

Edgar Filing: PENN AMERICA GROUP INC - Form 10-Q

PENN AMERICA GROUP INC
Form 10-Q
May 14, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2002

OR

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 0-22316

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 South York Road, Hatboro, Pennsylvania 19040

(Address of principal executive offices, including zip code)

(215) 443-3600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such other 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 No

At May 9, 2002, 11,569,886 shares of the registrant's common stock, \$.01 par value, were outstanding.

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES Index

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES Consolidated Balance Sheets (In thousands, except per share data)

	March 2002 ----- (Unaudited)
ASSETS	
Investments:	
Fixed maturities:	
Available for sale, at fair value (amortized cost 2002, \$145,412; 2001, \$130,976)	\$ 148
Held to maturity, at amortized cost (fair value 2002, \$9,885; 2001, \$15,317)	9
Equity securities, at fair value (cost 2002, \$26,518; 2001, \$27,770)	23
Total investments	----- 181
Cash	16
Accrued investment income	2
Premiums receivable	10
Reinsurance recoverable	25
Prepaid reinsurance premiums	4
Deferred policy acquisition costs	9

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Capital lease		1
Deferred income taxes		4
Income tax recoverable		
Other assets		

Total assets	\$	257
		=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$	124
Unearned premiums		44
Accounts payable and accrued expenses		3
Capitalized lease obligation		1
Income tax payable		
Other liabilities		1

Total liabilities		176

Stockholders' equity:		
Preferred stock, \$.01 par value; authorized 2,000,000 shares; None issued		
Common stock, \$.01 par value; authorized 20,000,000 shares; issued 2002 and 2001, 15,299,954 and 15,228,351 shares, respectively; outstanding 2002 and 2001, 11,549,954 and 11,478,351 shares, respectively		
Additional paid-in capital		71
Accumulated other comprehensive income		
Retained earnings		34
Treasury stock, 3,750,000 shares at cost		(24)
Officers' stock loans		
Unearned compensation from restricted stock awards		

Total stockholders' equity		81

Total liabilities and stockholders' equity	\$	257
		=====

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

For the three months ended March 31, 2002 and 2001
(In thousands, except per share data)

	Three months ended March 31,	
	2002	2001
	-----	-----
Revenues		
Premiums earned	\$ 22,983	\$ 23,042
Net investment income	2,833	2,850
Net realized investment gain (loss)	(252)	102

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Total revenues	25,564	25,994
Losses and expenses		
Losses and loss adjustment expenses	15,286	16,734
Amortization of deferred policy acquisition costs	6,011	6,224
Other underwriting expenses	1,657	1,534
Corporate expenses	111	162
Interest expense	35	40
Total losses and expenses	23,100	24,694
Income before income tax	2,464	1,300
Income tax expense	678	333
Net income	\$ 1,786	\$ 967
Net income per share		
Basic	\$ 0.15	\$ 0.09
Diluted	\$ 0.15	\$ 0.08
Weighted average shares outstanding		
Basic	11,536,694	11,367,942
Diluted	11,710,482	11,453,118
Cash dividend per share	\$ 0.0383	\$ 0.0350

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity
(Unaudited)

For the three months ended March 31, 2002
(In thousands, except per share data)

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income
Balance at December 31, 2001	\$ 152	\$ 70,735	\$ 1,092
Net income	--	--	--

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Other comprehensive income:			
net unrealized gain (loss) on investments,			
net of tax and reclassification adjustment	--	--	(1,017)

Comprehensive income

Issuance of common stock	1	456	--
Amortization of compensation expense from restricted stock awards issued	--	--	--
Cash dividend paid (\$0.0383 per share)	--	--	--
Balance at March 31, 2002	\$ 153	\$ 71,191	\$ 75

	Officers' Stock Loans	Unearned Compensation From Restricted Stock Awards	Total Stockholders' Equity
Balance at December 31, 2001	\$ (629)	\$ (132)	\$ 80,391
Net income	--	--	1,786
Other comprehensive income:			
net unrealized gain (loss) on investments,			
net of tax and reclassification adjustment	--	--	(1,017)
Comprehensive income			769
Issuance of common stock	--	--	457
Amortization of compensation expense from restricted stock awards issued	--	20	20
Cash dividend paid (\$0.0383 per share)	--	--	(442)
Balance at March 31, 2002	\$ (629)	\$ (112)	\$ 81,195

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES
 Consolidated Statements of Cash Flows
 (Unaudited)

For the three months ended March 31, 2002 and 2001
 (In thousands)

	Three m ----- 2002 -----
Cash flows from operating activities:	
Net income	\$ 1,7
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Amortization and depreciation expense	(
Net realized investment (gain) loss	2
Deferred income tax	(1
Net increase (decrease) in premiums receivable, prepaid reinsurance premiums and unearned premiums	5,3
Net increase in unpaid losses and loss adjustment expenses and reinsurance recoverable	4,5
Accrued investment income	
Deferred policy acquisition costs	(7
Income tax recoverable/payable	8
Other assets	(
Accounts payable and accrued expenses	(2
Other liabilities	

Net cash provided (used) by operating activities	11,6 -----
Cash flows from investing activities:	
Purchases of equity securities	
Purchases of fixed maturities available for sale	(17,4
Proceeds from sales of equity securities	1,0
Proceeds from sales and maturities of fixed maturities available for sale	3,1
Proceeds from maturities and calls of fixed maturities held to maturity	5,3

Net cash used by investing activities	(8,0 -----
Cash flows from financing activities:	
Issuance of common stock	1
Officers' stock loans	
Principal payments on capital lease obligations	(
Dividends paid	(4

Net cash used by financing activities	(3 -----
Increase (decrease) in cash	3,2
Cash, beginning of period	13,1

Cash, end of period	\$ 16,3 =====

PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

Note 1 - Organization and Basis of Presentation

Penn-America Group, Inc. ("PAGI") is an insurance holding company. Approximately 40% of the outstanding common stock of PAGI was owned by Penn Independent Corporation ("Penn Independent") at March 31, 2002. The accompanying financial statements include the accounts of PAGI and its wholly owned subsidiary, Penn-America Insurance Company ("Penn-America") and its wholly owned subsidiary, Penn-Star Insurance Company ("Penn-Star"), (collectively the "Company").

The Company underwrites commercial property, general liability and multi-peril insurance for small businesses located primarily in small towns and suburban and rural areas. The Company 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.

The accompanying condensed unaudited consolidated financial statements and notes have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation of results for the interim periods have been included. All significant intercompany accounts and transactions have been eliminated in consolidation. It is suggested that these condensed unaudited consolidated financial statements and notes be read in conjunction with the financial statements and notes in the Company's 2001 Annual Report which was incorporated by reference into the Company's Form 10-K for the year ended December 31, 2001. The Company's results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year.

Note 2 - Reinsurance

Premiums earned are presented net of amounts ceded to reinsurers of \$3.1 million and \$3.0 million for the three months ended March 31, 2002 and 2001, respectively. Losses and loss adjustment expenses are presented net of amounts ceded to reinsurers of \$1.7 million and \$2.7 million for the three months ended March 31, 2002 and 2001, respectively.

Note 3 - Comprehensive Income

Accumulated other comprehensive income consists solely of unrealized gains or losses on investment securities net of applicable income tax expense or benefit and reclassification adjustments. Comprehensive income was \$769,000 for the three months ended March 31, 2002 compared with \$1.6 million for the three months ended March 31, 2001.

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

Note 4 - Income Per Share

Income per share for the three months ended March 31, 2002 and 2001 are computed by dividing net income by the basic and diluted weighted average number of common shares outstanding during the quarter. On April 11, 2002, PAGI announced a three-for-two stock split to be effected in the form of a 50% stock dividend payable to stockholders of record as of April 25, 2002. The distribution date was May 9, 2002. The following table is a reconciliation of the numerators and denominators of the basic and diluted income per share computations on both a pre stock split and post stock split basis:

	Three Months Ended	
(in thousands, except per share data)	Pre Stock Split Basis	
	2002	2001
Basic per share computation:		
Net income	\$ 1,786	\$ 967
Weighted average common shares outstanding	7,691,129	7,578,628
Basic net income per share	\$ 0.23	\$ 0.13
Diluted per share computation:		
Net income	\$ 1,786	\$ 967
Weighted average common shares outstanding	7,691,129	7,578,628
Additional shares outstanding after the assumed assumed exercise of stock options by applying the treasury stock method	115,859	56,784
Total shares	7,806,988	7,635,412
Diluted net income per share	\$ 0.23	\$ 0.13

PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
(continued)

Note 5 - Retroactive Adjustment for Stock Split

The common stock issued and outstanding and treasury stock at December 31, 2001 have been restated to reflect the three-for-two stock split announced on April 11, 2002. Accordingly, the balance sheet values for common stock and additional paid-in capital have been adjusted for the effect of the stock split. This adjustment resulted in a \$51,000 increase in common stock and a \$51,000 decrease in additional paid-in capital. The following table illustrates share information on a pre stock split and a post stock split basis as of December 31, 2001:

	Pre Stock Split Basis	Post Stock Split Basis
	-----	-----
Common stock issued	10,152,234	15,228,351
Common stock outstanding	7,652,234	11,478,351
Treasury stock	2,500,000	3,750,000

Note 6- Segment Information

The Company had two reportable segments: non-standard personal automobile and commercial lines. These segments were managed separately because they have different customers, pricing and expense structures. 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. 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 of the Company's 2001 Annual Report, which was incorporated by reference into the Company's 2001 Form 10-K. The Company evaluates segment results based on profit or loss from operating activities. Segment profits or losses from operations are pre-tax and do not include unallocated expenses but do include investment income attributable to insurance transactions. Segment profit or loss therefore excludes federal income taxes, unallocated expenses and investment income attributable to equity.

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
(continued)

The following is a summary of the Company's segment revenues, expenses and profit:

(in thousands)	Three months ended March 31, 2017	
	Commercial	Personal Automobile
Premiums earned	\$ 22,983	\$ --
Net investment income from insurance operations	1,437	--
Total segment revenues	24,420	--
Segment losses and loss adjustment expenses	15,286	--
Segment expenses	6,321	--
Total segment expenses	21,607	--
Segment income	\$ 2,813	\$ --
Unallocated items:		
Net investment income from equity		
Unallocated expenses		
Income tax expense		
Net income		

(in thousands)	Three months ended March 31, 2018	
	Commercial	Personal Automobile
Premiums earned	\$ 23,026	\$ 16
Net investment income from insurance operations	1,866	84
Total segment revenues	24,892	100
Segment losses and loss adjustment expenses	17,930	(1,196)
Segment expenses	6,591	5
Total segment expenses	24,521	(1,191)

Segment income	\$ 371	\$ 1,291
Unallocated items:		
Net investment income from equity		
Unallocated expenses		
Income tax expense		
Net income		

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition
and Results of Operations

Results of Operations

Three Months Ended March 31, 2002 and 2001

Premiums earned was \$23.0 million for the three months ended March 31, 2002, unchanged from \$23.0 million for the three months ended March 31, 2001. The Company previously announced that it was exiting both commercial automobile and non-standard personal automobile lines of business. Earned premiums for these exited lines of business decreased \$2.1 million, or 100.0%, for the three months ended March 31, 2002 compared to the three months ended March 31, 2001. The Company's core commercial lines earned premiums (excluding exited lines of business) increased \$2.1 million, or 9.9%, attributable to the increase in net written premiums for the three months ended March 31, 2002 as compared to the same period of 2001.

Gross written premiums increased 26.1% for the three months ended March 31, 2002 to \$30.0 million compared to \$23.8 million for the three months ended March 31, 2001. Gross written premiums for core commercial lines increased 32.6% to \$30.0 million for the three months ended March 31, 2002 compared to \$22.7 million for the three months ended March 31, 2001. This increase was attributable mainly to rate increases and, to a lesser extent, growth in new business.

Net written premiums increased 25.3% for the three months ended March 31, 2002 to \$26.4 million compared to \$21.1 million for the three months ended March 31, 2001. Consistent with gross written premiums, net written premiums for the core commercial lines increased 30.8% to \$26.4 million for the three months ended March 31, 2002 compared to \$20.2 million for the three months ended March 31, 2001.

Net investment income was \$2.8 million for the three months ended March 31, 2002 which was unchanged from the same period of last year. While average invested assets increased 7.2% for the first quarter of 2002, this increase was offset by a decline in the investment yield of the fixed-income portfolio and interest rates on overnight cash balances compared to the first quarter of 2001.

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Net realized investment loss was \$252,000 for the three months ended March 31, 2002 compared to a net investment gain of \$102,000 for the three months ended March 31, 2001. The current quarter included an other-than-temporary impairment writedown on the Company's equity investments of \$199,000.

Losses and loss adjustment expenses decreased 8.7% to \$15.3 million for the three months ended March 31, 2002 from \$16.7 million for the three months ended March 31, 2001. This reduction is the result of improved loss experience in both property and liability lines of business.

Amortization of deferred policy acquisition costs ("DAC") decreased 3.4% to \$6.0 million for the three months ended March 31, 2002, from \$6.2 million for the three months ended March 31, 2001. The Company is writing a larger portion of its business in its non-admitted company which resulted in lower premium taxes.

Other underwriting expenses increased 8.0% to \$1.7 million for the three months ended March 31, 2002 from \$1.5 million for the three months ended March 31, 2001.

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

The overall GAAP combined ratio for the Company decreased to 99.9 for the three months ended March 31, 2002, from 106.3 for the three months ended March 31, 2001, primarily due to the decrease in the loss ratio to 66.5 in 2002 compared to 72.6 in 2001. The expense ratio was 33.4 for the three months ended March 31, 2002 and 33.7 for the three months ended March 31, 2001.

The factors described above resulted in net income for the three months ended March 31, 2002 of \$1.8 million or \$0.15 per share (basic and diluted), compared to net income of \$1.0 million or \$0.09 per share (basic and diluted) for the three months ended March 31, 2001.

Liquidity and Capital Resources

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 underwriting 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 payments to PAGI.

Penn-America and Penn-Star are restricted by statute as to the amount of dividends that they may pay without the 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

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statutory policyholders surplus, or statutory net income for the prior year. Using these criteria, the available ordinary dividend for 2002 is \$6,473,325. No ordinary dividends have been paid to PAGI during the three months ended March 31, 2002. Ordinary dividends paid by Penn-America to PAGI in 2001 were \$1.6 million.

Penn-America and Penn-Star are required by law to maintain a certain minimum level of policyholders' surplus on a statutory basis. The National Association of Insurance Commissioners adopted risk-based capital standards designed to identify property and casualty insurers that may be inadequately capitalized based on inherent risks of each insurer's assets and liabilities and its mix of net written premiums. Insurers falling below a calculated threshold may be subject to varying degrees of regulatory action. Based on the currently adopted standards, Penn-America's and Penn-Star's capital and surplus are in excess of the prescribed risk-based capital requirements.

Penn-America provides strong incentives to its general agents to produce profitable business through a contingent profit commission structure that is tied directly to underwriting profitability. Payment of these contingent profit commissions has been through the issuance of PAGI common stock and cash. In the first quarter of 2002, PAGI issued 33,900 shares of its common stock at a value of \$10.55 per share as part of the payment of the 2001 contingent profit commission due to the general agents of Penn-America.

Net cash provided by operating activities was \$11.6 million for the three months ended March 31, 2002, compared to net cash used by operating activities of \$0.2 million for the three months ended March 31, 2001.

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Net cash used by investing activities was \$8.0 million for the three months ended March 31, 2002, compared to \$5.3 million for the nine months ended March 31, 2001.

Net cash used by financing activities was \$0.4 million for the three months ended March 31, 2002, compared to \$0.5 million for the three months ended March 31, 2001.

Statutory surplus as of March 31, 2002 increased to \$65.7 million from \$64.7 million as of December 31, 2001. This increase is due to statutory net income of \$1.0 million.

The Company believes it has sufficient liquidity to meet its anticipated insurance obligations and operating and capital expenditure needs. The Company's investment strategy emphasizes quality, liquidity and diversification, as well as total return. With respect to liquidity, the Company considers liability durations, specifically related to loss reserves, when determining desired investment maturities. In addition, maturities have been staggered to produce cash flows for loss payments and reinvestment opportunities.

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The Company's fixed maturity portfolio of \$158.0 million was 86.9% of the total investment portfolio as of March 31, 2002. Approximately 90% of these securities were rated "A" or better by Standard & Poor's or Moody's. The average duration of the fixed maturity portfolio as of March 31, 2002 was approximately 3.7 years. Equity securities, the majority of which consist of preferred stocks and exchange traded funds, were \$23.8 million or 13.1% of total investments as of March 31, 2002.

As of March 31, 2002, the investment portfolio contained \$46.2 million of mortgage-backed, asset-backed and collateralized mortgage obligations, which represented 25.4% of the total investments as of March 31, 2002. All of these securities were "AA--" rated or better and 76.6% were "AAA"-rated by Standard & Poor's or Moody's. These securities, which were issued by government, government-related agencies or publicly held corporations, are publicly traded, and have market values obtained from an independent 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. The Company had no derivative financial instruments, real estate or mortgages in the investment portfolio as of March 31, 2002.

Critical Accounting Estimates

The establishment of loss and loss adjustment expense reserves 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

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

expense reserves makes 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.

During the first quarter of 2002, there were no material adjustments to prior year reserves.

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Three-for-Two Stock Split

On April 11, 2002, the Company announced a three-for-two stock split to be effected in the form of a 50% stock dividend payable to stockholders of record as of April 25, 2002. The distribution date was May 9, 2002. Cash was paid in lieu of fractional shares based on the closing price of the Company's common stock on the record date.

Quantitative and Qualitative Disclosures About Market Risk

The Company's market risk is the potential economic loss principally arising from adverse changes in the market value of financial instruments. The major components of market risk affecting the Company are interest rate risk and equity price risk.

The Company had fixed-income and preferred stock investments with a market value of \$173.9 million at March 31, 2002 subject to interest rate risk. The Company manages its exposure to interest rate risk through a disciplined asset/liability matching and capital management process. In the management of this risk, the characteristics of duration, credit and variability of cash flows are critical elements. These risks constantly are assessed and balanced within the context of the liability and capital position of the Company.

The Company had common equity investments with a market value of \$8.0 million at March 31, 2002. The Company attempts to mitigate equity price risk to its common stock portfolio by investing exclusively in exchange-traded funds (ETFs). ETFs are securities that represent an interest in a trust that owns and holds a basket of common stocks that replicate a major market index (such as the S&P 500 or the Dow Jones Industrial Average) or a portion of a major market index (such as the Value Component of the S&P). Since these securities represent an interest in the equity capital markets as a whole, or a sub-sector thereof, they are a diversified, index-based exposure to common stocks. As such, the value of these ETFs will be determined by the performance of the equity capital markets in general or of a particular sub-sector and reduces equity price risk to a single issuer of stock.

The Company's market risk at March 31, 2002 has not materially changed from those identified at December 31, 2001.

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

- Item 1. Legal Proceedings - None
- Item 2. Changes in Securities - None
- Item 3. Default Upon Senior Securities - None

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Item 4. Submission of Matters to a Vote by Security Holders - None

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K

On March 1, 2002, the Company filed a current report on Form 8-K announcing the availability of annual statements of its insurance subsidiaries, Penn-America Insurance Company and Penn-Star Insurance Company, on the Company's website, in hard copy from the Company, or from the Pennsylvania Insurance Department.

On April 1, 2002, the Company filed a current report on Form 8-K announcing the availability of the Combined Annual Statement of its insurance subsidiaries, Penn-America Insurance Company and Penn-Star Insurance Company, on the Company's website, in hard copy from the Company, or from the Pennsylvania Insurance Department.

On April 11, 2002, the Company filed a current report on Form 8-K announcing that the Board of Directors of the Company unanimously approved a three-for-two stock split of the common stock of the Company. The three-for-two stock split is in the form of a 50% stock dividend, effective for stockholders of record on April 25, 2002 and was distributed on May 9, 2002.

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SIGNATURE

Pursuant to the requirements 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: May 14, 2002

By: /s/ Jon S. Saltzman

Jon S. Saltzman
President and
Chief Executive Officer

By: /s/ Joseph F. Morris

Joseph F. Morris

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Senior Vice President,
Chief Financial Officer
Chief Financial Officer
and Treasurer

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