

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

PENN AMERICA GROUP INC  
Form 10-Q  
August 07, 2003

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2003  
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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 (I.R.S. Employer Identification No.)  
incorporation or organization)

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 X No  
-----

Indicate by check mark whether the registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act). Yes X No  
-----

At August 1, 2003, 14,713,480 shares of the registrant's common stock, \$0.01 par  
value, were outstanding.

Penn-America Group, Inc. and SubsidiarIES  
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Item 1. Financial Statements

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December 31, 2002

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

June 30,  
2003

-----  
(Unaudited)

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ASSETS

Investments:

Fixed maturities:

Available for sale, at fair value (amortized cost, \$272,127 and \$237,450) \$ 283,8

Held to maturity, at amortized cost (fair value, \$1,306 and \$2,017) 1,2

Equity securities, at fair value (cost, \$10,716 and \$17,859) 12,0

Total investments 297,1

Cash and cash equivalents 14,8

Accrued investment income 3,1

Premiums receivable 20,0

Reinsurance recoverable 29,5

Prepaid reinsurance premiums 10,9

Deferred policy acquisition costs 14,8

Capital lease, affiliate 1,5

Deferred income taxes 1,2

Income tax recoverable --

Other assets 1,0

Total assets \$ 394,5

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:

Unpaid losses and loss adjustment expenses \$ 148,2

Unearned premiums 76,6

Accounts payable and accrued expenses 7,3

Capitalized lease obligation, affiliate 1,3

Company obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely junior subordinated debentures 30,0

Income tax payable 1

Other liabilities 4,9

Total liabilities 268,6

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 and outstanding, 14,708,980 and 14,572,098 shares 1

Additional paid-in capital 71,9

Accumulated other comprehensive income 8,2

Retained earnings 46,2

Officers' stock loans (5)

Unearned compensation from restricted stock awards (2)

Total stockholders' equity 125,8

Total liabilities and stockholders' equity \$ 394,5

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(Unaudited)

For the three and six months ended June 30, 2003 and 2002  
(In thousands, except share data)

	Three months ended June 30,		Six
	2003	2002	2002
<b>Revenues</b>			
Premiums earned	\$ 36,295	\$ 27,234	\$ 70,000
Net investment income	3,244	2,925	6,000
Net realized investment gain (loss)	431	(1,093)	1,000
Total revenues	39,970	29,066	78,000
<b>Losses and expenses</b>			
Losses and loss adjustment expenses	22,185	17,364	44,000
Amortization of deferred policy acquisition costs	9,073	6,739	17,000
Other underwriting expenses	2,326	2,166	4,000
Corporate expenses	234	233	0
Interest expense	409	35	0
Total losses and expenses	34,227	26,537	67,000
Income before income tax	5,743	2,529	10,000
Income tax expense	1,744	647	3,000
Net income	\$ 3,999	\$ 1,882	\$ 7,000
<b>Net income per share:</b>			
Basic	\$ 0.27	\$ 0.16	\$ 0.16
Diluted	\$ 0.27	\$ 0.16	\$ 0.16
<b>Weighted average shares outstanding:</b>			
Basic	14,636,147	11,574,913	14,613,000
Diluted	14,905,122	11,791,719	14,852,000
Cash dividends per share	\$ 0.04375	\$ 0.03875	\$ 0.04000

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For the six months ended  
(In thousands, except

	Common Stock -----	Additional Paid-In Capital -----	Accumulated Other Comprehensive Income -----	Retained Earnings -----
Balance at December 31, 2002	\$ 146	\$ 70,875	\$	\$ 39,995
Net income	--	--	--	--
Other comprehensive gain:				
Unrealized gain on investments, net of tax and reclassification adjustment	--	--	--	2,080
Unrealized loss on cash-flow hedging instrument, net of tax	--	--	(230)	--
Comprehensive income				
Issuance of common stock	1	1,070	--	--
Compensation expense on stock options	--	46	--	--
Unearned compensation from restricted stock awards issued	--	--	--	--
Amortization of compensation expense from restricted stock awards issued	--	--	--	--
Repayment of officers' stock loans				
Cash dividends paid (\$0.08750 per share)	--	--	--	(1,279)
Balance at June 30, 2003	\$ 147 =====	\$ 71,991 =====	\$ 8,251 =====	\$ 46,289 =====

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

For the six months ended June 30, 2003 and 2002  
(In thousands)

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	Six months ----- 2003 -----
Cash flows from operating activities:	
Net income	\$ 7,573
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization (accretion) and depreciation expense	813
Net realized investment loss (gain)	(1,145)
Deferred income tax benefit	(137)
Net change in premiums receivable, prepaid reinsurance premiums and unearned premiums	1,788
Net change in unpaid losses and loss adjustment expenses and reinsurance recoverable	8,719
Decrease (increase) in:	
Accrued investment income	81
Deferred policy acquisition costs	(1,724)
Income tax recoverable/payable	219
Other assets	67
Increase (decrease) in:	
Accounts payable and accrued expenses	(368)
Other liabilities	(827)
Net cash provided by operating activities	----- 15,059 -----
Cash flows from investing activities:	
Purchases of fixed maturities available for sale	(100,869)
Proceeds from sales of equity securities	6,697
Proceeds from sales and maturities of fixed maturities available for sale	69,192
Proceeds from maturities and calls of fixed maturities held to maturity	686
Net cash used by investing activities	----- (24,294) -----
Cash flows from financing activities:	
Issuance of common stock	1,071
Net proceeds from the issuance of trust preferred securities	14,549
Principal payments on capital lease obligations, affiliate	(77)
Repayment of officers' loans	46
Dividends paid	(1,279)
Net cash provided (used) by financing activities	----- 14,310 -----
Increase (decrease) in cash and cash equivalents	5,075
Cash and cash equivalents, beginning of period	9,796
Cash and cash equivalents, end of period	----- \$ 14,871 =====

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### Notes to Unaudited Consolidated Financial Statements

#### Note 1 - Organization and Basis of Presentation

Penn-America Group, Inc. ("PAGI") is an insurance holding company. Approximately 31% of the outstanding common stock of PAGI was owned by Penn Independent Corporation ("Penn Independent") at June 30, 2003. The accompanying financial statements include the accounts of PAGI and its wholly-owned subsidiaries, Penn-America Insurance Company ("Penn-America") and its wholly-owned subsidiary, Penn-Star Insurance Company ("Penn-Star"); Penn-America Statutory Trust I (the "Trust I"); and Penn-America Statutory Trust II (the "Trust II") (collectively the "Company").

The Company markets and underwrites general liability, commercial property, and multi-peril insurance for small businesses located primarily in small towns and suburban and rural areas. The Company is licensed to write business in all 50 states and the District of Columbia. The Company writes business on both an admitted and non-admitted basis in 37 states, on only an admitted basis in one state and on only a non-admitted basis in 12 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 2002 Annual Report which was incorporated by reference into the Company's Form 10-K for the year ended December 31, 2002. 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 \$6,706,000 and \$4,100,000 for the three months ended June 30, 2003 and 2002, respectively. Losses and loss adjustment expenses are presented net of amounts ceded to reinsurers of \$4,445,000 and \$1,100,000 for the three months ended June 30, 2003 and 2002, respectively.

Premiums earned are presented net of amounts ceded to reinsurers of \$12,906,000 and \$7,200,000 for the six months ended June 30, 2003 and 2002, respectively. Losses and loss adjustment expenses are presented net of amounts ceded to reinsurers of \$8,314,000 and \$2,800,000 for the six months ended June 30, 2003 and 2002, respectively.

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### Note 3 - Comprehensive Income

For the three months ended June 30, 2003, comprehensive income was \$6,051,000, which consisted of net income of \$3,999,000 and other comprehensive gain of \$2,052,000 related to net unrealized gains on investments and an unrealized loss on a cash flow hedging instrument. For the three months ended June 30, 2002, comprehensive income was \$4,338,000, which consisted of net income of \$1,882,000 and other comprehensive gain of \$2,456,000 related to net unrealized gains on investments.

For the six months ended June 30, 2003, comprehensive income was \$9,423,000, which consisted of net income of \$7,573,000 and other comprehensive gain of \$1,850,000 related to net unrealized gains on investments and an unrealized loss on a cash flow hedging instrument. For the six months ended June 30, 2002, comprehensive income was \$5,107,000, which consisted of net income of \$3,668,000 and other comprehensive gain of \$1,439,000 related to net unrealized gains on investments.

### Note 4 - Net Income Per Share

Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for each period. Diluted net income per share includes the potential dilution that could occur if outstanding contracts to issue common stock were exercised and converted to common stock. The following is a reconciliation of the basic and diluted net income per share computations:

(in thousands, except share data)

	Three months ended June 30,		
	2003	2002	S
Basic per share computation:			
Net income	\$ 3,999	\$ 1,882	\$
Weighted average common shares (outstanding)	14,636,147	11,574,913	14,6
Basic net income per share	\$ 0.27	\$ 0.16	\$
Diluted per share computation:			
Net income	\$	\$ 1,882	\$
Weighted average common shares (1)outstanding	14,636,147	11,574,913	14,6
Additional shares outstanding after the assumed assumed exercise of stock options by applying the treasury stock method	268,975	216,806	2
Total shares	14,905,122	11,791,719	14,8
Diluted net income per share	\$ 0.27	\$ 0.16	\$



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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements  
(continued)

Note 5 - Segment Information

The Company has only one reportable segment. In 1999, the Company exited the non-standard personal automobile line of business and announced that it would run-off its remaining portfolio of such business. For the three and six months ended June 30, 2003 and 2002, amounts relating to the non-standard personal automobile business were not material to the financial statements presented, and therefore, are not presented separately.

Note 6 - Stock Options

On January 1, 2003, the Company adopted the fair value recognition provisions of SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure ("SFAS 148"), and SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS 123") by implementing the modified prospective transition method permitted under SFAS 148. This method requires the Company to record compensation expense in 2003, and annually thereafter, as if the fair value recognition method had been used since January 1, 1995. Compensation expense of \$24,000 and \$46,000 was recorded for the three and six months ended June 30, 2003.

Prior to January 1, 2003, the Company applied the recognition principles of APB No. 25, Accounting for Stock Issued to Employees, and, accordingly, no compensation expense was recognized. If the Company had applied the fair value recognition provisions of SFAS 123 in 2002, compensation expense of \$62,000 and \$124,000 would have been recorded for the three and six months ended June 30, 2002. The following table illustrates the effect on net income and net income per share for the three and six months ended June 30, 2003 and 2002 as if the Company had applied the fair value recognition provisions of SFAS 123.

(in thousands, except share data)	Three months ended June 30,		Six months e
	2003	2002	2003
Net income, as reported	\$ 3,999	\$ 1,882	\$ 7,573
Add: Stock-based employee compensation			
included in net income, net of tax		--	30
Deduct: Stock-based employee compensation determined under the fair value based method, net of tax	(16)	(41)	(30)
Pro forma net income	\$ 3,999	\$ 1,841	\$ 7,573

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	=====	=====	=====
Basic net income per share:			
As reported	\$ 0.27	\$ 0.16	\$ 0.52
Pro forma	\$ 0.27	\$ 0.16	\$ 0.52
Diluted net income per share:			
As reported	\$ 0.27	\$ 0.16	\$ 0.51
Pro forma	\$ 0.27	\$ 0.16	\$ 0.51

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements  
(continued)

Note 7 -Company Obligated Mandatorily Redeemable Preferred Securities of  
Subsidiary Trusts Holding Solely Junior Subordinated Debentures

On May 15, 2003, Penn-America Statutory Trust II ("the Trust II"), a business trust subsidiary formed by PAGI, issued \$15 million of floating rate trust preferred securities ("Trust Preferred Securities"). These securities have a thirty-year maturity, with a provision that allows the Company to call these securities at par after five years from the date of issuance. Cash distributions will be paid quarterly in arrears at a rate of 410 basis points over three-month London Interbank Offered Rates. Distributions on these securities can be deferred for up to five years, but in the event of such deferral, the Company may not declare or pay cash dividends on its common stock. The Company guarantees all obligations of the Trust II with respect to distributions and payments of these securities.

Proceeds from the sale of these securities by the Trust II were used to acquire \$15 million of Floating Rate Junior Subordinated Deferrable Interest Rate Debentures issued by the Company. These debentures have the same terms with respect to maturity, payments, and distributions as the floating rate trust preferred securities issued by the Trust II. The intended use of the proceeds from these debentures is to support growth in the Company's insurance operations and for general corporate purposes.

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150 ("SFAS 150"), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period after June 15, 2003. In accordance with SFAS 150, the Company's Trust Preferred Securities were classified as a liability on the Consolidated Balance Sheets and the related distributions were recorded as interest expense on the Consolidated Statements of Operations. Therefore, the adoption of SFAS 150 will have no effect on the Company's financial statements.

Note 8 - Unpaid Losses and Loss Adjustment Expenses

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During the first six months of 2003, the Company increased incurred losses and loss adjustment expenses attributable to insured events of prior years by \$0.9 million. This increase is primarily due to an increase of \$1.9 million in estimates for loss and loss adjustment expense reserves for the exited commercial automobile lines of business. In 2003, the Company experienced an unanticipated increase in paid allocated loss adjustment expenses on its remaining open commercial automobile liability claims. Consequently, combined with the unanticipated 2003 activity and review of open claims at June 30, 2003, the Company increased its estimates for loss and loss adjustment expense reserves.

Significantly offsetting the increase in incurred losses and loss adjustment expenses attributable to insured events of prior years for the exited commercial automobile lines of business is a reduction of \$1.0 million in estimates for the commercial property and casualty lines of business. This reduction consists of a reduction in the Company's estimate for the commercial property lines of business by \$2.1 million relating primarily to the 2002 accident year, partially offset by an increase in the Company's estimate for the commercial liability lines of business of \$1.1 million due to the development of outstanding claim reserves on claims occurring in various accident years.

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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 June 30, 2003 and 2002

Premiums earned increased 33.3% to \$36.3 million for the three months ended June 30, 2003, compared with \$27.2 million for the same period in 2002, due to the growth in net written premiums over the last 12 months.

Gross written premiums, which represent the amount received or to be received for insurance policies written without reduction for acquisition costs, reinsurance costs or other deductions, increased 20.4% for the three months ended June 30, 2003 to \$54.5 million, compared with \$45.2 million for the three months ended June 30, 2002. The increase was attributable to rate increases, growth in new business and higher average exposures per policy.

Ceded written premiums, the portion of gross written premiums reinsured by unaffiliated insurers, increased to \$8.6 million for the three months ended June 30, 2003, compared with \$6.5 million for the three months ended June 30, 2002. The increase in ceded written premiums was due primarily to growth in gross written premiums and an approximately 7.0% percent increase in reinsurance rates on the Company's multiple-line excess of loss treaty.

Net written premiums, which are gross written premiums less ceded written premiums, increased 18.7% for the three months ended June 30, 2003 to \$45.9 million, compared with \$38.7 million for the three months ended June 30, 2002. The increase in net written premiums was consistent with the increase in gross written premiums, but was offset partially by higher reinsurance costs.

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Net investment income increased to \$3.2 million for the three months ended June 30, 2003, compared with \$2.9 million for the three months ended June 30, 2002, primarily due to the growth in average invested assets, partially offset by a decrease in average yield on fixed-maturity investments.

Net realized investment gain was \$0.4 for the three months ended June 30, 2003, compared to a net realized investment loss of \$1.1 million for the three months ended June 30, 2002. The net realized investment gain for the three months ended June 30, 2003 was primarily attributable to the sale of certain of the Company's fixed-maturity securities. The net realized investment loss for the three months ended June 30, 2002 was primarily attributable to other-than-temporary impairment write-downs of \$1.1 million on the Company's equity investment in exchange-traded funds.

Losses and loss adjustment expenses increased 27.8% to \$22.2 million for the three months ended June 30, 2003, compared with \$17.4 million for the three months ended June 30, 2002. The loss ratio for the three months ended June 30, 2003 was 61.1, compared with 63.8 for the three months ended June 30, 2002. The loss ratio is calculated by dividing losses and loss adjustment expenses by premiums earned. The improvement in the loss ratio was primarily attributable to rate increases implemented in 2002 and 2003 partially offset by an increase in catastrophe related losses, which were \$1.1 million for the three months ended June 30, 2003 and \$0.7 million for the three months ended June 30, 2002. This increase in catastrophe related losses was primarily

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### PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

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

due to claims the Company received on a series of severe storms in the Midwestern states which occurred in the second quarter of 2003.

Amortization of deferred policy acquisition costs ("ADAC") increased 34.6% to \$9.1 million for the three months ended June 30, 2003 from \$6.7 million for the three months ended June 30, 2002 primarily due to the growth in premiums earned.

Other underwriting expenses increased 7.4% to \$2.3 million for the three months ended June 30, 2003 from \$2.2 million for the three months ended June 30, 2002, primarily due to increases in salary and benefit expenses associated with the hiring of additional underwriting and marketing personnel.

The overall GAAP combined ratio, which is the sum of the loss and expense ratios, improved to 92.5 for the three months ended June 30, 2003 from 96.5 for the three months ended June 30, 2002. The loss ratio improved to 61.1 for the three months ended June 30, 2003 from 63.8 for the three months ended June 30, 2002. The expense ratio, which is calculated by dividing the sum of ADAC and other underwriting expenses by premiums earned, improved to 31.4 for the three months ended June 30, 2003 from 32.7 for the three months ended June 30, 2002. The GAAP combined ratio is a standard measure of underwriting profitability used throughout the property and casualty insurance industry. A ratio below 100.0 generally indicates underwriting profitability.

Interest expense increased to \$409,000 for the three months ended June 30, 2003 from \$35,000 for the three months ended June 30, 2002, primarily due to interest expense on the Company's Trust Preferred Securities.

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The factors described above resulted in net income for the three months ended June 30, 2003 of \$4.0 million or \$0.27 per share (basic and diluted), compared with \$1.9 million or \$0.16 per share (basic and diluted) for the three months ended June 30, 2002.

### Six Months Ended June 30, 2003 and 2002

Premiums earned increased 40.7% to \$70.7 million for the six months ended June 30, 2003, compared with \$50.2 million for the same period in 2002, due to the growth in net written premiums over the last 12 months.

Gross written premiums, which represent the amount received or to be received for insurance policies written without reduction for acquisition costs, reinsurance costs or other deductions, increased 26.1% for the six months ended June 30, 2003 to \$94.9 million, compared with \$75.3 million for the six months ended June 30, 2002. The increase was attributable to rate increases, growth in new business and higher average exposures per policy.

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### PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

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

Ceded written premiums, the portion of gross written premiums reinsured by unaffiliated insurers, increased to \$15.0 million for the six months ended June 30, 2003, compared with \$10.2 million for the six months ended June 30, 2002. The increase in ceded written premiums was due primarily to growth in gross written premiums and an approximately 16.0% percent increase in reinsurance rates on the Company's multiple-line excess of loss treaty.

Net written premiums, which are gross written premiums less ceded written premiums, increased 22.8% for the six months ended June 30, 2003 to \$79.9 million, compared with \$65.1 million for the six months ended June 30, 2002. The increase in net written premiums was consistent with the increase in gross written premiums, but was offset partially by higher reinsurance costs.

Net investment income increased to \$6.5 million for the six months ended June 30, 2003, compared with \$5.8 million for the six months ended June 30, 2002, primarily due to the growth in average invested assets, partially offset by a decrease in average yield on fixed-maturity investments.

Net realized investment gain was \$1.1 million for the six months ended June 30, 2003, compared to a net realized investment loss of \$1.3 million for the six months ended June 30, 2002. The net realized investment gain for the six months ended June 30, 2003 was primarily attributable to the sale of certain of the Company's fixed-maturity securities and all of the Company's common stock investments. The net realized investment loss for the six months ended June 30, 2002 was primarily attributable to other-than-temporary impairment write-downs of \$1.3 million on the Company's equity investment in exchange-traded funds.

Losses and loss adjustment expenses increased 35.4% to \$44.2 million for the six months ended June 30, 2003, compared with \$32.7 million for the six months ended June 30, 2002. The loss ratio for the six months ended June 30, 2003 was 62.5, compared with 65.0 for the six months ended June 30, 2002. The

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loss ratio is calculated by dividing losses and loss adjustment expenses by premiums earned. The improvement in the loss ratio was primarily attributable to rate increases implemented in 2002 and 2003, partially offset by an increase in catastrophe related losses, which were \$1.7 million for the six months ended June 30, 2003 and \$0.8 million for the six months ended June 30, 2002. This increase in catastrophe related losses was primarily due to claims the Company received on a series of severe storms in the Midwestern states which occurred in the second quarter of 2003.

Amortization of deferred policy acquisition costs ("ADAC") increased 38.7% to \$17.7 million for the six months ended June 30, 2003 from \$12.8 million for the six months ended June 30, 2002, primarily due to the growth in premiums earned.

Other underwriting expenses increased 14.4% to \$4.4 million for the six months ended June 30, 2003 from \$3.8 million for the six months ended June 30, 2002, primarily due to increases in salary and benefit expenses associated with the hiring of additional underwriting and marketing personnel.

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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, which is the sum of the loss and expense ratios, improved to 93.7 for the six months ended June 30, 2003 from 98.0 for the six months ended June 30, 2002. The loss ratio improved to 62.5 for the six months ended June 30, 2003 from 65.0 for the six months ended June 30, 2002. The expense ratio, which is calculated by dividing the sum of ADAC and other underwriting expenses by premiums earned, improved to 31.2 for the six months ended June 30, 2003 from 33.0 for the six months ended June 30, 2002. The GAAP combined ratio is a standard measure of underwriting profitability used throughout the property and casualty insurance industry. A ratio below 100.0 generally indicates underwriting profitability.

Interest expense increased to \$713,000 for the six months ended June 30, 2003 from \$70,000 for the six months ended June 30, 2002 primarily due to interest expense on the Company's Trust Preferred Securities.

The factors described above resulted in net income for the six months ended June 30, 2003 of \$7.6 million or \$0.52 per basic share and \$0.51 per diluted share, compared with \$3.7 million or \$0.32 per basic share and \$0.31 per diluted share for the six months ended June 30, 2002.

#### Critical Accounting Estimates and Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The Company has identified that the establishment of reserves for

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unpaid losses and loss adjustment expenses and the valuation of certain investments are critical accounting estimates because they involve a high degree of judgment. Although variability is inherent in these estimates, the Company believes the amounts provided are appropriate based upon facts available at this time. See the Investment Portfolio section beginning on page 18 for information related to the valuation of investments.

The Company is directly liable for losses and loss adjustment expenses under the terms of the insurance policies it writes. In many cases, several years may lapse between the occurrence of an insured loss, the reporting of the loss and the payment of that loss. The Company reflects its liability for the ultimate payment of all incurred losses and loss adjustment expenses by establishing its best estimate of loss and loss adjustment expense reserves as balance sheet liabilities 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 its ultimate loss. The estimate of the amount of the ultimate loss is based upon factors such as:

- |X| the type of loss,
- |X| the jurisdiction of the occurrence,
- |X| the Company's knowledge of the circumstances surrounding the claim,
- |X| the severity of injury or damage,
- |X| the potential for ultimate exposure, and
- |X| policy provisions relating to the claim.

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### PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

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

The Company determines loss adjustment expenses as a percentage of expected indemnity losses based on historical patterns adjusted to current experience.

In addition to case reserves, the Company establishes reserves on an aggregate basis to provide for incurred but not reported losses and loss adjustment expenses, commonly referred to as "IBNR". To establish reserves for IBNR, the Company must estimate the ultimate liability based primarily on past experience. The Company applies a variety of traditional actuarial techniques to estimate its ultimate liability. The techniques recognize, among other factors:

- |X| the Company's and the industry's experience,
- |X| historical trends in reserving patterns and loss payments,
- |X| the impact of claim inflation,
- |X| the pending level of unpaid claims,
- |X| the cost of claim settlements,
- |X| the line of business mix, and
- |X| the economic environment in which property and casualty insurance companies operate.

The Company continually reviews these estimates and, based on new developments and information, the Company includes adjustments of the probable ultimate liability in the operating results for the periods in which the adjustments are made. In general, initial reserves are based upon the actuarial and underwriting data utilized to set pricing levels and are reviewed as additional information, including claims experience, becomes available.

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The establishment of loss and loss adjustment expense reserves makes no provision for the prospective broadening of coverage by legislative action or judicial interpretation; or the extraordinary future emergence of new types of losses not sufficiently represented in the Company's historical experience, or that cannot yet be quantified. The Company regularly reviews pricing and reserving methodologies to assist in estimating its reserves 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 Company received an unexpected increase in the number of new claims reported relating to four policies issued to a single insured between January 1, 1980 and April 1, 1983. The insured is a manufacturer of safety equipment including industrial masks and the new claims reported allege existing and potential bodily injury due to a medical condition called silicosis. This is the only insured with which the Company has open claims relating to this type of injury. The original policies covered products and completed operations only and were issued with a \$500,000 indemnity policy aggregate limit of liability and a \$5,000 insured deductible per claim. As of June 30, 2003, the Company believes that its ultimate obligations for these claims are included in its best estimate for unpaid losses and loss adjustment expense reserves. Therefore, the Company believes that the amount of losses or loss adjustment expenses related to these claims will not have a material effect on the Company's financial position or results of operations.

During the first six months of 2003, the Company increased incurred losses and loss adjustment expenses attributable to insured events of prior years by \$0.9 million. This increase is primarily due to an increase of \$1.9 million in estimates for loss and loss adjustment expense reserves for the exited commercial

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### PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

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

automobile lines of business. In 2003, the Company experienced an unanticipated increase in paid allocated loss adjustment expenses on its remaining open commercial automobile liability claims. Consequently, combined with the unanticipated 2003 activity and review of open claims at June 30, 2003, the Company increased its estimates for loss and loss adjustment expense reserves.

Significantly offsetting the increase in incurred losses and loss adjustment expenses attributable to insured events of prior years for the exited commercial automobile lines of business is a reduction of \$1.0 million in estimates for the commercial property and casualty lines of business. This reduction consists of a reduction in the Company's estimate for the commercial property lines of business by \$2.1 million relating primarily to the 2002 accident year, partially offset by an increase in the Company's estimate for the commercial liability lines of business of \$1.1 million due to the development of outstanding claim reserves on claims occurring in various accident years.

#### Liquidity and Capital Resources



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PAGI is a holding company, the principal asset of which is the common stock of Penn-America Insurance Company. At June 30, 2003, PAGI's capital structure consisted of common stockholders' equity of \$125.9 million and Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Junior Subordinated Debentures of \$30.0 million.

On May 15, 2003, Penn-America Statutory Trust II ("the Trust II"), a business trust subsidiary formed by PAGI, issued \$15 million of floating rate trust preferred securities ("Trust Preferred Securities"). These securities have a thirty-year maturity, with a provision that allows the Company to call these securities at par after five years from the date of issuance. Cash distributions will be paid quarterly in arrears at a rate of 410 basis points over three-month London Interbank Offered Rates. Distributions on these securities can be deferred for up to five years, but in the event of such deferral, the Company may not declare or pay cash dividends on its common stock. The Company guarantees all obligations of the Trust II with respect to distributions and payments of these securities.

Proceeds from the sale of these securities by the Trust II were used to acquire \$15 million of Floating Rate Junior Subordinated Deferrable Interest Rate Debentures issued by the Company. These debentures have the same terms with respect to maturity, payments, and distributions as the floating rate trust preferred securities issued by the Trust II. The intended use of the proceeds from these debentures is to support growth in the Company's insurance operations and for general corporate purposes.

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150 ("SFAS 150"), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period after June 15, 2003. In accordance with SFAS 150, the Company's Trust Preferred Securities were classified as a liability on the Consolidated Balance Sheets and the related distributions were recorded as interest expense on the Consolidated Statements of Operations. Therefore, the adoption of SFAS 150 will have no effect on the Company's financial statements.

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### PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

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

PAGI's principal source of cash to meet short-term and long-term liquidity needs, including the payment of dividends to stockholders, corporate expenses and interest on its debentures, is dividends from Penn-America Insurance Company. PAGI has no planned capital expenditures that could have an impact on its long-term liquidity needs.

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 Insurance Company and Penn-Star Insurance Company principally to pay claims and operating expenses, to purchase investments and to make dividend payments to PAGI. PAGI's future liquidity is dependent on the ability of Penn-America Insurance Company to pay dividends to PAGI.

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The Company's insurance subsidiaries are restricted by statute as to the amount of dividends that they may pay without the prior approval of regulatory authorities. Penn-America Insurance Company 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 payable by Penn-America Insurance Company to PAGI for 2003 is \$11,026,200. For the six months ended June 30, 2003, ordinary dividends paid by Penn-America Insurance Company to PAGI were \$1,400,000. Penn-America Insurance Company's ability to pay future dividends to PAGI without advance regulatory approval is dependent upon maintaining a positive level of unassigned and statutory surplus, which, in turn, is dependent upon Penn-America Insurance Company and Penn-Star Insurance Company generating net income in excess of dividends paid to PAGI. As of June 30, 2003, Penn-America Insurance Company's statutory surplus was \$116,760,000, and included unassigned surplus of \$31,220,000.

Penn-America and Penn-Star are required by law to maintain a certain minimum level of statutory surplus. Statutory surplus is calculated by subtracting total liabilities from total assets. 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. As of December 31, 2002, the statutory surplus of Penn-America Insurance Company and Penn-Star Insurance Company was in excess of the prescribed risk-based capital requirements. Penn-America Insurance Company's statutory surplus at December 31, 2002 was \$110,262,000 and its regulatory action level was \$22,532,000. Penn-Star Insurance Company's statutory surplus at December 31, 2002 was \$37,356,000 and its regulatory action level was \$8,276,000.

The Company has generated positive cash flows from operations to meet its short-term liquidity requirements. Net cash provided by operating activities was \$15.1 million for the six months ended June 30, 2003 and \$24.1 million for the six months ended June 30, 2002.

Net cash used by investing activities was \$24.3 million for the six months ended June 30, 2003 and \$31.7 million for the six months ended June 30, 2002.

Net cash provided by financing activities was \$14.3 million for the six months ended June 30, 2003 due primarily to the issuance of \$15.0 million of Trust Preferred Securities in the second quarter of 2003 compared to net cash used by financing activities of \$0.7 million for the six months ended June 30, 2002.

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### PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

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

#### Investment Portfolio

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

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determining desired investment maturities. In addition, maturities have been staggered to produce cash flows for loss payments and reinvestment opportunities. The Company outsources the management of its investment portfolio to Gen Re New England Asset Management, Inc. ("NEAMS"). In accordance with the asset management agreement between the Company and NEAMS, all investment transactions are approved by the Investment Committee of the Company within 60 days of their initiation by NEAMS. At June 30, 2003, the Company held a total of \$312.0 million in cash and investments. Of this amount, cash and cash equivalents represented \$14.9 million, equity securities, consisting solely of preferred stock, represented \$12.0 million, and fixed-maturity securities represented \$285.1 million.

The Company's cash and investment portfolio mix as of June 30, 2003 was as follows:

Fixed maturities:

U.S. Treasury securities and obligations of U.S. government agencies	5.1%
Corporate securities	32.8
Mortgage-backed securities	18.3
Other structured securities	16.0
Municipal securities	19.2
	-----
Total fixed maturities	91.4
Cash and cash equivalents	4.8
Equity securities	3.8
	-----
	100.0%
	=====

The Company's fixed-maturity portfolio of \$285.1 million was 91.4% of the total cash and investments as of June 30, 2003. Approximately 94% of these securities were rated "A" or better by Standard & Poor's. Standard & Poor's rates publicly traded securities in 20 categories ranging from AAA to CC. Securities with ratings from AAA to BBB- (the top ten categories) are commonly referred to as having an investment grade rating. Equity securities, which consist solely of preferred stocks, were \$12.0 million or 3.8% of total cash and investments as of June 30, 2003.

The quality of the fixed-maturity portfolio as of June 30, 2003 was as follows:

"AAA"	53.6%
"AA"	13.8
"A"	26.3
"BBB"	5.3
Below "BBB"	1.0
	-----
	100.0%
	=====

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

As of June 30, 2003, the investment portfolio contained \$107.0 million of mortgage-backed, asset-backed and collateralized mortgage obligations. These securities 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 real estate or mortgages in the investment portfolio as of June 30, 2003. The quality of the Company's mortgage-backed, asset-backed and collateralized mortgage obligations as of June 30, 2003 was as follows:

"AAA"	86.0%
"AA"	12.1
"A"	1.4
"BBB"	0.5
	-----
	100.0%
	=====

As of June 30, 2003, the Company's investment portfolio contained corporate fixed-maturity and preferred stock securities with a market value of \$114.4 million. A summary of these securities by industry segment is as follows:

Financial institutions	31.4%
Consumer, non-cyclical	21.9
Utilities	20.1
Communications	9.5
Energy	5.0
Industrial	4.2
Consumer, cyclical	3.4
Basic materials	3.0
Technology	1.5
	-----
	100.0%
	=====

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The Company regularly evaluates its investment portfolio to identify other-than-temporary impairments of individual securities. The Company considers many factors in determining if an other-than-temporary impairment exists, including the length of time and extent to which the market value of the security has been less than cost, the financial condition and near-term prospects of the issuer of the security and the Company's ability and willingness to hold the security until the market value is expected to recover. The following table contains an analysis of the Company's securities with gross unrealized losses, categorized by the period that the securities were in a continuous unrealized loss position as of June 30, 2003:

(in thousands)	Number of Securities	Fair Value	Book Value	Gross Unrealized Losses
Fixed-maturity securities	29	\$ 27,282	\$ 27,463	\$ 181
Equity securities	1	1,020	1,025	5

As of June 30, 2003, the Company's fixed-maturity investment portfolio had 29 securities with \$181 thousand of gross unrealized losses. No single issuer had an unrealized loss position of greater than \$27 thousand. There was one equity security, a preferred stock, in an unrealized loss position of \$5,000 as of June 30, 2003.

### Forward-Looking Statements

Certain information included in management's discussion and analysis of financial condition and results of operations and elsewhere in this report are not historical facts but are forward-looking statements including, but not limited to, such matters as anticipated financial performance, business prospects, technological developments, new and existing products, expectations for market segment and growth and similar matters. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary remarks regarding important factors which, among others, could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the company's forward-looking statements. The risks and uncertainties that may affect the operations, performance, results of the company's business, and the other matters referred to above include, but are not limited to: (1) risks inherent in establishing loss and loss adjustment expense reserves; (2) uncertainties relating to the financial ratings of the company's insurance subsidiaries; (3) uncertainties relating to government and regulatory policies; (4) uncertainties arising from the cyclical nature of the company's business; (5) changes in the company's relationships with, and the capacity of, its general agents; and (6) the risk that the company's reinsurers may not be able to fulfill their obligations to the company. For additional disclosure regarding potential risk factors, refer to documents filed by the company with the Securities and Exchange Commission, including the Company's 2002 Annual Report on Form 10-K.

PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

Quantitative and Qualitative Disclosures About Market Risk

The Company's primary market risk is the potential economic loss principally arising from adverse changes in the market value of its investment portfolio. The major component of market risk affecting the Company's investment portfolio is interest rate risk. The Company eliminated its underlying exposure to equity price risk, as all of its common stock investments was sold in the first quarter of 2003.

The Company had fixed-maturity and preferred stock investments with a market value of \$297.2 million at June 30, 2003 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's market risk associated with exposure to interest rate risk at June 30, 2003 has not materially changed from that identified at December 31, 2002.

PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

Controls and Procedures

As of June 30, 2003, an evaluation was performed under the supervision and with the participation of the Company's management, including the President and CEO and Senior Vice President, CFO and Treasurer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the President and CEO and Senior Vice President, CFO and Treasurer, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2003.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to June 30, 2003.

PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

- Item 1. Legal Proceedings - None
- Item 2. Changes in Securities and Use of Proceeds - None
- Item 3. Defaults Upon Senior Securities - None
- Item 4. Submission of Matters to a Vote by Security Holders

On May 14, 2003, Penn-America Group, Inc. held its annual meeting of stockholders. Nine board nominees for director were elected for terms expiring at the 2004 annual meeting of stockholders. There was one stockholder proposal presented and voted on at the meeting. A stockholder proposal regarding amendments to the 2002 Stock Incentive Plan relating to an increase in the number of shares available for issuance under the Plan and to amendments to the definition of "change in control" did receive a majority vote of the shares represented and entitled to vote at the meeting.

Election of Directors

Nominee	Votes for	Votes Withheld
Irvin Saltzman	12,606,966	964,676
Jon S. Saltzman	12,607,166	964,476
Richard L. Duszak	12,607,466	964,176
Charles Ellman	13,391,616	180,026
Robert A. Lear	12,607,916	963,726
Jami Saltzman-Levy	12,607,716	963,926
M. Moshe Porat	12,607,916	963,726
E. Anthony Saltzman	12,607,716	963,926
Paul Simon	12,589,016	173,126

Stockholder proposal for amendments to the 2002 Stock Incentive Plan relating to an increase in the number of shares available for issuance under the Plan and to amendments to the definition of "change in control"

Votes For	Votes Against	Votes Withheld
9,002,563	1,540,298	291,203

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Item 5. Other Information - None

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION (continued)

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

An Exhibit Index has been filed as part of this report on page E-1

(b) Reports on Form 8-K

On April 2, 2003, the Company filed a current report on Form 8-K announcing the availability of its Combined Annual Statement for its insurance subsidiaries, Penn-America Insurance Company and Penn-Star Insurance Company, on the Company's web-site, in hard copy from the Company, or from the Pennsylvania Department of Insurance.

On April 23, 2003, the Company filed a current report on Form 8-K announcing that the Company released its earnings for the first quarter of 2003.

On April 25, 2003, the Company filed a current report on Form 8-K announcing that the Company executed an agreement for the private placement sale of \$15 million of thirty-year floating rate trust preferred securities through a wholly owned trust subsidiary.

On May 2, 2003, the Company filed a current report on Form 8-K announcing that Richard W. Slomiany, CPCU, AIM was appointed vice president of Claims for the registrant's insurance subsidiaries.

On May 6, 2003, the Company filed a current report on Form 8-K announcing the dismissal of Ernst & Young LLP ("E&Y") as its independent auditors and its appointment of PricewaterhouseCoopers LLP ("PwC") as independent auditors for 2003 and retained E&Y as its consulting actuary.

On May 9, 2003, the Company filed a current report on Form 8-K announcing the availability of materials presented by Jon Saltzman, President and CEO and Joseph Morris, Sr. Vice President, CFO and Treasurer presented to various groups of investors.

On May 15, 2003, the Company filed a current report on Form 8-K announcing the availability of its first quarter statements for its insurance subsidiaries, Penn-America Insurance Company and Penn-Star Insurance Company, on the Company's web-site, in hard copy from the Company, or from the Pennsylvania Department of Insurance.

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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: August 7, 2003  
-----

By: /s/ Jon S. Saltzman  
-----  
Jon S. Saltzman  
President and  
Chief Executive Officer

By: /s/ Joseph F. Morris  
-----  
Joseph F. Morris  
Senior Vice President,  
Chief Financial Officer  
Chief Financial Officer  
and Treasurer

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Exhibit No. -----	Description -----
4	Placement Agreement between Registrant and its financing subsidiary, Penn-America Statutory Trust II, and FTN Capital Markets and Keefe, Bruyette & Woods, Inc., dated April 25, 2003.
4(i)	Subscription Agreement among Penn-America Statutory Trust II, Registrant and I-Preferred Term Securities II, Ltd., dated May 15, 2003.
4(ii)	Indenture between Registrant and U.S. Bank National Association, dated May 15, 2003.
4(iii)	Amended and Restated Declaration of Trust by and among U.S. Bank National Association, Registrant, and Jon S. Saltzman, Joseph F. Morris, and Brian Riley, dated May 15, 2003.

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- 4(iv)            Guarantee Agreement by and between Registrant and U.S. Bank National Association, dated May 15, 2003.
  
- 10.1            Certified Terrorism Loss Aggregate Quota Share Agreement between Penn-America Insurance Company, Penn-Star Insurance Company and American Re-Insurance Company effective January 1, 2003 to December 31, 2004.
  
- 10.2            General Liability and Commercial Umbrella Liability Quota Share Reinsurance Agreement between Penn-America Insurance Company, Penn-Star Insurance Company and American Re-Insurance Company effective September 1, 2001.
  
- 10.2(i)        Endorsement No. 1 to General Liability and Commercial Umbrella Liability Quota Share Reinsurance Agreement between Penn-America Insurance Company, Penn-Star Insurance Company and American Re-Insurance Company effective September 1, 2001.
  
- 10.2(ii)       Endorsement No. 2 to General Liability and Commercial Umbrella Liability Quota Share Reinsurance Agreement between Penn-America Insurance Company, Penn-Star Insurance Company and American Re-Insurance Company effective January 1, 2003.
  
- 10.2(iii)      Endorsement No. 3 to General Liability and Commercial Umbrella Liability Quota Share Reinsurance Agreement between Penn-America Insurance Company, Penn-Star Insurance Company and American Re-Insurance Company effective June 1, 2003.
  
- 10.3            Investment Management Agreement between Registrant and General Re - New England Asset Management, Inc., date May 15, 2003.

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Exhibit No.	Description
10.4	Registrant's 2002 Stock Incentive Plan (f/k/a Amended and Restated 1993 Stock Incentive Plan.
31.1	Certification of Chief Executive Officer as adopted pursuant to section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer as adopted pursuant to section 302(a) of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer of Penn-America Group, Inc., dated August 12, 2003 in accordance with 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

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