PENN AMERICA GROUP INC
Form 10-K
March 30, 2001

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, 2000

[ ] 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 20, 2001, the aggregate market value of the outstanding Common Stock held by non-affiliates of the Registrant was approximately $41,391,030. As of March 20, 2001, there were 7,586,525 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, 2000 are incorporated by reference in Parts I, II and IV of this report.

Part III - Portions of the Registrant's definitive Proxy Statement with respect to the Registrant's 2001 Annual Meeting of Shareholders, to be filed not later than 120 days after the close of the Registrant's fiscal year.

PENN-AMERICA GROUP, INC.
ANNUAL REPORT ON FORM 10-K
DECEMBER 31, 2000

PART I

ITEM 1. BUSINESS

General

Penn-America Group, Inc. ("PAGI", or "the Company") is a specialty property and casualty insurance holding company which, through its subsidiary, Penn-America Insurance Company and its subsidiary Penn-Star Insurance Company (collectively "Penn-America"), markets and underwrites commercial property, general liability and multi-peril insurance for small businesses located primarily in small towns and suburban and rural areas. The Company provides commercial property and casualty insurance both on an excess and surplus lines basis and on an admitted basis. During 1999, the Company announced that it would exit the non-standard personal automobile business entirely, a business it entered in 1988. In late 2000, the Company announced that it also was exiting the commercial automobile business.

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. Jon S. Saltzman, Irvin Saltzman's son, is President and Chief Executive Officer of the Company and has been employed by the Company since 1976. 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 approximately 3.2 million shares were sold by the Company at $14.50 per share. Currently, the Saltzman family, substantially through their ownership of Penn Independent Corporation (Penn-Independent), owns approximately 41% of the Company's Common Stock.

Marketing and Distribution

Penn-America's commercial insureds consist primarily of small, "Main Street" businesses including restaurants, taverns, mercantiles and artisan 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 evaluate the probability of future loss exposure. 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 about 50 high-quality 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 or non-standard markets, which generally are characterized by small average policy premiums that are serviced by retail insurance brokers with limited access to larger, standard lines insurers. The Company believes that these markets generally are underserved by larger, standard lines insurers, which often limit their underwriting to larger policies or to certain risk classes. Penn-America believes that its distribution network enables it to access effectively 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 2000, commercial gross written premiums grew at a 22% compound annual rate from $22.6 million to $107.0 million while the number of general agents rose from 38 to 52.

Underwriting

The Company underwrites its business through three underwriting units: The Binding Authority Unit, the Submit Unit and the Specialty Lines Unit. This underwriting approach allows the Company to maintain low fixed costs. Approximately 85.0% of the Company's business is underwritten by the Binding Authority Unit. Of this amount, approximately 85% is bound by general agents in accordance with the Company's underwriting manual.

With respect to commercial risks written by general agents through The Binding Authority Unit, the Company generally has 60 days from the effective date to cancel a policy if the risk insured does not comply with the Company's underwriting guidelines. In the event an agent exceeds its authority by binding the Company on a risk when it had no authority to do so, the Company is at risk for that policy until it receives the policy and effects a cancellation. General agents must deliver all policies to the Company within 35 days of the date written. The Company monitors this activity closely through its computer system and underwriting department.

The Company provides its general agents with a comprehensive, regularly updated underwriting manual, which also is available online through a secure Intranet site called PennLink. This manual clearly outlines the Company's risk eligibility, pricing parameters and underwriting guidelines. Penn-America closely monitors the quality of business it underwrites. The Company generally reviews new and renewal commercial policies on a continuous basis to ensure that its underwriting guidelines are being followed. The Company also periodically audits each agent's office to determine if the Company's underwriting guidelines are being 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 commission structure, which is tied substantially to underwriting profitability. Payments of these contingent commissions have been in cash and through the issuance of shares of Company common stock and stock options. Since 1996, the Company has awarded agents approximately 161,000 shares of the Company's common stock through its contingent commission structure.

The Submit Unit was formed in the fourth quarter of 1999 and produced approximately 3% of the Company's business in 2000. The unit provides a market to the Company's general agents for approximately fifty classes of insureds that were previously restricted by the Company's underwriting manual. 100% of the business written by the Submit Unit is bound by Penn-America underwriters - general agents have no binding authority. Each risk is considered individually by the Company's underwriters and approximately 15% of policies submitted are bound.

In determining whether to accept such risks, the Company's Submit Unit will review such factors as the type of risk, the agent's knowledge and control of the risk, potential underwriting profitability and historical data regarding any similar risk previously underwritten by the Company. During this process, the Company will quote a proposed premium reflecting relevant ISO benchmarks, if available, and adjustments that may be warranted based on the individual characteristics of the particular risk. The Submit Unit then assembles a

complete underwriting file with respect to the particular submission and specific approval procedures are employed, depending on the characteristics and magnitude of the particular risk.

The Specialty Lines Unit, which accounted for 12% of the Company's business in 2000, creates specialized underwriting and marketing programs for individual agents based upon specific territorial needs and opportunities. The individual general agent typically is given exclusive marketing authority for the program subject to territorial limitations. The Company believes it can achieve superior underwriting results and expense savings on these programs. In all of its commercial product lines, the Company continuously is developing specialized programs for certain industry segments to meet the needs of these marketplaces. For example, Penn-America has developed programs for Alaska dwellings, cargo and retail jewelers. As a group, these programs are a significant benefit to Penn-America's marketing efforts.

Financial Information About Business Segments

The Company has two reportable segments: non-standard personal automobile and commercial lines. The Company announced in April 1999 that it would run-off its remaining portfolio of the personal lines automobile business, which was underwritten through a single agent in California. This followed a decision earlier in 1999 to eliminate the remainder of the Company's non-standard personal automobile portfolio of this business in six other states. 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 are 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 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 as opposed to investment income attributable to insurance transactions. 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,			
	2000		1999	
	Amount	Percent	Amount	Percent
	(in thousands)		(in thousands)	
Pacific	$ 19,961	18.2%	$ 21,404	22.3%
Midwest	21,768	19.8	17,516	18.2
South	16,539	15.1	13,811	14.4
Southwest	15,532	14.1	13,971	14.6
Mid-Atlantic	17,253	15.7	12,496	13.0
Mountain/Northwest	10,457	9.5	10,849	11.3
New England	8,281	7.6	5,935	6.2
	$ 109,791	100.0%	$ 95,983	100.0%

Lines of Business

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

	Years ended				
	2000		1999		
	Amount	Percent	Amount	Percent	Amoun
	(dollars in thousands)				
Commercial lines:					
Commercial multi-peril	$ 55,674	54.1%	$43,851	46.7%	$39,
Liability	28,043	27.2	24,961	26.6	24,
Property	5,734	5.6	5,498	5.9	5,
Commercial automobile	9,522	9.3	5,580	5.9	
	98,973	96.2	79,890	85.1	70,

Personal lines:					
Auto liability	3,114	3.0	11,400	12.1	22,
Auto physical damage	796	0.8	2,614	2.8	4,
	3,910	3.8	14,014	14.9	26,
Total gross earned premium	$102,883	100.0%	$93,904	100.0%	$97,

o 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, 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.

o The Company's Commercial Property lines provide limits usually no higher than $4 million, with almost all of the policies being written at limits less than $1 million.

o 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. Consistent with the current industry trend, the Company has been writing more commercial multi-peril policies than individual property and liability policies during the past several years. The Company expects this trend to continue as the Insurance Services Office (ISO) forms make it easier and more efficient to write such multi-peril policies, and because a substantial number of the Company's commercial insureds customarily require both liability and property insurance coverage.

o The Company also offers Commercial Umbrella coverage to enhance its commercial multi-peril writings. The types of risks and insureds targeted are similar to those already written, such as restaurants, bars and taverns, mercantile, artisan contractors and similar classes. Commercial umbrella insurance can be written for limits up to $5 million with significant reinsurance support from General Reinsurance Corporation. For commercial umbrella coverage, Penn-America usually writes the primary million liability limit.

o Commercial Automobile coverage is offered by the Company from 1998 through the first quarter of 2001.The commercial automobile insurance line (cars and light trucks) is written with liability limits up to $1 million. No new policies currently are being issued and all existing policies are being non-renewed in accordance with each state's non-renewal laws. Commercial automobile business represented approximately 10.4% of the total gross premium written by the Company in 2000, compared with 7.3% in

1999. The Company anticipates that run-off from commercial automobile gross written premium in 2001 will be approximately $ 4.5 million, compared with $11.5 million in 2000.

o Penn-America wrote Non-Standard Personal Automobile policies in seven states. In 1999, the Company announced that it was exiting this line entirely and that it would be in run-off. The business being run-off represented $2.8 million of gross written premiums in 2000. The non-standard automobile written premium anticipated to be written by the Company in 2001 is largely the result of the statutory requirements of states regarding renewals. The Company estimates that approximately $ 0.5 million of personal non-standard automobile written premiums will be written in 2001. Non-standard personal automobile business represented approximately 2.5% of the total gross premium written by the Company in 2000 as compared with 12.0% in 1999.

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 ISO benchmark and forms. ISO makes available to its members advisory, rating, statistical and actuarial services, policy language and related services. ISO and its related organizations currently provide such services, including loss costs and forms, to more than 1,500 property and casualty insurance companies in the U.S. One of the important services that ISO provides is an actuarial-based estimate of the "ideal" loss cost for risks in each of approximately 1,250 risk classifications. These benchmark loss costs reflect an analysis of the loss and 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 carriers set rates lower than ISO benchmarks. However, the Company, because of its strategy of providing insurance to under-served markets, typically charges 100% or more of prescribed ISO benchmarks. Generally, 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% of ISO benchmarks. According to ISO data, most standard carriers typically price at 60-80% 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 over $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 and 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, which are balance sheet liabilities representing estimates of future amounts needed to pay claims and related expenses.

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, management establishes reserves on an aggregate basis to provide for Incurred But Not Reported Losses and Loss Adjustment Expenses ("IBNR"). The Company's independent actuarial consultant annually reviews the provision for IBNR and the reserves taken as a whole. The Company does not discount its loss reserves. The estimates of reserves are subject to the effect of trends in claims severity and frequency and are continually reviewed. As part of this process, the Company reviews historical data and considers various factors, including known and anticipated legal developments, changes in social attitudes, inflation and economic conditions. As experience develops and other data become available, these estimates are revised, as required, resulting in increases or decreases to existing reserves. Adjustments are reflected in results of operations in the period in which they are made and may deviate substantially from prior estimates.

The following table represents the development of unpaid loss and loss adjustment expense reserves during the ten years ended December 31, 2000. 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 2000 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.

	1990	1991	1992	1993	1994	1995	1996
Reserves for unpaid losses and loss adjustment	$25,352	$25,681	$26,110	$26,830	$35,307	$46,512	$55,656

Expenses, as stated (In thousands)

a. Net cumulative paid as of							
1 year later	$6,929	$6,605	$7,381	$6,852	$12,383	$17,208	$23,660
2 years later	11,610	10,988	11,127	13,127	20,617	29,612	38,819
3 years later	14,667	13,325	15,546	18,656	27,266	38,091	50,982
4 years later	16,341	16,417	19,253	22,254	32,119	44,016	57,613
5 years later	18,363	19,283	21,503	24,303	34,883	48,236	
6 years later	20,214	20,872	22,796	25,642	37,687		
7 years later	21,470	21,881	23,714	27,121			
8 years later	22,084	22,452	24,959				
9 years later	22,432	23,303					
10 years later	22,929						
b. Reserves re-estimated as of end of year							
1 year later	$23,468	$23,228	$24,478	$23,897	$33,601	$45,708	$55,997
2 years later	22,658	22,383	21,945	23,489	34,281	47,225	57,913
3 years later	22,252	20,471	22,032	24,558	36,453	47,378	63,575
4 years later	21,465	20,819	22,767	26,335	36,359	50,704	67,310
5 years later	21,469	21,726	23,935	26,380	38,768	54,245	
6 years later	21,990	22,550	24,143	27,532	41,425		
7 years later	22,609	22,761	24,776	29,050			
8 years later	22,609	23,117	26,485				
9 years later	23,004	24,280					
10 years later	23,515						
Net cumulative redundancy (deficiency)	$1,837	$1,401	($375)	($2,220)	($6,118)	($7,733)	($11,654)(
Gross liability for unpaid losses and loss adjustment expenses, as stated			$31,703	$33,314	$44,796	$60,139	$70,728
Reinsurance recoverable			5,593	6,484	9,489	13,627	15,072
Net liability for unpaid losses and loss adjustment expenses, as stated			26,110	26,830	35,307	46,512	55,656
Gross liability re-estimated - 1 year later			30,609	32,796	48,173	63,884	71,644
Reinsurance recoverable re-estimated			6,131	8,899	14,572	18,176	15,647
Net liability re-estimated - 1 year later			24,478	23,897	33,601	45,708	55,997
Gross liability re-estimated - 2 years later			30,390	36,243	53,009	66,405	74,312
Reinsurance recoverable re-estimated			8,445	12,754	18,728	19,180	16,399
Net liability re-estimated - 2 years later			21,945	23,489	34,281	47,225	57,913
Gross liability re-estimated - 3 years later			33,992	41,600	56,042	66,891	80,574
Reinsurance recoverable re-estimated			11,960	17,042	19,589	19,513	16,999
Net liability re-estimated - 3 years later			22,032	24,558	36,453	47,378	63,575
Gross liability re-estimated - 4 years later			38,165	43,824	56,167	68,927	84,831
Reinsurance recoverable re-estimated			15,398	17,489	19,808	18,223	17,521
Net liability re-estimated							

- 4 years later	22,767	26,335	36,359	50,704	67,310
Gross liability re-estimate - 5 years later	39,956	44,466	58,272	73,042	
Reinsurance recoverable re-estimated	16,021	18,086	19,504	18,797	
Net liability re-estimated - 5 years later	23,935	26,380	38,768	54,245	
Gross Liability re-estimate - 6 years later	40,670	45,595	61,814		
Reinsurance recoverable re-estimated	16,527	18,063	20,389		
Net liability re-estimated - 6 years later	24,143	27,532	41,425		
Gross liability re-estimated - 7 years later	41,679	47,955			
Reinsurance recoverable re-estimated	16,903	18,905			
Net liability re-estimated - 7 years later	24,776	29,050			
Gross liability re-estimated - 8 years later	43,958				
Reinsurance recoverable re-estimated	17,473				
Net liability re-estimated - 8 years later	26,485				
Gross cumulative deficiency	($12,255)	($14,641)	($17,018)	($12,902)	($14,103) (

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 31,		
	2000	1999	1998
The Company:			
SAP Basis			
Loss and loss adjustment expense ratio	82.4	73.8	62.3
Expense ratio	33.2	34.9	35.0
Combined ratio	115.6	108.7	97.3

	Years ended December 31,		
	2000 (1)	1999 (2)	1998 (2)
Property and casualty insurance industry:			
SAP Basis			
Loss and loss adjustment expense ratio	80.5	78.8	76.4
Expense ratio	27.3	27.9	27.7
Dividend ratio	1.1	1.4	1.9
Combined ratio	108.9	108.1	106.0

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 $250 million in policyholders' surplus.

The Company's current treaty reinsurance is with Gen Re, which is rated "A++ (Superior)" by A.M. Best. Since January 1995, the Company has maintained net retention limits of $500,000 (including indemnity and/or loss adjustment expense) for casualty insurance, except during the first six month period of 1999, where the

Company raised its casualty net retention to $1 million. As of July 1, 1999, the casualty retention was returned to its previous retention limit of $500,000. Net retention limits for property insurance were $300,000 per risk for 2000, 1999 and 1998. The combined Company retention for any one loss resulting from a common occurrence involving both the property and casualty coverage on a single risk is $500,000. The Company also maintains casualty contingent excess coverage with General 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.

Effective December 1, 1997, reinsurance was added for both commercial automobile and commercial umbrella risks through General Re. The Company maintained commercial automobile net retention of $100,000 per occurrence for 1999 and 1998, and $250,000 per occurrence for 2000. The Company maintained commercial umbrella net retention of 10% of the first $1,000,000 for 2000, 1999 and 1998. Commercial automobile limits are generally written up to $1,000,000. Umbrella policy limits are up to $5,000,000.

For 1999 and 1998, the Company entered into a property catastrophic reinsurance program with a group of reinsurers including General Re, Lloyds and other "A" rated or better reinsurers. Under the terms of the agreement, the Company retains the first $2 million of losses and the group reinsures 95.0% of the next $23 million, with the Company retaining 5.0% of each layer (i.e., 1st layer, $3 million, 2nd layer, $5 million, 3rd layer, $15 million) within the $23 million.

The 2000 and 2001 catastrophe reinsurance program includes American Agricultural Insurance Company, CNA Reinsurance Company, Everest Insurance Company, Gerling Global Reinsurance Corporation, Lloyd's, Zurich Insurance Company and Zurich Reinsurance North America. Under the terms of the agreement, the Company retains 100% of the first $1 million of losses and the group reinsures 97.5% of losses up to $5 million in excess of the first $1 million. Losses in excess $5 million up to $25 million are reinsured 100%.

The Company may write individual risks with limits greater than the treaty limits on a per-policy basis by using facultative reinsurance. The facultative reinsurers must also meet Penn-America's reinsurer guidelines.

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 98% of the Company's fixed income securities as of December 31, 2000 were rated "A" or better by Standard & Poor's or an equivalent rating by Moody's. As of December 31, 2000, the Company's fixed maturity investments had an effective average duration of approximately 3.6 years. Publicly traded equity securities, the majority of which consisted of preferred stocks, represented 14.6% of the Company's investment portfolio as of December 31, 2000.

As of December 31, 2000, the Company's investment portfolio contained $45.8 million of mortgage- and asset-backed securities at their carrying value. All of these securities are at least "AA"-rated and 80% are "AAA"-rated securities issued by government and government-related agencies, 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 participate in these markets and does not have any such investments in its investment portfolio.

The Company's investment portfolio is under the direction of the Board of Directors of Penn-America acting through its Investment Committee (consisting of selected members of the Company's Board). 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 Chairman of the Investment Committee.

The Investment Committee retained New England Asset Management ("NEAM"), a subsidiary of Gen Re, to manage its fixed income 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, 2000:

	Fair value	Amount reflected on balance sheet	Perc to
		(In thousands)	
Fixed maturities:			
Available for sale:			
U.S. Treasury securities and obligations of U.S. government agencies	$ 4,122	$ 4,122	
Corporate securities	52,365	52,365	
Mortgage-backed securities	23,944	23,944	
Other structured securities	21,872	21,872	
Municipal	16,419	16,419	
Public Utilities	6,755	6,755	
Total	125,477	125,477	
Held to maturity:			
U.S. Treasury securities and obligations of U.S. government agencies	13,908	13,760	
Corporate securities	2,374	2,378	
Municipal	150	150	
Public utilities	1,009	994	
Total	17,441	17,282	
Total fixed maturity securities	142,918	142,759	
Equity securities:			
Common stock	6,443	6,443	
Preferred stock	18,048	18,048	
Total equity investments	24,491	24,491	
Total investments	$167,409	$167,250	

The chart presented on Page 18 of the Company's Annual Report, incorporated herein by reference, sets forth the composition of the Company's portfolio of fixed maturity investments by rating at December 31, 2000.

Footnote 5 to the audited financial statements, incorporated herein by reference, sets forth the net investment income results of the Company for 2000, 1999 and 1998.

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 also competes with other forms of insurance (such as risk retention groups) and alternative self-insurance mechanisms. 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 and must continually identify profitable opportunities. Other competitive factors include ratings by A.M. Best, pricing and admitted versus excess and surplus lines status in a given state.

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.

Penn-America and Penn-Star currently have a pooled rating from A.M. Best of "A-" (Excellent), which was lowered from "A" (Excellent) by Best in December 2000. The Company does not believe that this lower rating will affect its ability to market its products in its target markets. The Company's rating is based upon factors of concern to policyholders, including financial condition and solvency and is not directed to the protection of investors.

As of December 31, 2000 , Penn-America and Penn-Star combined are licensed as an admitted insurer in 43 states and are approved non-admitted (excess and surplus lines) insurers in 45 states and the District of Columbia. All insurance is written through licensed agents and brokers. In states in which the Company operates on a non-admitted basis, general agents and their retail insurance brokers generally are required to

certify that a certain number of licensed admitted insurers will not write a particular risk prior to placing that risk with the Company.

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 and Penn-Star. 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 this criteria, the available ordinary dividend for 2001 is $5.5 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 aren't 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.

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EMPLOYEES

The Company has approximately 110 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 approximately $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 insurance business. Neither the Company nor its subsidiaries is involved in any pending or threatened legal or administrative proceedings that 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 2000 to a vote of holders of the Company's Common Stock.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The "Market for Common Stock and Related Security Holder Matters" section on pages 41 of the Company's Annual Report to stockholders for the year ended December 31, 2000, 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, 2000, 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 20 of the Company's Annual Report to stockholders for the year ended December 31, 2000, 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 21 to 40 of the Company's Annual Report to stockholders for the year ended December 31, 2000, 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 2001 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 20, 2001 are as follows:

Irvin Saltzman	78	Chairman of the Board of Directors of PAGI and Penn-America

Jon S. Saltzman	43	President and Chief Executive Officer of PAGI and Penn-America, and Director
Joseph F. Morris	46	Senior Vice President and Chief Financial Officer of PAGI and Penn-America
Garland P. Pezzuolo	36	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 2001 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 2001 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 2001 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

The following consolidated financial statement schedules for the years 2000, 1999 and 1998 are submitted herewith:

2. Financial Statement Schedules.

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

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* Refers to the respective page of Penn-America Group's 2000 Annual Report to Stockholders attached as Exhibit (13). The Consolidated Financial Statements and Independent Auditors' Report on pages 22 to 40 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.
10.2	Agency Agreement between Penn-America Insurance Company ("Penn-America") and Carnegie General Agency, incorporated by reference to Exhibit 10.2 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.
10.2(a)	Amended Carnegie Agreement, effective March 1, 1998, filed with the Registrant's report on Form 10-K for the period ended December 13, 1997, which has been filed with the Securities and Exchange Commission.
10.2(b)	Notice of Termination of Carnegie Agreement, dated April 30, 1999, , 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.
10.3	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)	Endorsement 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.
10.4	1993 Underlying Homeowners and Dwelling Fire Property Per Risk Excess of Loss Reinsurance (Run-off Business) Agreement with National Reinsurance Corporation, incorporated by reference to Exhibit 10.4 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.
10.5	1993 Property Per Risk Excess of Loss (Commercial) Reinsurance Agreement with Employers Reinsurance Corporation, incorporated by reference to Exhibit 10.5 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.

Exhibit No.	Description
10.5(i)	Endorsement No. 3 to Property Per Risk of Excess Loss (Commercial) Reinsurance Agreement with Employers Reinsurance Corporation, filed with the Securities and Exchange Commission with Registrant's Report on Form 10-K for the period ending December 31, 1994.
10.6	1993 Property Catastrophe Excess Reinsurance Agreement with Employers Reinsurance Corporation, incorporated by reference to Exhibit 10.6 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.
10.6(i)	Endorsement No. 6 to Property Catastrophe Excess Reinsurance Agreement with Employers Reinsurance Corporation, filed with the Registrant's Report on Form 10-K for the period ending December 31, 1994, which has been filed with the Securities and Exchange Commission.

10.6(ii)	Stipulation of Termination of Property Catastrophe Excess Reinsurance Agreement with Employers Reinsurance Corporation effective January 1, 1995, filed with the Registrant's Report on Form 10-K for the period ending December 31, 1994, which has been filed with the Securities and Exchange Commission.
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.

Exhibit No.	Description
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.
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.
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.
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.

Exhibit No.	Description
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, 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.
10.11	Lease effective June 30, 1995 between Registrant and Irvin Saltzman, 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.
10.11(i)	Lease effective July 1, 2000 between Penn-America Insurance Company and Irvin Saltzman.

10.12	Demand Promissory Note dated January 12, 1993 from Penn Independent Financial Services, Inc. to Penn-America, incorporated by reference to Exhibit 10.12 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.
10.13	Promissory Note dated December 29, 1993 from the Registrant to Penn Independent, 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.
10.13(i)	Amendment No.1 dated November 30, 1995 to Demand Promissory Note dated January 12, 1993 from Penn Independent Financial Services, Inc. to Penn-America, 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	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.

Exhibit No.	Description
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.
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.
10.15	1995 Property Catastrophe Excess of Loss Reinsurance Agreement with the subscribing Reinsurers, filed with the Registrant's Report on Form 10-K for the period ending December 31, 1994, which has been filed with the Securities and Exchange Commission.
10.15(i)	1996 Property Catastrophe Excess of Loss Reinsurance Agreement with the subscribing Reinsurers, 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.
10.16	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)	2001 Key Employee Incentive Compensation Plan.
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.
10.18	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.
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, 2000, which has been filed with the Securities and Exchange Commission.

Exhibit No.	Description
13	2000 Annual Report to Shareholders, incorporated by reference under Item 8.
21	As of December 31, 2000, the Registrant's only subsidiary is Penn-America Insurance Company, a Pennsylvania Corporation.
23	Independent Auditors' Consents and Reports on Schedules
28.1	Loan and Security Agreement, Term Note and Stock Pledge Agreement dated December 20, 1995 between Registrant and PNC Bank (successor to Midlantic Bank, N.A), filed with the Registrant's Report on Form 10-K for the period ending December 31, 1995, which has been filed with the Securities and Exchange Commission.
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.
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.
31.0	Promissory Note and Security Agreement dated January 17, 2000 between Penn-America Insurance Company and Jon S. Saltzman.

Exhibit No.	Description
31.0(i)	Amendment dated May 17, 2000 to Promissory Note and Security Agreement dated January 17, 2000 between Penn-America Insurance Company and Jon S. Saltzman
31.0(ii)	Promissory Note and Security Agreement dated February 16, 2000, between Penn-America Insurance Company and J. Ransley Lennon.
31.0(iii)	Amendment dated May 17, 2000 to Promissory Note and Security Agreement dated February 16, 2000 between Penn-America Insurance Company and J. Ransley Lennon.
31.0(iv)	Promissory Note and Security Agreement dated March 10, 2000 between Penn-America Insurance Company and Jon S. Saltzman.

(b)

(1)	Form 8-K dated November 14, 2000 re: Quarterly Statements of Penn-America Insurance Company and Penn-Star Insurance Company.

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

	December 31,	
	Amortized Cost	Fair V
Fixed maturities:		
Available for sale		
U.S. treasury securities and obligations of U.S. government agencies	$ 4,015	$
Corporate securities	52,084	
Mortgage-backed securities	23,321	
Other structured securities	21,381	
Municipal	15,882	
Public Utilities	7,190	
Total available for sale	123,873	
Held to maturity		
U.S. treasury securities and obligations of U.S. government agencies	13,760	
Corporate securities	2,378	
Municipal	150	
Public Utilities	994	
Total held to maturity	17,282	
Total fixed maturities	141,155	
Equity securities:		
Common stock	20,014	
Preferred stock	7,310	
Total equity investments	27,324	
Total investments	$168,479	$

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

	Dec
	2000
ASSETS	
Cash	$ 972
Short-term investments	-
Investment in subsidiary, equity method	73,441
Other assets	357
Total assets	$ 74,770
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Accounts payable and accrued expenses	$ 173
Total liabilities	173
Stockholders' equity:	
Preferred stock, $ .01 par value; authorized 2,000,000 shares; none issued	
Common stock, $.01 par value; authorized 20,000,000 in 2000 and 1999; issued 2000, 10,076,025 and 1999, 9,990,436 shares; outstanding 2000, 7,576,025 and 1999, 8,062,861	101
Additional paid-in capital	70,164
Accumulated other comprehensive loss, net	(811)
Treasury stock, 2000, 2,500,000 and 1999, 1,927,575, shares at cost	(24,161)
Retained earnings	29,583
Unearned compensation from restricted stock awards	(279)
Total stockholders' equity	74,597
Total liabilities and stockholders' equity	$ 74,770

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

	Years ended December 3	
	2000	1999
Other income	$27	$56
Operating expenses	(791)	(1,306)

Income before income tax and undistributed net income (loss) of subsidiary	(764)	(1,250)
Income tax benefit	260	425
Income before equity in undistributed net income of subsidiary	(504)	(825)
Equity in undistributed net income (loss) of subsidiary	(3,352)	2,863
Net income (loss)	($3,856)	$2,038
Net income (loss) per share		
Basic	($0.50)	$0.24
Diluted	($0.50)	$0.24

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

	Years ended December 31	
	2000	1999
Cash flows from operating activities:		
Net income (loss)	($ 3,856)	$ 2,038
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Dividends received from subsidiaries	6,400	14,500
Equity in undistributed net (income) loss of subsidiary	3,352	(2,863)
Amortization	246	256
Increase (decrease) in :		
Accounts payable and accrued expenses	108	65
Other, net	16	328
Net cash provided by operating activities	6,266	14,324
Cash flows from investing activities:		
Change in short-term investments	449	548

Net cash provided (used) by investing activities	449	548
Cash flows from financing activities:		
Issuance of common stock (net of expenses)	500	465
Purchase of treasury stock	(4,687)	(13,831)
Dividends paid	(1,611)	(1,767)
Net cash used by financing activities	(5,798)	(15,133)
Increase (decrease) in cash	917	(261)
Cash, beginning of period	55	316
Cash, end of period	$ 972	$ 55

PENN-AMERICA GROUP, INC.
Schedule III - Supplementary Insurance Information
Years Ended December 31, 2000, 1999 and 1998
(in thousands)

	Deferred Policy Acquisition Costs	Liability for Unpaid Losses and Loss Adjustment Expenses	Unearned Premiums	Earned Premiums	Inv I
2000					
Commercial	$ 10,310	$ 109,377	$ 43,218	$ 87,556	
Personal	7	5,937	21	3,893	
Unallocated	-	-	-	-	
Total	$ 10,317	$ 115,314	$ 43,239	$ 91,449	
1999					
Commercial	$ 8,914	$ 82,192	$ 35,188	$ 71,731	
Personal	392	11,527	1,144	13,946	
Unallocated	-	-	-	-	
Total	$ 9,306	$ 93,719	$ 36,332	$ 85,677	
1998					
Commercial	$ 7,553	$ 69,845	$ 30,625	$ 62,949	
Personal	1,175	19,092	3,628	26,544	

Unallocated	-	-	-	-
Total	$ 8,728	$ 88,937	$ 34,253	$ 89,493

	Losses and Loss Adjustment Expenses	Amortization of Deferred Policy Acquisition Costs	Other Underwriting Expenses	Net Premiums Written
2000				
Commercial	$ 72,893	$ 23,857	$ 1,757	$ 94,481
Personal	2,485	1,362	1,362	2,769
Unallocated	-	-	5,045	-
Total	$ 75,378	$ 25,219	$ 6,802	$ 97,250
1999				
Commercial	$ 49,744	$ 20,269	$ 1,596	$ 75,574
Personal	13,443	4,533	-	11,462
Unallocated	-	-	4,443	-
Total	$ 63,187	$ 24,802	$ 6,039	$ 87,036
1998				
Commercial	$ 37,121	$ 17,112	$ 1,575	$ 64,283
Personal	18,612	8,340	207	23,546
Unallocated	-	-	4,607	-
Total	$ 55,733	$ 25,452	$ 6,389	$ 87,829

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PENN-AMERICA GROUP, INC.
Schedule IV - Reinsurance
Years Ended December 31, 2000, 1999 and 1998
(in thousands)

Property and Liability Insurance Premiums	Direct	Ceded to Other Companies	Assumed from Other Companies	Net Premium Written	Perc of A to

2000	$108,622	$12,540	$ 1,169	$ 97,250	
1999	$ 94,967	$ 8,947	$ 1,016	$ 87,036	
1998	$ 94,831	$ 7,268	$ 266	$ 87,829	

PENN-AMERICA GROUP, INC.
Schedule VI- Supplemental Insurance Information Concerning
Property and Casualty Operations
Years Ended December 31, 2000, 1999 and 1998
(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, 2000	$115,314	0	$66,214	$9,
December 31, 1999	93,719	0	54,768	8,
December 31, 1998	88,937	0	55,647	

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Penn-America Group, Inc.

We have audited the accompanying consolidated balance sheets of Penn-America Group, Inc. (the Company) as of December 31, 2000 and 1999, and the related consolidated statements of operation, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Penn-America Group, Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Philadelphia, Pennsylvania
January 19, 2001

Independent Auditors' Report

The Board of Directors and Stockholders
Penn-America Group, Inc.

We have audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows of Penn-America Group, Inc. and subsidiaries for the year ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Penn-America Group, Inc. and subsidiaries for the year ended December 31, 1998, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

January 22, 1999
Philadelphia, Pennsylvania

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, 20
/s/ Jon S. Saltzman Jon S. Saltzman	President, Chief Executive Officer and Director (Principal Executive Officer)	March 28, 20
/s/ Robert A. Lear Robert A. Lear	Director	March 28, 20
/s/ Joseph F. Morris Joseph F. Morris	Senior Vice President and Chief Financial Officer	March 28, 20
/s/ Garland P. Pezzuolo Garland P. Pezzuolo	Secretary and General Counsel	March 28, 20
/s/ Paul Simon	Director	March 28, 20

------------------------ Paul Simon		
/s/ Charles Ellman ------------------------ Charles Ellman	Director	March 28, 20
/s/ M. Moshe Porat ------------------------ M. Moshe Porat	Director	March 28, 20
/s/ Jami Saltzman-Levy ------------------------ Jami Saltzman-Levy	Director	March 28, 20