



## NEWS

**For Release:** July 28, 2004

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**Summary:**    **Penn-America Group, Inc. (NYSE:PNG) reports another record quarter with operating income up 29.1 percent to \$4.8 million or \$0.32 per share (basic and diluted) for the second quarter of 2004. Record levels of gross written premiums, total revenues and net income were also posted in the second quarter of 2004.**

### Three Month Results

HATBORO PA (July 28, 2004) -- Penn-America Group, Inc. (NYSE:PNG) today reported record operating income of \$4.8 million or \$0.32 per share (basic and diluted) for the second quarter of 2004 compared with operating income of \$3.7 million or \$0.25 per share (basic and diluted) for the second quarter of 2003. Net income for the second quarter of 2004 increased to a record \$4.9 million or \$0.33 per share (basic and diluted) and included a net realized investment gain, after taxes, of \$0.1 million. Net income for the second quarter of 2003 was \$4.0 million or \$0.27 per share (basic and diluted) and included a net realized investment gain, after taxes, of \$0.3 million.

Gross written premiums increased 19.2 percent to a record \$64.9 million in the second quarter of 2004 compared with \$54.5 million for the same period in 2003. Net written premiums increased 24.2 percent to a record \$57.0 million in the second quarter of 2004 compared with \$45.9 million for the same period in 2003. The GAAP combined ratio for the second quarter of 2004 was 91.7 compared with 92.5 for the second quarter of 2003.

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Commenting on the 2004 operating results, Jon S. Saltzman, president and CEO noted, “Our continued strong operating performance demonstrates that our small commercial niche in the excess and surplus lines marketplace has not experienced the price softening reported by other commercial insurers in 2004. For the first six months of the year, we averaged a five-percent price increase, achieved a 36.0 percent growth in gross written premiums and produced record results in virtually every financial measure that we use to judge our success.”

Operating income, a non-GAAP financial measure, is calculated by subtracting net realized investment gain, after taxes, from net income. The company uses operating income, among other measures, to evaluate its performance because the realization of net realized investment gains or losses in a given period is largely discretionary as to timing and could distort the comparability of results.

### **Six Month Results**

For the six months ended June 30, 2004, the company reported operating income of \$9.1 million or \$0.62 per basic share and \$0.61 per diluted share compared with operating income of \$6.8 million or \$0.47 per basic share and \$0.46 per diluted share for the six months ended June 30, 2003. Net income for the first six months of 2004 increased to \$9.6 million or \$0.65 per basic share and \$0.64 per diluted share and included a net realized investment gain, after taxes, of \$0.5 million. Net income for the first six months of 2003 was \$7.6 million or \$0.52 per basic share and \$0.51 per diluted share and included a net realized investment gain, after taxes, of \$0.8 million.

Gross written premiums increased 36.0 percent to \$129.0 million for the six months ended June 30, 2004 compared with \$94.9 million for the same period in 2003. Net written premiums increased 40.8 percent to \$112.5 million for the six months ended June 30, 2004 compared with \$79.9 million for the same period in 2003. The GAAP combined ratio for the six months ended June 30, 2004 was 92.2 compared with 93.7 for the same period in 2003.

### **Teleconference for Interested Parties**

Jon Saltzman and Joe Morris, senior vice president, CFO and treasurer, will conduct a teleconference for interested parties today at 11:00 a.m. Eastern Daylight Time. To participate, telephone (888) 400-7916 a few minutes before 11:00 a.m. and request the Penn-America conference call. A digital recording of the teleconference will be available from 2:30 p.m. today through 11:59 p.m. Eastern Daylight Time, Wednesday, August 4, 2004. To hear the recording, telephone (800) 475-6701 at any time during that period and use access code 737288. This conference call also will be broadcast live at [www.penn-america.com](http://www.penn-america.com), supplied by CCBN. To listen to the Web Cast, your computer must have Windows Media Player installed. If you do not have Windows Media Player, go to [www.penn-america.com](http://www.penn-america.com) prior to the call, where it can be downloaded for free. An online replay also will be available approximately one hour after the call.

Penn-America Group, Inc. (NYSE:PNG) is a specialty property and casualty insurance holding company that markets and underwrites general liability, commercial property and multi-peril insurance for small businesses located primarily in small towns and rural areas through a select network of wholesale general agents in the excess and surplus lines market.

### **Forward-Looking Information**

*Certain information included in this news release and other statements or materials published or to be published by the company 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 2003 10-K.*

Note: Tables follow.

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PENN-AMERICA GROUP, INC. (NYSE:PNG) AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
(In thousands, except share data)

	Three Months Ended		Six Months Ended	
	6/30/2004	6/30/2003	6/30/2004	6/30/2003
<b>Revenues:</b>				
Premiums earned	\$ 50,634	\$ 36,295	\$ 98,089	\$ 70,660
Net investment income	3,544	3,244	7,031	6,457
Net realized investment gain	164	431	720	1,145
<b>Total revenues</b>	<b>54,342</b>	<b>39,970</b>	<b>105,840</b>	<b>78,262</b>
<b>Losses and expenses:</b>				
Losses and loss adjustment expenses	29,284	22,185	59,534	44,197
Amortization of deferred policy acquisition costs	12,910	9,073	24,592	17,690
Other underwriting expenses	4,276	2,326	6,350	4,372
Corporate expenses	278	234	539	419
Interest expense	506	409	1,011	713
<b>Total losses and expenses</b>	<b>47,254</b>	<b>34,227</b>	<b>92,026</b>	<b>67,391</b>
Income before income tax	7,088	5,743	13,814	10,871
Income tax expense	2,188	1,744	4,256	3,298
<b>Net income</b>	<b>\$ 4,900</b>	<b>\$ 3,999</b>	<b>\$ 9,558</b>	<b>\$ 7,573</b>
<b>Operating income</b>	<b>\$ 4,793</b>	<b>\$ 3,714</b>	<b>\$ 9,090</b>	<b>\$ 6,817</b>
Net realized investment gain, after taxes	107	285	468	756
<b>Net income</b>	<b>\$ 4,900</b>	<b>\$ 3,999</b>	<b>\$ 9,558</b>	<b>\$ 7,573</b>
<b>Basic income per share:</b>				
Operating income	\$ 0.32	\$ 0.25	\$ 0.62	\$ 0.47
Net realized investment gain, after taxes	0.01	0.02	0.03	0.05
<b>Net income</b>	<b>\$ 0.33</b>	<b>\$ 0.27</b>	<b>\$ 0.65</b>	<b>\$ 0.52</b>
<b>Diluted income per share:</b>				
Operating income	\$ 0.32	\$ 0.25	\$ 0.61	\$ 0.46
Net realized investment gain, after taxes	0.01	0.02	0.03	0.05
<b>Net income</b>	<b>\$ 0.33</b>	<b>\$ 0.27</b>	<b>\$ 0.64</b>	<b>\$ 0.51</b>
Cash dividend per share	\$ 0.06	\$ 0.04375	\$ 0.12	\$ 0.08750
<b>Weighted average shares outstanding:</b>				
Basic	14,770,836	14,636,147	14,762,215	14,613,746
Diluted	15,004,828	14,905,122	14,999,639	14,852,142

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PENN-AMERICA GROUP, INC. (NYSE:PNG) AND SUBSIDIARIES  
 SELECTED CONSOLIDATED FINANCIAL DATA  
 (In thousands, except ratios)

INSURANCE PERFORMANCE DATA

	Three Months Ended		Six Months Ended	
	<u>6/30/2004</u>	<u>6/30/2003</u>	<u>6/30/2004</u>	<u>6/30/2003</u>
Gross written premiums	\$ 64,943	\$ 54,463	\$ 129,019	\$ 94,859
Net written premiums	57,032	45,926	112,519	79,924
<b>GAAP ratios:</b>				
Loss ratio	57.8	61.1	60.7	62.5
Expense ratio	<u>33.9</u>	<u>31.4</u>	<u>31.5</u>	<u>31.2</u>
Combined ratio	<u>91.7</u>	<u>92.5</u>	<u>92.2</u>	<u>93.7</u>
<b>Statutory ratios:</b>				
Loss ratio	57.8	61.1	60.7	62.5
Expense ratio	<u>32.4</u>	<u>29.3</u>	<u>30.1</u>	<u>29.9</u>
Combined ratio	<u>90.2</u>	<u>90.4</u>	<u>90.8</u>	<u>92.4</u>

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PENN-AMERICA GROUP, INC. (NYSE:PNG) AND SUBSIDIARIES  
 SELECTED CONSOLIDATED FINANCIAL DATA  
 (In thousands, except share data)

SELECTED BALANCE SHEET DATA

	<u>June 30, 2004</u>	<u>December 31, 2003</u>
Investments and cash:		
Fixed maturities:		
Available for sale	\$ 331,509	\$ 323,230
Held to maturity	275	275
Equity securities	26,493	10,194
Cash and cash equivalents	12,592	11,976
	<u>\$ 370,869</u>	<u>\$ 345,675</u>
Reinsurance recoverable	\$ 39,518	\$ 37,996
Total assets	484,666	443,874
Unpaid losses and loss adjustment expenses	200,112	174,882
Unearned premiums	106,015	92,205
Total liabilities	350,174	313,064
Total stockholders' equity	134,492	130,810
Total shares outstanding	14,775,679	14,743,698
Book value per share	\$ 9.10	\$ 8.87
Statutory surplus	\$ 129,575	\$ 121,960

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PENN-AMERICA GROUP, INC. (NYSE:PNG) AND SUBSIDIARIES  
 SELECTED CONSOLIDATED FINANCIAL DATA  
 (In thousands, except ratios)

SUPPLEMENTARY DATA BY LINE OF BUSINESS

Three Months Ended June 30, 2004

	Net Written <u>Premiums</u>	Net Earned <u>Premiums</u>	Loss and LAE <u>Ratio</u>
<b>Core commercial lines of business:</b>			
Property <sup>1</sup>	\$ 20,408	\$ 18,923	30.7
Casualty <sup>2</sup>	36,624	31,711	74.0
Total core commercial	<u>57,032</u>	<u>50,634</u>	<u>57.8</u>
Exited lines <sup>3</sup>	---	---	---
Total	<u>\$ 57,032</u>	<u>\$ 50,634</u>	<u>57.8</u>

Three Months Ended June 30, 2003

	Net Written <u>Premiums</u>	Net Earned <u>Premiums</u>	Loss and LAE <u>Ratio</u>
<b>Core commercial lines of business:</b>			
Property <sup>1</sup>	\$ 18,850	\$ 16,225	48.5
Casualty <sup>2</sup>	27,079	20,064	63.4
Total core commercial	<u>45,929</u>	<u>36,289</u>	<u>56.8</u>
Exited lines <sup>3</sup>	(3)	6	*
Total	<u>\$ 45,926</u>	<u>\$ 36,295</u>	<u>61.1</u>

<sup>1</sup> Property consists of special property and commercial multi-peril property lines of business.

<sup>2</sup> Casualty consists of other and product liability and commercial multi-peril liability lines of business.

<sup>3</sup> Exited lines consist of commercial and personal automobile lines of business previously exited by the Company.

\*Not meaningful.

PENN-AMERICA GROUP, INC. (NYSE:PNG) AND SUBSIDIARIES  
 SELECTED CONSOLIDATED FINANCIAL DATA  
 (In thousands, except ratios)

SUPPLEMENTARY DATA BY LINE OF BUSINESS

Six Months Ended June 30, 2004

	Net Written <u>Premiums</u>	Net Earned <u>Premiums</u>	Loss and LAE <u>Ratio</u>
<b>Core commercial lines of business:</b>			
Property <sup>1</sup>	\$ 41,020	\$ 37,263	48.8
Casualty <sup>2</sup>	71,499	60,826	68.0
Total core commercial	<u>112,519</u>	<u>98,089</u>	<u>60.7</u>
Exited lines <sup>3</sup>	---	---	---
Total	<u>\$ 112,519</u>	<u>\$ 98,089</u>	<u>60.7</u>

Six Months Ended June 30, 2003

	Net Written <u>Premiums</u>	Net Earned <u>Premiums</u>	Loss and LAE <u>Ratio</u>
<b>Core commercial lines of business:</b>			
Property <sup>1</sup>	\$ 34,225	\$ 32,496	55.3
Casualty <sup>2</sup>	45,717	38,161	63.7
Total core commercial	<u>79,942</u>	<u>70,657</u>	<u>59.8</u>
Exited lines <sup>3</sup>	(18)	3	*
Total	<u>\$ 79,924</u>	<u>\$ 70,660</u>	<u>62.5</u>

<sup>1</sup> Property consists of special property and commercial multi-peril property lines of business.

<sup>2</sup> Casualty consists of other and product liability and commercial multi-peril liability lines of business.

<sup>3</sup> Exited lines consist of commercial and personal automobile lines of business previously exited by the Company.

\*Not meaningful.