile policies were written with liability limits up to $100,000 per person and $300,000 per occurrence.

Pricing

In the commercial property and casualty market, the rates and terms of coverage provided by property and casualty insurance carriers are frequently based on benchmarks and forms promulgated by the Insurance Services Office ("ISO"). ISO makes available to its members advisory rating, statistical and actuarial services, policy language and other related services. ISO currently provides such services to more than 1,500 property and casualty insurance companies in the U.S. One of the services that ISO provides is an actuarial-based estimate of the expected loss cost for risks in each of approximately 1,000 risk classifications. These benchmark loss costs reflect an analysis of the loss and allocated loss adjustment expenses on claims reported to ISO. ISO statistics, however, include only claims and policy information reported to ISO, and therefore do not reflect all of the loss experience for each class. Also, the historical results for a particular class may not be sufficient to provide actuarially meaningful results.

The Company primarily uses ISO statistics as a benchmark for risk selection and pricing. Other carriers may or may not rely as heavily on this information, and several of the larger standard carriers have developed their own actuarial databases. As a general rule, most standard lines insurers set rates lower than ISO benchmarks. However, the Company, because of its strategy of providing insurance to underserved markets, typically charges 100% or more of prescribed ISO benchmarks. Generally, the Company establishes a pricing strategy on a country-wide basis that is designed to support its loss costs and operating expenses plus a targeted return on equity. This pricing strategy is regionalized to incorporate variables such as historical loss experience, the types and lines of business written and state regulatory considerations. The Company provides its general agents with pricing flexibility on a per-policy basis, with the objective that in the aggregate, the weighted average premium of all new and renewal commercial policies written by a general agent are at approximately 110-150% of ISO benchmarks.

Claims Management and Administration

Commercial Claims:
The Company's approach to commercial claims management is designed to investigate reported incidents at the earliest juncture, to select, manage and supervise all legal and adjustment aspects thereof and to provide a high level of service and support to general agents, retail insurance brokers and insureds throughout the claims process. The Company's commercial general agents have no authority to settle commercial claims or otherwise exercise control over the claims process. All commercial lines claims are supervised and processed centrally by the Company's claims management staff. Senior claims management reviews all claims greater than $25,000.

Discontinued Personal Automobile Claims:
All claims for the personal automobile business are handled by the Company's internal claims unit. Prior to February 1, 2000, if an automobile claim was in the States of California or Washington, they were handled by outside third-party claims management companies.

Reserves

The Company is directly liable for losses and loss adjustment expenses under the terms of the insurance policies that it writes. In many cases, several years may lapse between the occurrence of an insured loss, the reporting of the loss to the Company and the Company's payment of that loss. The Company reflects its liability for the ultimate payment of all incurred losses and loss adjustment expenses by establishing loss and loss adjustment expense reserves for both reported and unreported claims.

When a claim involving a probable loss is reported, the Company establishes a case reserve for the estimated amount of the Company's ultimate loss. The estimate of the amount of the ultimate loss is based upon such factors as the type of loss, jurisdiction of the occurrence, knowledge of the circumstances surrounding the claim, severity of injury or damage, potential for ultimate exposure and policy provisions relating to the claim. Loss adjustment expenses are determined via a formula method that estimates loss adjustment expenses as a percentage of expected indemnity losses based on historical patterns adjusted to current experience.

In addition to case reserves, management establishes reserves on an aggregate basis to provide for Incurred But Not Reported Losses and Loss Adjustment Expenses ("IBNR"). The establishment of reserves for IBNR requires an estimate of the ultimate liability based primarily on past experience. The Company applies a variety of traditional actuarial techniques to determine its estimate of ultimate liability. The techniques recognize, among other factors, the Company's and the industry's experience, historical trends in reserving patterns and loss payments, the pending level of unpaid claims, the cost of claim settlements, the line of business mix and the economic environment in which property and casualty insurance companies operate. Estimates continually are reviewed and, based on subsequent developments and new information, adjustments of the probable ultimate liability are included in operating results for the periods in which the adjustments are made. In general, reserves are established initially based upon the actuarial and underwriting data utilized to set pricing levels and are reviewed as additional information, including claims experience, becomes available. The establishment of loss and loss adjustment expense reserves made no provision for the broadening of coverage by legislative action or judicial interpretation or for the extraordinary future emergence of new types of losses not sufficiently represented in the Company's historical experience, or which cannot yet be quantified. The Company regularly analyzes its reserves and reviews its pricing and reserving methodologies so that future adjustments to prior year reserves can be minimized. However, given the complexity of this process, reserves will require continual updates and the ultimate liability may be higher or lower than previously indicated. The Company does not discount its loss reserves.

The following table represents the development of unpaid loss and loss adjustment expense reserves during the ten years ended December 31, 2001. The top of the table reflects the ten-year development of the Company's reserves, net of reinsurance. The bottom of the table reconciles 1992 through 2001 ending reserves to the gross reserves in the Company's consolidated financial statements. Prior to 1992, the Company developed its reserves on a net of reinsurance basis and restatement for those prior years is not presented. The top line of the table shows the estimated reserve for unpaid loss and loss adjustment expenses at the balance sheet date for each of the indicated years. These figures represent the estimated amount of unpaid loss and loss adjustment expenses for claims arising in all prior years that were unpaid at the balance sheet date, including losses that had been incurred but not yet reported. The table also shows the re-estimated amount of the previously recorded reserve based on experience as of the end of each succeeding year. The estimate changes as more information becomes available about the frequency and severity of claims. The cumulative redundancy or deficiency represents the aggregate change in the reserve estimates over all prior years.

	1991	1992	1993	1994	1995	1996	1997	19
Reserves for unpaid losses and loss adjustment	$25,681	$26,110	$26,830	$35,307	$46,512	$55,656	$68,863	$72

Expenses, as stated (In thousands)								
a. Net cumulative paid as of								
1 year later	$6,605	$7,381	$6,852	$12,383	$17,208	$23,660	$30,236	$36
2 years later	10,988	11,127	13,127	20,617	29,612	38,819	51,141	55
3 years later	13,325	15,546	18,656	27,266	38,091	50,982	63,470	70
4 years later	16,417	19,253	22,254	32,119	44,016	57,613	72,651	
5 years later	19,283	21,503	24,303	34,883	48,236	62,724		
6 years later	20,872	22,796	25,642	37,687	51,485			
7 years later	21,881	23,714	27,121	39,863				
8 years later	22,452	24,959	28,449					
9 years later	23,303	25,979						
10 years later	24,006							
b. Reserves re-estimated as of end of year								
1 year later	$23,228	$24,478	$23,897	$33,601	$45,708	$55,997	$68,946	$80
2 years later	22,383	21,945	23,489	34,281	47,225	57,913	76,217	86
3 years later	20,471	22,032	24,558	36,453	47,378	63,575	79,881	86
4 years later	20,819	22,767	26,335	36,359	50,704	67,310	81,226	
5 years later	21,726	23,935	26,380	38,768	54,245	68,567		
6 years later	22,550		27,532	41,425	54,740			
		24,143						
7 years later		24,776	29,050	42,095				
	22,761							
8 years later	23,117	26,485	29,804					
9 years later	24,280	26,948						
10 years later	24,644							
Net cumulative redundancy (deficiency)	$1,037	($839)	($2,974)	($6,788)	($8,228)	($12,911)	($12,363)	($14
Gross liability for unpaid losses and loss adjustment expenses, as stated		$31,703	$33,314	$44,796	$60,139	$70,728	$84,566	$88
Reinsurance recoverable		5,593	6,484	9,489	13,627	15,072	15,703	16
Net liability for unpaid losses and loss adjustment expenses, as stated		26,110	26,830	35,307	46,512	55,656	68,863	72
Gross liability re-estimated – 1 year later		30,609	32,796	48,173	63,884	71,644	85,640	98
Reinsurance								

recoverable re-estimated	6,131	8,899	14,572	18,176	15,647	16,694	17
Net liability re-estimated - 1 year later	24,478	23,897	33,601	45,708	55,997	68,946	80
Gross liability re-estimated - 2 years later	30,390	36,243	53,009	66,405	74,312	92,832	104
Reinsurance recoverable re-estimated	8,445	12,754	18,728	19,180	16,399	16,615	18
Net liability re-estimated - 2 years later	21,945	23,669	34,281	47,225	57,913	76,217	86
Gross liability re-estimated - 3 years later	33,992	41,600	56,042	66,891	80,574	97,786	105
Reinsurance recoverable re-estimated	11,960	17,042	19,589	19,513	16,999	17,905	18
Net liability re-estimated - 3 years later	22,032	24,558	36,453	47,378	63,575	79,881	86
Gross liability re-estimated - 4 years later	38,165	43,824	56,167	68,927	84,831	98,244	
Reinsurance recoverable re-estimated	15,398	17,489	19,808	18,223	17,521	17,018	
Net liability re-estimated - 4 years later	22,767	26,335	36,359	50,704	67,310	81,226	
Gross liability re-estimated - 5 years later	39,956	44,466	58,272	73,042	85,221		
Reinsurance recoverable re-estimated	16,021	18,086	19,504	18,797	16,654		
Net liability re-estimated - 5 years	23,935	26,380	38,768	54,245	68,567		

later							
Gross liability re-estimated - 6 years later	40,670	45,595	61,814	72,978			
Reinsurance recoverable re-estimated	16,527	18,063	20,389	18,238			
Net liability re-estimated - 6 years later	24,143	27,532	41,425	54,740			
Gross liability re-estimated - 7 years later	41,679	47,955	61,766				
Reinsurance recoverable re-estimated	16,903	18,905	19,671				
Net liability re-estimated - 7 years later	24,776	29,050	42,095				
Gross liability re-estimated - 8 years later	43,958	48,032					
Reinsurance recoverable re-estimated	17,473	18,228					
Net liability re-estimated - 8 years later	26,485	29,804					
Gross liability re-estimated - 9 years later	44,248						
Reinsurance recoverable re-estimated	17,300						
Net liability re-estimated - 9 years later	26,948						
Gross cumulative deficiency	($12,545)	($14,718)	($16,970)	($12,838)	($14,493)	($13,678)	($16

The following table sets forth ratios for the Company and the industry prepared in accordance with statutory accounting practices ("SAP") prescribed or permitted by state insurance authorities. The statutory combined ratio, which reflects underwriting results but not investment income, is a traditional measure of the underwriting performance of a property and casualty insurer. This ratio is the sum of (i) the ratio of incurred losses and loss adjustment expenses to net earned premium ("loss ratio"); and (ii) the ratio of expenses incurred for commissions, premium taxes, administrative and other underwriting expenses to net written premium ("expense ratio").

	Years ended December 3	
	2001	2000
The Company:		
SAP Basis		
Loss and loss adjustment expense ratio	68.5	82.4
Expense ratio	33.6	33.2
Combined ratio	102.1	115.6

	Years ended December 3		
	2001 (1)	2000 (2)	1
Property and casualty insurance industry :			
SAP Basis			
Loss and loss adjustment expense ratio	88.0	81.5	
Expense ratio	25.9	27.5	
Dividend ratio	.5	1.4	
Combined ratio	114.4	110.4	

Reinsurance

The Company purchases reinsurance through contracts called "treaties" to reduce its exposure to liability on individual risks and to protect against catastrophic losses. Reinsurance involves an insurance company transferring or "ceding" a portion of its exposure on a risk to another insurer (the "reinsurer"). The reinsurer assumes the exposure in return for a portion of the premium. The ceding of liability to a reinsurer does not legally discharge the primary insurer from its liability for the full amount of the policies on which it obtains reinsurance. The primary insurer will be required to pay the entire loss if the reinsurer fails to meet its obligations under the reinsurance agreement.

In formulating its reinsurance programs, the Company is selective in its choice of reinsurers and considers numerous factors, the most important of which are the financial stability of the reinsurer, its history of responding to claims and its overall reputation. In an effort to minimize its exposure to the insolvency of its reinsurers, the Company evaluates the acceptability and reviews the financial condition of each reinsurer annually. The Company's policy is to use only reinsurers that have an A.M. Best rating of "A- (Excellent)" or better and that have at least $500 million in policyholders' surplus.

Since September 2001, the Company's multiple-line excess of loss treaty reinsurance is with American Re, part of the Munich Re Group. American Re is rated "A++" (Superior) by A.M. Best. For the three years prior to September 1, 2001, General Reinsurance Corporation, rated "A++" (Superior) by A.M. Best, was

the Company's reinsurer on their multiple-line excess of loss treaty. The following is a summary of the Company's multiple-line excess of loss reinsurance treaty:

Line of Business	Company Policy Limit	Reinsurance Coverage / Company R
Property	$2.0 million per risk	$1.7 million per risk in excess o
Commercial Automobile	$1.0 million per occurrence	$750,000 per occurrence in excess
General Liability	$3.0 million per occurrence	$2.5 million per occurrence in ex occurrence

The combined Company retention for any one loss resulting from a common occurrence involving both the property and general liability coverage on a single risk is $500,000. The Company also maintains casualty contingent excess coverage with American Re, which covers exposures such as punitive damages and other extra-contractual obligations, losses in excess of policy limits (such as bad faith and errors and omissions) and liability actions brought by two or more of the Company's insureds against each other resulting from the same occurrence.

The Company offers umbrella liability policies up to $5.0 million per occurrence. These policies are reinsured with American Re for 90% of policy limits up to $1.0 million per occurrence and 100% of policy limits to $4.0 million in excess of $1.0 million per occurrence.

The Company maintains a catastrophic loss reinsurance program, the terms of which provide for 100% retention of the first $1.0 million per occurrence, reinsurance of 90.0% of $1.0 million per occurrence in excess of $1.0 million per occurrence and reinsurance of 100% of $23.0 million per occurrence in excess of $2.0 million per occurrence.

As of January 1, 2002, the Company's catastrophic loss reinsurance program includes: American Agricultural Insurance Company, Converium (North America), Converium (UK), Everest Reinsurance Company, Hannover Ruckversicherungs, PXRE Reinsurance Company, Shelter Reinsurance Company, Sirius International Insurance Corporation and XL Re Ltd. All of these reinsurers are rated A- (Excellent) or higher by A.M. Best and have policyholders' surplus greater than $500 million.

The Company may write individual policies with limits of liability greater than the aforementioned Company policy limits. These limits of liability are 100% reinsured on a facultative reinsurance basis.

Information regarding the amount of premiums written and ceded under reinsurance treaties is included in Note 5 to the audited financial statements, incorporated herein by reference.

Investments

The Company's investment policy seeks to maximize investment income consistent with the overriding objective of maintaining liquidity and minimizing risk. Approximately 93% of the Company's fixed-income securities as of December 31, 2001 were rated "A" or better by Standard & Poor's or an equivalent rating by Moody's. As of December 31, 2001, the Company's fixed-income investments had an effective average duration of approximately 3.5 years. Publicly traded equity securities, the majority of which consisted of preferred stocks, represented 16% of the Company's investment portfolio as of December 31, 2001.

As of December 31, 2001, the Company's investment portfolio contained $48.8 million of mortgage-backed and asset-backed and collateral mortgage obligations. All of these securities were rated "AA-" or better by Standard & Poor's or Moody's and 75% were "AAA" or better by Standard & Poor's or Moody's, are publicly traded, and have market values obtained from an external pricing service. Changes in estimated cash flows due to changes in prepayment assumptions from the original purchase assumptions are revised based on current interest rates and the economic environment. Although the Company is permitted to invest in other derivative financial instruments, real estate mortgages and real estate, the Company does not invest in these financial instruments and does not have any such investments in its investment portfolio.

The Company's investment portfolio is under the direction of its Investment Committee, which is comprised of selected members of the Company's Board of Directors and officers of the Company. The Investment Committee establishes and monitors the Company's investment policies, which are intended to maximize after-tax income while maintaining a high level of quality and liquidity in its portfolio for insurance operations. All investment transactions are approved by the Investment Committee.

The Investment Committee has retained General Re-New England Asset Management, Inc, a wholly-owned subsidiary of General Re Corporation, to manage its investment portfolio in accordance with the investment strategy adopted by the Investment Committee.

The following table shows the classifications of the Company's investments at December 31, 2001:

	Fair value	Amount reflected on balance sheet	Percen tota

		(In thousands)	
Fixed maturities:			
Available for sale:			
U.S. Treasury securities and obligations of U.S. government agencies	$ 4,195	$ 4,195	2
Corporate securities	52,021	52,021	29
Mortgage-backed securities	27,316	27,316	15
Other structured securities	21,462	21,462	12
Municipal securities	21,004	21,004	12
Public utilities	9,255	9,255	5
Total available for sale	135,253	135,253	77
Held to maturity			
U.S. Treasury securities and obligations of U.S. government agencies	14,025	13,812	7
Corporate securities	290	276	0
Public utilities	1,002	996	0
Total held to maturity	15,317	15,084	8
Total fixed-maturity securities	150,570	150,337	85
Equity securities:			
Common stock	7,977	7,977	4
Preferred stock	17,172	17,172	9
Total equity securities	25,149	25,149	14
Total investments	$175,719	$175,486	100

The chart presented on Page 19 of the Company's Annual Report, incorporated herein by reference, sets forth the composition of the Company's portfolio of fixed-income investments by rating at December 31, 2001. The market risk of the Company's investment portfolio is described on pages 19 and 20 of the Company's Annual Report and is incorporated herein by reference.

Footnote 4 to the audited financial statements, incorporated herein by reference, sets forth the net investment income results of the Company for 2001, 2000 and 1999.

Competition

The property and casualty insurance industry is highly competitive and includes several thousand insurers, ranging from large companies offering a wide variety of products worldwide to smaller, specialized companies in a single state or region and offering in some cases only a single product. The Company competes with a significant number of these insurers in attracting quality general agents and in selling insurance products. Many of the Company's existing or potential competitors are larger excess and surplus lines and specialty admitted insurers which have considerably greater financial and other resources, have greater experience in the insurance industry and offer a broader line of insurance products than the Company. The Company believes that in order to be successful in its market, it must be aware of pricing cycles, must be able to minimize the impact of such cycles through tight expense control and superior customer service. Another competitive factor is the rating assigned by independent rating organizations such as A.M. Best Company. Penn-America and Penn-Star currently have a pooled rating from A.M. Best of "A-"(Excellent).

The Company believes that its distribution strategy, which is based on building and maintaining strong relationships with a small number of high quality general agents that are enabled with the latest technological innovation, provides a competitive advantage in the markets it targets. The "Marketing and Distribution" section included herein more fully describes the elements of the strategies which the Company believes provide this competitive advantage.

Regulation

General. The Company is subject to regulation under the insurance statutes and regulations, including insurance holding company statutes, of the various states in which it does business. These statutes are generally designed to protect the interests of insurance policyholders, as opposed to the interests of stockholders, and they relate to such matters as the standards of solvency which must be met and maintained; the licensing of insurers and their agents; the nature and limitations of investments; deposits of securities for the benefit of policyholders; approval of policy forms and premium rates; periodic examination of the affairs of insurance companies; annual and other reports required to be filed on the financial condition of insurers or for other purposes; establishment and maintenance of reserves for unearned premiums and losses; and requirements regarding numerous other matters. All insurance companies must file annual statements with certain state regulatory agencies and are subject to regular and special financial examinations by those agencies. The last regulatory financial examination of Penn-America was completed by the Pennsylvania Insurance Department in 1999, covering the five-year period ended December 31, 1998, and for Penn-Star, covering a two year period ended December 31, 1998, since its initial licensing in 1997.

Insurance Holding Company Laws. Pennsylvania, the Companies' state of domicile, has laws governing insurers and insurance holding companies. The Pennsylvania statutes generally require insurers and insurance holding companies to register and file reports concerning their capital structure, ownership, financial

condition and general business operations. Under the statutes, a person must generally obtain the Pennsylvania Insurance Department's approval to acquire, directly or indirectly, 10% or more of the outstanding voting securities of the company or any of its insurance company subsidiaries. The insurance department's determination of whether to approve any such acquisition is based on a variety of factors, including an evaluation of the acquirer's financial condition, the competence of its management and whether competition would be reduced. All transactions within a holding company's group affecting an insurer must be fair and reasonable and the insurer's policyholders' surplus following any such transaction must be both reasonable in relation to its outstanding liabilities and adequate for its needs. Notice to applicable regulators is required prior to the consummation of certain transactions affecting insurance subsidiaries of the holding company group.

Dividend Restrictions. PAGI is a holding company, the principal asset of which is the common stock of Penn-America. The principal source of cash for the payment of dividends to PAGI's stockholders, PAGI operating expenses and repurchase of PAGI stock is dividends from Penn-America. Penn-America's principal sources of funds are operations, investment income and proceeds from sales and redemptions of investments. Funds are used by Penn-America and Penn-Star principally to pay claims and operating expenses, to purchase investments and to make dividend and other payments to PAGI.

Penn-America is required by law to maintain a certain minimum surplus on a statutory basis and is subject to risk-based capital requirements and regulations under which payment of dividends from statutory surplus may require prior approval from the Pennsylvania Insurance Department. Penn-America may pay dividends to PAGI without advance regulatory approval only from unassigned surplus and only to the extent that all dividends in the past twelve months do not exceed the greater of 10% of total statutory surplus or statutory net income for the prior year. Using these criteria, the available ordinary dividend for 2002 is $6,473,325. Ordinary dividends paid by Penn-America to PAGI in 2001 were $1.6 million. No ordinary dividends were paid to PAGI in 2000. Rather, Penn-America paid a $6.4 million return of capital to PAGI in 2000, after receiving approval from the Pennsylvania Insurance Department, which PAGI used to repurchase stock and pay dividends and PAGI operating expenses.

Insurance Guaranty Funds. Under insolvency or guarantee laws in states in which Penn-America is licensed as an admitted insurer (and in New Jersey), organizations have been established (often referred to as guaranty funds) with the authority to assess admitted insurers up to prescribed limits for the claims of policyholders insured by insolvent, admitted insurance companies. Surplus lines insurance companies are generally not subject to such assessments except in New Jersey and their policyholders are not eligible to file claims against the guaranty funds.

Additional Legislation or Regulations. New regulations and legislation are proposed from time to time to limit damage awards, to bring the industry under regulation by the federal government, to control premiums, policy terminations and other policy terms, and to impose new taxes and assessments. Difficulties with insurance availability and affordability have increased legislative activity at both the federal and state levels. Some state legislatures and regulatory agencies have enacted measures, particularly in personal lines, to limit midterm cancellations by insurers and require advance notice of renewal intentions. In addition, Congress is investigating possible avenues for federal regulation of the insurance industry.

Employees

The Company has approximately 100 employees. The Company is not a party to any collective bargaining agreements and believes that its employee relations are good.

Item 2. Properties

The Company leases approximately 23,000 square feet in an office building located in Hatboro, Pennsylvania. The office building also houses Penn Independent and certain of its subsidiaries. The Company leases the space from Mr. Irvin Saltzman, Chairman of the Board of Directors of the Company, pursuant to a lease agreement renewed June 30, 2000 that expires on June 30, 2005, and provides for an annual rental payment of $357,247. This amount is considered by the Company to be at fair market value.

ITEM 3. Legal Proceedings

The Company's insurance subsidiaries are subject to routine legal proceedings in connection with their property and casualty business. Penn-America has been named as a defendant in litigation commenced in the Superior Court of California, County of Los Angeles, on November 6, 2000 and in an identical suit on December 18, 2000 in the County of Orange relating to our exited non-standard personal automobile business. It is not possible at this time to evaluate the probability of a favorable or unfavorable outcome, nor is it possible to estimate the amount of loss, if any. Management believes that its position is defensible as to such litigation and is of the opinion that the amount of loss, if any, will not have a material effect on the Company's financial statements. The Company is involved in no other pending or threatened legal or administrative proceedings which management believes might have a material adverse effect on the Company's financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted during 2001 to a vote of holders of PAGI's common stock.

PART II

ITEM 5. Market for the Registrant's Common Stock and Related Stockholder Matters

The "Market for Registrant's Common Stock and Related Security Holder Matters" section on the inside back cover of the Company's Annual Report to stockholders for the year ended December 31, 2001, which is included as Exhibit (13) to this Form 10-K Report, is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The "Selected Consolidated Financial Data" section on page 12 of the Company's Annual Report to stockholders for the year ended December 31, 2001, which is included as Exhibit (13) to this Form 10-K Report, is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The "Management's Discussion and Analysis of Results of Operations and Financial Condition" section on pages 13 to 21 of the Company's Annual Report to stockholders for the year ended December 31, 2001, which is included as Exhibit (13) to this Form 10-K Report, is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The "Quantitative and Qualitative Disclosures About Market Risk" section on pages 19 to 20 of the Company's Annual Report to stockholders for the year ended December 2001, which is included as Exhibit (13) to this Form 10-K Report, is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements on pages 24 to 42 of the Company's Annual Report to stockholders for the year ended December 31, 2001, which is included as Exhibit (13) to this Form 10-K Report, are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. Directors and Executive Officers of the registrant

The Director's information will be in the Company's definitive Proxy Statement with respect to the Company's 2002 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year, and is hereby incorporated by reference thereto.

Executive Officers of the Registrant as of March 15, 2002 are as follows:

Irvin Saltzman	79	Chairman of the Board of Directors of PAGI and Penn-America
Jon S. Saltzman	44	President and Chief Executive Officer of PAGI and Penn-America
Joseph F. Morris	47	Senior Vice President, Chief Financial Officer and Treasurer of PAGI and Penn-America
Garland P. Pezzuolo	37	Vice President, Secretary and General Counsel of PAGI and Penn-America

ITEM 11. EXECUTIVE COMPENSATION

This information will be contained in the Company's definitive Proxy Statement with respect to the Company's 2002 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year, and is hereby incorporated by reference thereto.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information will be contained in the Company's definitive Proxy Statement with respect to the Company's 2002 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year, and is hereby incorporated by reference thereto.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information will be contained in the Company's definitive Proxy Statement with respect to the Company's 2002 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year, and is hereby incorporated by reference thereto.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

a.) The following consolidated financial statements, financial statement schedules and exhibits are filed as part of this report:

1. Consolidated Financial Statements

Consolidated Balance Sheets at December 31, 2001 and 2000
Consolidated Statements of Operations for the years ended December 31, 2001, 2000,

Consolidated Statements of Stockholders' Equity for the years ended December 31, and 1999.
Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000,

Notes to Consolidated Financial Statements
Independent Auditors' Report for the years 2001, 2000 and 1999

The following consolidated financial statement schedules for the years 2001, 2000, and 1999 are submitted herewith:

2. Financial Statement Schedules.

Schedule I. Summary of Investments - Other Than Investments in Related Partie
Schedule II. Condensed Financial Information of Parent Company
Schedule III. Supplementary Insurance Information
Schedule IV. Reinsurance

Schedule VI. Supplemental Insurance Information Concerning Property and Casual Operations

Independent Auditors' Consent and Report on Schedules (filed as Exhibit 23)

All other schedules are omitted because they are not applicable or the required information is included in the financial statements or notes thereto.

3. Exhibit Index:

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* Refers to the respective page of Penn-America Group's 2001 Annual Report to Stockholders attached as Exhibit (13). The Consolidated Financial Statements and Independent Auditors' Report on pages 23 to 42 are incorporated herein by reference. With the exception of the portions of such Annual Report specifically incorporated by reference in this Item and Items 5, 6, 7 and 8, such Annual Report shall not be deemed filed as part of this Form 10-K or otherwise subject to the liabilities of Section 18 of the Securities and Exchange Act of 1934.

Exhibit Index

Exhibit No.	Description
3.1	Articles of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (No. 33-66892) filed with the Securities and Exchange Commission on August 2, 1993.
3.2	Bylaws of the Registrant, incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-1 (No. 33-66892) filed with the Securities and Exchange Commission on August 2, 1993.
10.3	1993 Casualty Excess of Loss Reinsurance Agreement with National Reinsurance Corporation, incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 (No. 33-66892) and filed with the Securities and Exchange Commission on August 2, 1993.
10.3(i)	Endorsements Nos. 4 through 6 (Termination Endorsement) to Casualty Excess of Loss Reinsurance Agreement with National Reinsurance Corporation, filed with the Securities and Exchange Commission with Registrant's Report on Form 10-K for the period ended December 31, 1995.
10.7	Agreement dated August 20, 1993, between Penn Independent Corporation ("Penn Independent") and the

	Registrant regarding the reimbursement of certain employment costs, incorporated by reference to Exhibit 10.7 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (No. 33-66892) and filed with the Securities and Exchange Commission on August 26, 1993.
10.7(i)	Amendment effective January 1, 1995 to August 20, 1993 Agreement between Penn Independent and Registrant regarding the sharing of certain operating costs, filed with Registrant's Report on Form 10-K for the period ended December 31, 1995, which has been filed with the Securities and Exchange Commission.
10.7(ii)	Amendments dated January 1, 1996, and March 1, 1996, to August 20, 1993 Agreement between Penn Independent and Registrant regarding the sharing of certain operating costs, filed with Registrant's Report on Form 10-K for the period ended December 31, 1996, which has been filed with the Securities and Exchange Commission.
10.7(iii)	Amendment dated March 1, 1997, to August 20, 1993 Agreement between Penn Independent and Registrant regarding the sharing of certain operating costs, filed with Registrant's Report on Form 10-K for the period ended December 31, 1997, which has been filed with the Securities and Exchange Commission.
10.7(iv)	Amendment dated January 1, 1999, to August 20, 1993 Agreement between Penn Independent and Registrant regarding the sharing of certain operating costs, filed with the Registrant's Report on Form 10-K for the period ended December 31, 1998, which has been filed with the Securities and Exchange Commission.

Exhibit No.	Description
10.7(v)	Amendment dated January 1, 2000, to August 20, 1993 Agreement between Penn Independent and Registrant regarding the sharing of certain operating costs, filed with Registrant's Report on Form 10-K for the period ended December 31, 1999, which has been filed with the Securities and Exchange Commission.
10.7(vi)	Amendment dated July 1, 2000, to August 20, 1993 Agreement between Penn Independent and Registrant regarding the sharing of certain operating costs, filed with Registrant's Report on Form 10-K for the period ended December 31, 2000, which has been filed with the Securities and Exchange Commission.
10.7(vii)	Amendment dated January 1, 2001, to August 20, 1993 Agreement between Penn Independent and Registrant regarding the sharing of certain operating costs.

10.9	Restated Investment Advisory Agreement effective July 1, 1990, between Penn America and Carl Domino Associates, L.P., incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (No. 33-66892) and filed with the Securities and Exchange Commission on August 2, 1993.
10.9(i)	Amended Investment Advisory Agreement effective September 1, 1997, between and among Penn-America, its subsidiary, Penn-Star and Carl Domino Associates, L.P., filed with the Registrant's Report on Form 10-K for the period ending December 31, 1997, which was filed with the Securities and Exchange Commission.
10.9(ii)	Agreement dated April 15, 1997, between and among General Re New England Asset Management, Inc., Penn-America, and its subsidiary, Penn-Star filed with the Registrant's Report on Form 10-K for the period ending December 31, 1997, which was filed with the Securities and Exchange Commission.
10.9(iii)	Investment Advisory Agreement effective February 19, 1999, between Penn-America Insurance Company and Madison Monroe, Inc., filed with Registrant's Report on Form 10-K for the period ended December 31, 1999, which has been filed with the Securities and Exchange Commission.
10.9(iv)	Notice of Termination effective July 1, 2000, of Investment Advisory Agreement dated September 1, 1997, between and among Penn-America Insurance Company, its subsidiary, Penn-Star Insurance Company and Carl Domino Associates, L.P., filed with Registrant's Report on Form 10-K for the period ended December 31, 2000, which has been filed with the Securities and Exchange Commission.
10.9(v)	Amendment dated November 7, 2000, to Agreement dated April 15, 1997, between and among General Re New England Asset Management, Inc., Penn-America Insurance Company, and its subsidiary, Penn-Star, filed with Registrant's Report on Form 10-K for the period ended December 31, 2000, which has been filed with the Securities and Exchange Commission.

Exhibit No.	Description
10.9(vi)	Amendment dated August 2, 2000, to Investment Management Agreement dated February 25, 1999, between Penn-America Insurance Company and Madison Monroe, Inc., filed with Registrant's Report on Form 10-K for the period ended December 31, 2000, which has been filed with the Securities and Exchange Commission.
10.9(vii)	Notice of Termination dated November 2, 2000, of Investment Management Agreement dated February 25, 1999, between Penn-America Insurance Company and Madison Monroe, Inc., filed with Registrant's Report on Form 10-K for the period ended December 31, 2000, which has

been filed with the Securities and Exchange Commission.

10.10	1993 Stock Incentive Plan, incorporated by reference to Exhibit 10.10 to Amendment No. 4 to the Registrant's Registration Statement on Form S-1 (No. 33-66892) and filed with the Securities and Exchange Commission on September 29, 1993.
10.10(i)	Penn-America Group, Inc. 1993 Stock Incentive Plan, as amended and restated April 4, 1994, incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (No. 33-82728) and filed with the Securities and Exchange Commission on August 11, 1994.
10.10(ii)	Employee Bonus Plan dated January 1, 2000, filed with Registrant's Report on Form 10-K for the period ended December 31, 1999, which has been filed with the Securities and Exchange Commission.
10.10(iii)	Amendment dated April 1, 2000, to Penn-America Group, Inc. 1993 Stock Incentive Plan, as amended and restated April 4, 1994.
10.11	Lease effective July 1, 2000, between Penn-America Insurance Company and Irvin Saltzman, filed with Registrant's Report on Form 10-K for the period ended December 31, 2000, which has been filed with the Securities and Exchange Commission.
10.14	1995 Multiple Line Excess of Loss (Casualty and Property) Reinsurance Agreement with National Reinsurance Corporation, filed with Registrant's Report on Form 10-K for the period ended December 31, 1995, which has been filed with the Securities and Exchange Commission.
10.14(i)	Endorsement No. 1 to Multiple Line Excess of Loss Reinsurance Agreement with National Reinsurance Corporation, effective as of January 1, 1995, filed with Registrant's Report on Form 10-K for the period ended December 31, 1995, which has been filed with the Securities and Exchange Commission.
10.14(ii)	Endorsement No. 2 to Multiple Line Excess of Loss Reinsurance Agreement with National Reinsurance Corporation, effective as of January 1, 1995, filed with Registrant's Report on Form 10-K for the period ended December 31, 1995, which has been filed with the Securities and Exchange Commission.

Exhibit No.	Description
10.14(iii)	1996 Property & Liability Reinsurance Agreement with General Re Corporation effective May 1, 1996, filed with the Registrant's Report on Form 10-K for the period ended December 31, 1996, which has been filed with the

Securities and Exchange Commission.

10.14(iv)	Property Catastrophe Excess of Loss Reinsurance Program between subscribing reinsurers and Penn-America and Penn-Star Insurance Companies effective January 1, 2000, to January 1, 2002.
10.16	Penn-America Group, Inc. 1995 Key Employee Incentive Compensation Plan, incorporated as Part I to Registrant's Registration Statement on Form S-8 (No. 333-00050) and filed with the Securities and Exchange Commission on January 4, 1996.
10.16(i)	Penn-America Insurance Company 2001 Key Employee Incentive Compensation Plan, effective January 1, 2001, filed with Registrant's Report on Form 10-K for the period ended December 31, 2000, which has been filed with the Securities and Exchange Commission.
10.17	Penn-America Insurance Company's Agency Award and Profit Sharing Plan, incorporated as Exhibit 4 to Registrant's Registration Statement on Form S-3 (No. 333-00046) and filed with the Securities and Exchange Commission on January 4, 1996.
10.17(i)	Penn-America Insurance Company's Agency Award and Profit Sharing Plan, attached as Exhibit 4 to Registrant's Registration Statement on Form S-3 (No. 333-49055) and filed with the Securities and Exchange Commission on March 31, 1998.
10.17(ii)	Amended General Agency Profit Sharing Addendum to Agency Award & Profit Sharing Plan, filed with Registrant's Report on Form 10-K for the period ended December 31, 1999, which has been filed with the Securities and Exchange Commission.
10.17(iii)	General Agent Contingent Profit Commission Addendum between agents and Penn-America and Penn-Star Insurance Companies effective January 1, 2001.
10.18	Stipulation of Termination of Property and Liability Reinsurance Agreement with National Reinsurance Corporation effective May 1, 1996, filed with the Registrant's Report on Form 10-K for the period ended December 31, 1996, which has been filed with the Securities and Exchange Commission.
10.19	Multiple Line Excess of Loss Agreement of Reinsurance including Endorsement No. 1 between General Reinsurance Corporation and Penn-America and Penn-Star Insurance Companies effective January 1, 2000.
10.19(i)	Endorsement No. 2 to the Multiple Line Excess of Loss Agreement of Reinsurance including Endorsement No. 1 (Exhibit 10.19) between General Reinsurance Corporation and Penn-America and Penn-Star Insurance Companies, effective September 1, 2001.

Exhibit No.	Description
10.20	Property and Casualty Excess of Loss Reinsurance Agreement between American Re-Insurance Company and Penn-America and Penn-Star Insurance Companies effective September 1, 2001.
11	Statement re: computation of per share earnings, incorporated by reference from Note 2 to the Consolidated Financial Statements, filed with Registrant's Report on Form 10-K for the period ended December 31, 2001, which has been filed with the Securities and Exchange Commission.
13	2001 Annual Report to Shareholders, incorporated by reference under Item 8.
21	As of December 31, 2001, the Registrant's only subsidiary is Penn-America Insurance Company, a Pennsylvania Corporation.
23	Independent Auditors' Consent and Report on Schedules
28.2	Credit Agreement among Registrant, Certain Lenders and First Union National Bank dated September 28, 1998, filed with the Securities and Exchange Commission, filed with the Registrant's Report on Form 10-K for the period ended December 31, 1998, which has been filed with the Securities and Exchange Commission.
28.3	First Amendment to Credit Agreement, dated May 12, 1999, among registrant, certain lenders and First Union National Bank, dated September 28, 1998, filed with Registrant's Report on Form 10-K for the period ended December 31, 1999, which has been filed with the Securities and Exchange Commission.
28.4	Second Amendment to Credit Agreement, dated August 26, 1999, among registrant, certain lenders and First Union National Bank, dated September 28, 1998, filed with Registrant's Report on Form 10-K for the period ended December 31, 1999, which has been filed with the Securities and Exchange Commission.
28.5	Third Amendment to Credit Agreement, dated March 15, 2000, among registrant, certain lenders and First Union National Bank, dated September 28, 1998, filed with Registrant's Report on Form 10-K for the period ended December 31, 1999, which has been filed with the Securities and Exchange Commission.
28.6	Notice of Termination of Credit Agreement, dated July 31, 2000, among Registrant, Certain Lenders, and First Union National Bank, parties to the Credit Agreement dated September 28, 1998, filed with the Registrant's Report on Form 10-K for the period ended December 31, 2000, which has been filed with the Securities and Exchange Commission.

30.0	Reinsurance Pooling Agreement between Penn-America Insurance Company and Penn- Star Insurance Company dated July 1, 1998, filed with the Securities and Exchange Commission.

Exhibit No.	Description
31.0	Amended and Restated Promissory Note and Security Agreement effective January 2, 2001, between Jon S. Saltzman and Penn-America Insurance Company which amends and restates in its entirety, including any amendments thereto, the Promissory Note and Security Agreement dated January 17, 2000.
31.0(i)	Amended and Restated Promissory Note and Security Agreement effective January 2, 2001, between Jon S. Saltzman and Penn-America Insurance Company which amends and restates in its entirety, including any amendments thereto, the Promissory Note and Security Agreement dated March 10, 2000.
31.0(ii)	Amended and Restated Promissory Note and Security Agreement effective January 2, 2001, between Jon S. Saltzman and Penn-America Insurance Company which amends and restates in its entirety, including any amendments thereto, the Promissory Note and Security Agreement dated September 19, 2000.
31.0(iii)	Amended and Restated Promissory Note and Security Agreement effective January 2, 2001, between J. Ransley Lennon and Penn-America Insurance Company which amends and restates in its entirety, including any amendments thereto, the Promissory Note and Security Agreement dated February 16, 2000.
31.0(iv)	Amended and Restated Promissory Note and Security Agreement effective January 2, 2001, between Garland P. Pezzuolo and Penn-America Insurance Company which amends and restates in its entirety, including any amendments thereto, the Promissory Note and Security Agreement dated February 11, 2000.
31.0(v)	Promissory Note and Security Agreement effective March 9, 2001, between Joseph F. Morris and Penn-America Insurance Company.
31.0(vi)	Promissory Note and Security Agreement effective March 28, 2001, between Joseph F. Morris and Penn-America Insurance Company.
31.0(vii)	Promissory Note and Security Agreement effective March 9, 2001, between Garland P. Pezzuolo and Penn-America Insurance Company.
31.0(viii)	Promissory Note and Security Agreement effective February 16, 2001, between Thomas P. Bowie and

Penn-America Insurance Company.

31.0(ix)	Promissory Note and Security Agreement effective February 23, 2001, between Thomas P. Bowie and Penn-America Insurance Company.
31.0(x)	Promissory Note and Security Agreement effective February 27, 2001, between Thomas P. Bowie and Penn-America Insurance Company.
31.0(xi)	Promissory Note and Security Agreement effective March 21, 2001, between Thomas P. Bowie and Penn-America Insurance Company.

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Exhibit No.	Description
(b)	
(1)	Form 8-K dated November 14, 2001 re: Quarterly Statements of Penn-America Insurance Company and Penn-Star Insurance Company, which was filed with the Securities and Exchange Commission.
(2)	Form 8-K dated December 4, 2001, re: delivering a presentation including a slide show to interested parties outlining the Company's business strategies and an overview of the Company's historical and financial results, which was filed with the Securities and Exchange Commission.

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PENN-AMERICA GROUP, INC.
Schedule I - Summary of Investments - Other than Investments in Related Parties
(in thousands)

	December 31, 2001		
	Amortized Cost	Fair Value	Amount shown on Balance She
Fixed maturities		(In thousands)	
Available for sale			

U.S. Treasury securities and obligations of U.S. government agencies	$ 4,013	$ 4,195	$ 4,195
Corporate securities	49,981	52,021	52,021
Mortgage-backed securities	26,483	27,316	27,316
Other structured securities	20,758	21,462	21,462
Municipal securities	20,569	21,004	21,004
Public utilities	9,172	9,255	9,255
Total available for sale	130,976	135,253	135,253
Held to maturity			
U.S. Treasury securities and obligations of U.S. government agencies	13,812	14,025	13,812
Corporate securities	276	290	276
Public utilities	996	1,002	996
Total held to maturity	15,084	15,317	15,084
Total fixed-maturity securities	146,060	150,570	150,337
Equity securities:			
Common stock	8,804	7,977	7,977
Preferred stock	18,966	17,172	17,172
Total equity securities	27,770	25,149	25,149
Total investments	$173,830	$175,719	$175,486

PENN-AMERICA GROUP, INC.
Schedule II--Condensed Financial Information of Parent Company
Condensed Balance Sheets
(in thousands except share data)

	Decemb
	2001

ASSETS	
Cash	$ 1,261
Investment in subsidiary, equity method	79,425
Other assets	359
Total assets	$ 81,045
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Accounts payable and accrued expenses	$ 25
Total liabilities	25
Stockholders' equity:	
Preferred stock, $ .01 par value; authorized 2,000,000 shares; none issued	
Common stock, $.01 par value; authorized 20,000,000 in 2001 and 2000; issued 2001, 10,152,234 and 2000, 10,076,025 shares; outstanding 2001, 7,652,234 and 2000, 7,576,025	101
Additional paid-in capital	70,786
Accumulated other comprehensive loss, net	1,092
Treasury stock 2,500,000 shares at cost	(24,161)
Retained earnings	33,334
Unearned compensation from restricted stock awards	(132)
Total stockholders' equity	81,020
Total liabilities and stockholders' equity	$ 81,045

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PENN-AMERICA GROUP, INC.
Schedule II--Condensed Financial Information of Parent Company
Condensed Statements of Operations
(in thousands except per share data)

	Years ended Decem	
	2001	2000
Revenue:		
Dividend income	$ 1,600	$ --
Other income	26	27
Operating expenses	(548)	(791)

Income before income tax and undistributed net income (loss) of subsidiary	1,078	(764)
Income tax benefit	177	260
Income before equity in undistributed net income of subsidiary	1,255	(504)
Equity in undistributed net income (loss) of subsidiary	4,096	(3,352)
Net income (loss)	$ 5,351	($3,856)
Net income (loss) per share		
Basic	$ 0.70	($ 0.50)
Diluted	$ 0.70	($ 0.50)

NOTE: Certain prior year amounts have been reclassified to conform to the 2001 presentation.

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PENN-AMERICA GROUP, INC.
Schedule II - Condensed Financial Information of Parent Company
Condensed Statements of Cash Flows
(in thousands)

	Years en December	
	2001	2000
Cash flows from operating activities:		
Net income (loss)	$ 5,351	$ (3,8
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Return of capital from subsidiary	--	6,4
Equity in undistributed net (income) loss of subsidiary	(4,096)	3,3
Amortization/depreciation	86	2
Increase (decrease) in :		
Accounts payable and accrued expenses	(148)	1
Other, net	74	
Net cash provided by operating activities	1,267	6,2
Cash flows from investing activities:		
Change in short-term investments	--	4

Net cash provided (used) by investing activities	--	4
Cash flows from financing activities:		
Issuance of common stock (net of expenses)	622	5
Purchase of treasury stock	--	(4,6
Dividends paid to common stockholders	(1,600)	(1,6
Net cash used by financing activities	(978)	(5,7
Increase (decrease) in cash	289	9
Cash, beginning of period	972	
Cash, end of period	$ 1,261	$ 9

NOTE: Certain prior year amounts have been reclassified to conform to the 2001 presentation.

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PENN-AMERICA GROUP, INC.
Schedule III - Supplementary Insurance Information
Years Ended December 31, 2001, 2000 and 1999
(in thousands)

	Deferred Policy Acquisition Costs	Liability for Unpaid Losses and Loss Adjustment Expenses	Unearned Premiums	Earned Premiums	Net Investment Income	Losses and Loss Adjustment Expenses	Amort Def Po Acqui Co
2001							
Commercial	$ 9,067	$117,555	$ 40,989	$ 88,912	$ 7,665	$ 62,414	$
Personal	16	2,043	45	22	--	(1,493)	
Unallocated	--	--	--	--	3,674	--	
Total	$ 9,083	$119,598	$ 41,034	$ 88,934	$ 11,339	$ 60,921	$
2000							
Commercial	$ 10,310	$109,377	$ 43,218	$ 87,556	$ 5,904	$ 72,893	$
Personal	7	5,937	21	3,893	549	2,485	
Unallocated	--	--	--	--	4,001	--	
Total	$ 10,317	$115,314	$ 43,239	$ 91,449	$ 10,454	$ 75,378	$

1999							
Commercial	$ 8,914	$ 82,192	$ 35,188	$ 71,731	$ 4,347	$ 49,744	$
Personal	392	11,527	1,144	13,946	735	13,443	
Unallocated	--	--	--	--	4,455	--	
Total	$ 9,306	$ 93,719	$ 36,332	$ 85,677	$ 9,537	$ 63,187	$

PENN-AMERICA GROUP, INC.
Schedule IV - Reinsurance
Years Ended December 31, 2001, 2000 and 1999
(in thousands)

Property and Liability Insurance Premiums	Direct	Ceded to Other Companies	Assumed from Other Companies	Net Premium Written	Perc of A to
2001	$98,328	$11,289	$84	$87,123	
2000	$108,622	$12,540	$ 1,169	$ 97,250	
1999	$ 94,967	$ 8,947	$ 1,016	$ 87,036	

PENN-AMERICA GROUP, INC.
Schedule VI- Supplemental Insurance Information Concerning
Property and Casualty Operations
Years Ended December 31, 2001, 2000 and 1999
(in thousands)

	Liability for Unpaid Losses and Loss Adjustment Expenses	Discount If Any, Deducted From Reserves	Loss and Loss Adjustment Expenses (Benefits) Incurred Related to Current Year	Prior Year
Years Ended				
December 31, 2001	$119,598	-	$60,885	
December 31, 2000	115,314	-	66,214	9,1
December 31, 1999	93,719	-	54,768	8,4

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Penn-America Group, Inc.

Date: March 28, 2001

By: /s/ Jon S. Saltzman

Jon S. Saltzman,
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

/s/ Irvin Saltzman Irvin Saltzman	Chairman of the Board of Directors and Director	March 28, 200
/s/ Jon S. Saltzman Jon S. Saltzman	President, Chief Executive Officer and Director (Principal Executive Officer)	March 28, 200
/s/ Robert A. Lear Robert A. Lear	Director	March 28, 200
/s/ Joseph F. Morris	Senior Vice President, Chief Financial Officer and Treasurer	March 28, 200

Joseph F. Morris

/s/ Garland P. Pezzuolo -------------------------- Garland P. Pezzuolo	Vice President, Secretary and General Counsel	March 28, 200
/s/ Paul Simon -------------------------- Paul Simon	Director	March 28, 200
/s/ Charles Ellman -------------------------- Charles Ellman	Director	March 28, 200
/s/ M. Moshe Porat -------------------------- M. Moshe Porat	Director	March 28, 200
/s/ Jami Saltzman-Levy -------------------------- Jami Saltzman-Levy	Director	March 28, 200
/s/ Martin Sheffield -------------------------- Martin Sheffield	Director	March 28, 200
/s/ E. Anthony Saltzman -------------------------- E. Anthony Saltzman	Director	March 28, 200