

Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

PENN TREATY AMERICAN CORP  
Form DEF 14A  
April 28, 2004

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934

Filed by the Registrant ☒ [X]

File by a Party other than the Registrant ☐ [ ]

Check the appropriate box:

☐ [ ] Preliminary Proxy Statement

☐ [ ] Confidential, for Use of the Commission Only (as permitted by Rule  
14a-6(e)(2))

☒ [X] Definitive Proxy Statement

☐ [ ] Definitive Additional Materials

☐ [ ] Soliciting Material Pursuant to 240.14a-11(c) or 240.14a-12

PENN TREATY AMERICAN CORPORATION

-----  
(Name of Registrant as Specified In Its Charter)

-----  
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ [X] No fee required.

☐ [ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed  
pursuant to Exchange Act Rule 0-11 (set forth the amount on which the  
filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction;

(5) Total fee paid:

☐ [ ] Fee paid previously with preliminary materials.

☐ [ ] Check box if any part of the fee is offset as provided by Exchange Act  
Rule 0-11(a)(2) and identify the filing for which the offsetting fee was  
paid previously. Identify the previous filing by registration statement  
number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD FRIDAY, MAY 28, 2004

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

TO THE SHAREHOLDERS OF PENN TREATY AMERICAN CORPORATION

The Annual Meeting of Shareholders of Penn Treaty American Corporation ("Penn Treaty") will be held at Lehigh Country Club, 2319 South Cedar Crest Boulevard, Allentown, Pennsylvania on Friday, May 28, 2004, at 9:00 a.m. to consider and vote upon the following proposals:

1. to elect three persons to Penn Treaty's Board of Directors as Class II Directors to serve until the 2007 Annual Meeting of Shareholders and until their successors are elected and have been qualified;
2. to ratify the selection of PricewaterhouseCoopers LLP as independent public auditors for Penn Treaty and its subsidiaries for the year ending December 31, 2004; and
3. to transact other business that properly comes before the Annual Meeting, or any adjournments or postponements.

Only those holders of Penn Treaty's common stock of record at the close of business on April 12, 2004 shall be entitled to notice of, and to vote at, the Annual Meeting.

YOUR VOTE IS IMPORTANT. PLEASE VOTE YOUR SHARES PROMPTLY. TO VOTE YOUR SHARES, YOU CAN USE THE INTERNET OR CALL THE TOLL-FREE TELEPHONE NUMBER AS DESCRIBED IN THE INSTRUCTIONS ON YOUR PROXY CARD, OR COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD WITHOUT DELAY IN THE ENCLOSED SELF-ADDRESSED ENVELOPE. ANY PROXY GIVEN BY A SHAREHOLDER MAY BE REVOKED AT ANY TIME BEFORE IT IS EXERCISED BY FILING WITH THE SECRETARY OF PENN TREATY A WRITTEN REVOCATION OR A DULY EXECUTED PROXY BEARING A LATER DATE. ANY SHAREHOLDER PRESENT AT THE ANNUAL MEETING MAY REVOKE HIS OR HER PROXY AND VOTE PERSONALLY ON EACH MATTER BROUGHT BEFORE THE ANNUAL MEETING.

By Order of the Board of Directors,

/s/ JANE MENIN BAGLEY

-----  
Jane Menin Bagley, Secretary

Allentown, Pennsylvania  
April 27, 2004

2

PROXY STATEMENT  
ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD MAY 28, 2004

INTRODUCTORY STATEMENT  
-----

Penn Treaty American Corporation ("Penn Treaty" or the "Company") is a Pennsylvania corporation with its principal executive offices located at 3440 Lehigh Street, Allentown, Pennsylvania 18103, telephone number (610) 965-2222.

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

This Proxy Statement is being furnished to our shareholders in connection with the solicitation by our Board of Directors of proxies to be voted at the Annual Meeting of Shareholders of Penn Treaty to be held on May 28, 2004, at Lehigh Country Club, 2319 South Cedar Crest Boulevard, Allentown, Pennsylvania at 9:00 a.m., or at any adjournment or postponement.

This Proxy Statement and the accompanying proxy card are first being mailed to our shareholders on or about April 27, 2004. A copy of the Annual Report on Form 10-K, which includes financial statements for the fiscal year ended December 31, 2003, which are hereby incorporated by reference herein, is enclosed with this Proxy Statement.

For your information, our subsidiaries are Senior Financial Consultants Company (the "Agency"), Penn Treaty Network America Insurance Company ("PTNA"), American Network Insurance Company ("ANIC"), American Independent Network Insurance Company of New York ("AINIC"), United Insurance Group Agency, Inc. ("UIG") and Network Insurance Senior Health Division, Inc. ("NISHD").

### ABOUT THE ANNUAL MEETING

-----

What is the purpose of the Annual Meeting?

At the Annual Meeting, shareholders will act upon the following matters: the election of three directors of Penn Treaty, each to serve for a three-year term expiring at the annual meeting of shareholders in 2007; the ratification of our selection of PricewaterhouseCoopers LLP as the independent public auditors for Penn Treaty and its subsidiaries for the year ending December 31, 2004; and any other business that may properly be brought before the Annual Meeting.

Who is entitled to vote?

Only shareholders of record on the record date, which was the close of business on Monday, April 12, 2004, will be entitled to receive notice of, and to vote at, the Annual Meeting and any adjournments or postponements. Each share of common stock is entitled to one vote.

How do I vote?

To vote your shares, you can use the Internet or call the toll-free telephone number as described in the instructions on your proxy card, or properly complete, sign, date and return your proxy card to us. If you are a registered shareholder and attend the Annual Meeting, you may deliver your completed proxy card in person or vote in person at the Annual Meeting.

3

What constitutes a quorum?

The presence at the Annual Meeting, in person or by proxy, of the holders of a majority of the shares of common stock outstanding on the record date will constitute a quorum, permitting business to be conducted at the Annual Meeting. As of the record date, 35,785,667 shares of common stock were issued and outstanding, held by 445 shareholders of record.

How does discretionary voting authority apply?

If you sign and return your proxy card, but do not make any selections, you give discretionary authority to the persons named as proxy holders on the proxy card, Francis R. Grebe, Peter M. Ross and Domenic P. Stangherlin, to vote

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

on the proposals and any other matters that may arise at the Annual Meeting.

What are the Board's recommendations?

Unless you give other instructions on your proxy card, the proxy holders will vote in accordance with the recommendations of the Board of Directors. The Board recommends a vote:

- o FOR election of the three nominees for director of Penn Treaty, Alexander M. Clark, Patrick E. Falconio and Matthew W. Kaplan; and
- o FOR the ratification of our selection of PricewaterhouseCoopers LLP as the independent public auditors for Penn Treaty and its subsidiaries for the year ending December 31, 2004.

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board or, if no recommendation is given, in their own discretion.

What vote is required to elect the Directors?

The three nominees for director receiving the highest number of votes cast by shareholders entitled to vote for directors (there being no cumulative voting) will be elected to serve on the Board. Abstentions and broker non-votes will be included in the calculation of a quorum but will have no effect on the result of the vote.

What vote is required to ratify the selection of the independent public auditors?

A majority of the votes cast is required to ratify the selection of the independent public auditors. Abstentions and broker non-votes will be included in the calculation of a quorum but will have no effect on the result of the vote. If the shareholders do not ratify the selection of the independent public auditors, the Audit Committee of the Board of Directors may, but is not required to, reconsider the appointment.

Can I change my vote after I return my proxy card?

Yes. Even after you have submitted your proxy, you may change your vote at any time before the proxy is exercised by filing with the Secretary of Penn Treaty either a notice of revocation or a duly executed proxy bearing

4

a date later than the date on the proxy you submitted. The powers of the proxy holders to vote your proxy will be suspended if you attend the Annual Meeting in person and request to change your vote or vote in person, although attendance at the Annual Meeting will not by itself revoke a previously granted proxy.

Who bears the cost of solicitation of proxies?

We bear the cost of preparing, printing, assembling and mailing this proxy statement and other material furnished to shareholders in connection with the solicitation of proxies for the Annual Meeting. We have retained the services of Georgeson Shareholder at a cost of approximately \$6,000 to perform proxy solicitation activities on our behalf.

When are shareholder proposals due for the Year 2005 Annual Meeting?

To be included in next year's proxy statement, shareholder proposals

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

must be submitted in writing by December 27, 2004 to: Secretary, Penn Treaty American Corporation, 3440 Lehigh Street, Allentown, PA 18103. Shareholder proposals submitted after December 27, 2004 will not be included in the proxy statement but may be raised at the 2005 annual meeting. However, the persons named in the proxy card for the 2005 annual meeting will be allowed to use their discretionary voting authority with respect to shareholder proposals submitted after March 14, 2005 when the proposal is raised at the 2005 annual meeting, without any discussion of the matter in the proxy statement for that meeting.

Can shareholders and interested parties communicate with the Board of Directors?

The Board of Directors provides a process for shareholders and interested parties to send communications to the Board. Shareholders and interested parties may communicate with any of the Company's directors, any committee chairperson, the non-management directors as a group or the Board by writing to the director, committee chairperson or the Board in care of Penn Treaty American Corporation, 3440 Lehigh Street, Allentown, PA 18103. Communications received by the Corporate Secretary for any director are forwarded directly to the director. If the communication is addressed to the Board and no particular director is named, the communication will be forwarded, depending on the subject matter, to the Chairman, the appropriate Committee chairperson, all non-management directors or all directors.

Can shareholders submit recommendations for Directors?

The Audit, Nominating and Corporate Governance Committee (the "Governance Committee") recommends nominees to the Board based upon their integrity and character, sound and independent judgment, breadth of experience, insight and knowledge, business acumen and the projected contributions they can make to the Company, the Board and management. Leadership skills, industry expertise, familiarity with issues affecting businesses in diverse industries, prior government service and diversity are among the relevant criteria, which criteria will vary over time depending on the needs of the Company and of the Board. The Governance Committee considers candidates for potential nomination to recommend for approval by the full Board. This assessment includes a candidate's qualification as independent, as well as consideration of other applicable factors.

5

In addition, under the rules of the New York Stock Exchange, the members of the Governance Committee must be financially literate or become financially literate within a reasonable period of time after appointment to the Governance Committee. As a result, the Governance Committee may consider the financial literacy of candidates for potential nomination where such candidates, if elected to the Board, may be considered for future service on the Governance Committee.

The Governance Committee will consider shareholder recommendations for candidates to serve on the Board. In order to provide the Governance Committee time to evaluate candidates prior to submission to the shareholders for vote at the 2005 Annual Meeting, shareholders desiring to recommend a candidate must submit a recommendation to the Chair of the Governance Committee of the Company at the Company's corporate office at least 120 days prior to the date that the Company's proxy statement with respect to the previous year's annual meeting was released to shareholders. The recommendation must contain the following:

- o the name, residence and business address of the nominating shareholder;
- o a representation that the shareholder is a record holder of

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

Company stock or holds Company stock through a broker and the number of shares held;

- o information regarding each nominee which would be required to be included in a proxy statement, including their telephone number, full educational and employment history;
- o a description of any arrangements or understandings between and among the shareholder and each nominee; and
- o the written consent of each nominee to serve as a director, if elected.

Penn Treaty's Website: [www.pennntreaty.com](http://www.pennntreaty.com)

Penn Treaty's website address is [www.pennntreaty.com](http://www.pennntreaty.com), and access to information on the website is free of charge (except for any Internet provider or telephone charges). We provide access through our website to all SEC filings submitted by us, and in the near future will provide current information relating to corporate governance. Copies of our Audit, Nominating and Corporate Governance Committee Charter, our Code of Ethics for the Chief Executive Officer and Senior Financial Executives, our Corporate Governance Guidelines, our Code of Business Conduct and Ethics for all employees, our Compensation Committee Charter and other matters impacting our corporate governance program will be accessible on our website. Copies of these documents may also be obtained free of charge by contacting Penn Treaty American Corporation, 3440 Lehigh Street, Allentown, PA 18103, Attention: Corporate Secretary. We intend to post on our website any amendments to, or waivers from, our Code of Ethics for the Chief Executive Officer and Senior Financial Executives, which are required to be disclosed by applicable law, rule or regulation. Information contained on Penn Treaty's website is not part of this Proxy Statement.

6

### PROPOSAL I - ELECTION OF DIRECTORS

-----

Our Board of Directors currently has nine members and is divided into three classes, each comprised of three directors who serve for terms of three years and until their successors have been elected and qualified. The Board has nominated Alexander M. Clark, Patrick E. Falconio and Matthew W. Kaplan to be elected as Class II Directors of Penn Treaty, to hold office until the 2007 annual meeting and until their successors have been elected and qualified. Jack D. Baum is not standing for re-election as a director of Penn Treaty. The nominees have each consented to serve if elected to the Board. If for any reason any of the nominees becomes unable or is unwilling to serve at the time of the Annual Meeting, the proxy holders, unless you instruct them otherwise, will vote for a substitute nominee or nominees in their discretion. We do not anticipate that any nominee will be unavailable for election.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF THE ABOVE  
NOMINEES FOR A FIXED TERM OF THREE YEARS.

The following table and paragraphs set forth information about the current nominees and the other persons who will continue to serve as directors of Penn Treaty. The information has been furnished to Penn Treaty by each person nominated as a director and each person whose term of office as a director will continue after the Annual Meeting.

| Name | Age | Position(s) with Penn Treaty | Director Since |
|------|-----|------------------------------|----------------|
|------|-----|------------------------------|----------------|

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

-----  
Class II: Nominees to be elected for terms expiring in 2007:

|                     |    |                  |      |
|---------------------|----|------------------|------|
| Alexander M. Clark  | 70 | Director         | 1999 |
| Patrick E. Falconio | 62 | Director Nominee | --   |
| Matthew W. Kaplan   | 45 | Director         | 2001 |

Class III: Directors continuing for terms expiring in 2005:

|                  |    |                                       |      |
|------------------|----|---------------------------------------|------|
| Francis R. Grebe | 72 | Director                              | 1999 |
| Gary E. Hindes   | 53 | Chairman of the<br>Board of Directors | 2002 |
| Peter M. Ross    | 64 | Director                              | 2003 |

Class I: Directors continuing for terms expiring in 2006:

|                        |    |                                                        |      |
|------------------------|----|--------------------------------------------------------|------|
| William W. Hunt, Jr.   | 44 | President,<br>Chief Executive Officer,<br>and Director | 2003 |
| Irving Levit           | 74 | Founding Chairman<br>and Director                      | 1971 |
| Domenic P. Stangherlin | 77 | Director                                               | 1971 |

-----  
Alexander M. Clark has served as Director of Penn Treaty since 1999 and of AINIC since its inception in 1997. Mr. Clark is a Managing Director of

7

Advest, Inc., a position he has held since 1993. He previously served as Senior Vice President at Gramercy Partners and McKinley Allsopp, both of New York; as President of John Alden Life Insurance Company of New York; and as Associate Director of Research at Dean Witter & Co. Mr. Clark is a graduate of Dartmouth College and Harvard Business School, where he earned a M.B.A., and he pursued further studies at Brown University. Mr. Clark has earned the Chartered Financial Analyst designation. Mr. Clark has also served as a Director of Pennsylvania National Insurance Group since 1989, of Great American Life Insurance Company of New York, a subsidiary of Great American Financial Resources, Inc., since 2001, and of Unity Financial Life Insurance Company, an affiliate of Unity Mutual Life Insurance Company, since 2002.

Patrick E. Falconio retired in 1999 as Executive Vice President and Chief Investment Officer of Aegon USA, Inc., a position he held since 1987. Since 2003, he has served as Director of Financial Industries Corporation, a Texas domiciled life company. He also serves as Director for two non-public companies and as Director for several charitable organizations. Mr. Falconio holds a Chartered Financial Analyst (CFA) designation and is a graduate of Duquesne University. He also holds an M.B.A. from the University of Georgia.

Matthew W. Kaplan has served as Director of Penn Treaty and AINIC since 2001. He is currently a Principal of Northstar Consulting, a position he has held since 2001, President of Second Street Resources, LLC, and a Director of Actis Assurance Segregated Portfolio Company ("Actis Assurance SPC"). From January 2002 to January 2003, he served as Managing Director of Oakbridge

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

Capital Partners LLC, and from 1999 to 2003, he also served as Chairman and Chief Executive Officer of Crown Reinsurance Company (Cayman) Limited. Mr. Kaplan previously served as Vice President of Bench International LLC during 2001, and as President and Chief Executive Officer of U.S. Care, Inc. from 1996 to 2000. From 1995 to 1996, Mr. Kaplan served as Chief Marketing Officer for U.S. Care. Prior to joining U.S. Care, he served as Vice Chairman and General Manager of the North Melbourne Giants Basketball Pty. Ltd.; Consultant, Strategic Planning and Evaluation for the World Health Organization, Regional Office for Europe ("WHO EURO") and for the Commission for the European Communities ("CEC"); and as Executive Vice President of U.S. Administrators, Inc. Mr. Kaplan is a member of the Board of Directors of Actis Assurance SPC (Chairman), Northstar TeleFilms, Inc. (Chairman), the American Manufacturers Warranty Association, Cancervive (Founding Director) and a member of the Board of Trustees for the UCLA Center on Aging.

Francis R. Grebe has served as a Director of Penn Treaty since 1999. Mr. Grebe has been a Senior Vice President at The Pennsylvania Trust Company in Radnor, Pennsylvania since February 2004. Mr. Grebe was previously a partner at the investment counseling firm of Davidson Investment Counselors, formerly James M. Davidson and Company. He held this position from 1988 to February 2004. Mr. Grebe has also served as an Administrative Officer of Davidson Trust Company, formerly The Main Line Trust Company, a private fiduciary, since 1996. Mr. Grebe has over 40 years experience with leading financial institutions in the trust and investment area, including Girard Trust Bank, Philadelphia National Bank and U.S. Trust Company of Florida. Mr. Grebe currently serves as a Director of the Athenaeum of Philadelphia and as a Trustee of The Guthrie Healthcare System. He is also a Director and former President of Family Services of Montgomery County, Pennsylvania and currently serves on The Board of Surrey Services for Seniors, as well as a Director of Associated Services for the Blind, Philadelphia, Pennsylvania. He also serves as Trustee of the Meshewa Farm Foundation and The Sylvan Foundation. Mr. Grebe is a Phi Beta

8

Kappa graduate of the University of Rochester and the University of Michigan Law School.

Gary E. Hinds has served as non-executive Chairman of the Board of Directors of Penn Treaty since May 2003 and has served as Director of Penn Treaty since 2002. He has served as Managing Director of Deltec Asset Management, LLC, a professional investment management firm located in New York City, since 2000. From 1996 to 2000, Mr. Hinds was a principal of PMG Capital, Inc., a Philadelphia investment banking and brokerage concern. From 1986 to 1996, Mr. Hinds served as Chief Executive Officer of the Delaware Bay Company, Inc. Mr. Hinds has formerly served on the Board of Directors of Lancer Industries and Intranet Corporation. Mr. Hinds has also served as the Chairman of the Board of Trustees of Wilmington Head Start, Inc. since 1982 and served by presidential appointment from 1993 to 2001 for the John F. Kennedy Center for the Performing Arts. Mr. Hinds is currently a member of the Investment Oversight Committee of the United States Holocaust Memorial Museum and is a commissioner of the Wilmington Housing Authority.

Peter M. Ross was elected to serve as Director of Penn Treaty by the Board of Directors in December 2003. Mr. Ross has over thirty years experience in the development and implementation of public financial policy. Since his retirement in 2002, Mr. Ross has served as a Senior Policy Scientist with the Institute for Public Administration with the University of Delaware, where he is involved in assisting local government with budget management. He held the same position in 2000. Prior to his retirement, he served as the State of Delaware Budget Director from 2001 to 2002 and from 1994 to 2000. Prior to that time, Mr. Ross served as Director of Operations, Office of Controller General, State of

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

Delaware; as a Senior Legislative Fiscal Management Analyst, Office of Controller General, State of Delaware; and as Chief Administrative Officer, New Castle County, Delaware. Mr. Ross is a member of the Delaware Economic Forecasting Advisory Committee, and holds a Bachelor of Arts in Political Science and a Master of Arts in Public Administration.

William W. Hunt, Jr. has served as President of Penn Treaty, ANIC, AINIC and PTNA since May 2002, and assumed the position of Chief Executive Officer of Penn Treaty, ANIC, AINIC and PTNA in May 2003. In May 2003, Mr. Hunt became a Director of Penn Treaty, and Chairman of the Board of Directors of ANIC, AINIC and PTNA. From May 2002 to May 2003, Mr. Hunt served as President and Chief Operating Officer, and from May 2001 to May 2002 served as Senior Vice President of Finance, of Penn Treaty, ANIC, AINIC and PTNA. From 1999 to 2000, Mr. Hunt served as Vice President and Chief Financial Officer of the Individual Life Insurance Unit of Prudential Insurance Company of America. From 1997 to 1999, Mr. Hunt served as Vice President of Corporate Planning and Development for Provident Mutual Life Insurance Company ("Provident"). Prior to joining Provident, Mr. Hunt served in financial management roles at Advanta Corporation, Covenant Life Insurance Company and Reliance Insurance Companies. Mr. Hunt, a Certified Public Accountant, began his career as an auditor with Touche Ross & Co. Mr. Hunt has over 15 years experience in the insurance business.

Irving Levit serves as Founding Chairman of Penn Treaty and Director of ANIC, AINIC, PTNA and the Agency. Mr. Levit previously served as Chairman of the Board of Directors and Chief Executive Officer of Penn Treaty from 1972 to 2003. He also served as President of Penn Treaty from 1972 to May 2002, and of PTNA, ANIC and AINIC from December 2000 to May 2002. Mr. Levit served as the Chairman of the Board of Directors and Chief Executive Officer of PTNA from 1989 to 2003, of ANIC from 1996 to 2003 and of AINIC since its inception

9

in 1997 to 2003, as well as the Chairman of the Board of Directors, President and Chief Executive Officer of the Agency from 1988 to 2003. He also served as Chairman of the Board, President and Chief Executive Officer of NISHD from 2000 to 2003, and Chairman of the Board of UIG from 1999 to 2003. In addition, Mr. Levit has been the sole owner of the Irv Levit Insurance Management Corporation ("IMC"), an insurance agency, since 1961. Mr. Levit has over 40 years experience in the insurance business.

Domenic P. Stangherlin has served as Director of Penn Treaty since 1971, of the Agency since 1988, of PTNA since 1989 and of ANIC since 1996. Mr. Stangherlin also served as Secretary of Penn Treaty from 1971 to 1999, of the Agency from 1988 to 2000, of PTNA from 1989 to 2000, of ANIC from 1996 to 2000, and of AINIC from 1997 to 2000. Mr. Stangherlin is the owner and manager of the Line Tool Company, a manufacturer of micropositioners, located in Allentown, Pennsylvania.

### GENERAL INFORMATION REGARDING DIRECTORS AND EXECUTIVE OFFICERS

-----

How often did the Board meet during 2003?

During 2003, the Board of Directors held nine meetings. Each director attended at least 75% of the meetings of the Board and the Committees of the Board on which he served. The average attendance of directors at Board and Committee meetings held during 2003 was 98%.

In 2003, all nine directors attended the Annual Meeting. Directors are expected to regularly attend Board, Committee and Annual Meetings and to spend the time needed to properly discharge their responsibilities.

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

The non-management directors intend to meet regularly during the year. The presiding director will be Gary E. Hindes.

### Independence of Directors

The Board of Directors has determined that all directors are independent from the Company and management in accordance with the listing standards of the New York Stock Exchange ("NYSE") except Mr. Hunt, who is a Company employee, and Mr. Baum and Mr. Levit, who were employees of the Company during 2003. Mr. Baum's term as a director expires at the upcoming 2004 Annual Meeting and he will not be standing for re-election.

What committees has the Board established?

To assist in the discharge of its responsibilities, the Board of Directors has three committees - the Audit, Nominating and Corporate Governance Committee ("Governance Committee") (formerly the "Audit Committee"), the Compensation Committee and the Executive Committee. The Board has determined that the Governance Committee and the Compensation Committee are composed entirely of independent directors, as independence is defined in the New York Stock Exchange listing standards and the rules promulgated by the Securities and Exchange Commission. The total combined attendance for all Committee meetings during 2003 was 100%.

Audit, Nominating and Corporate Governance Committee ("Governance Committee"). The Governance Committee is comprised of independent directors. The members of the Governance Committee are Mr. Clark, Mr. Grebe, Mr. Hindes, Mr. Kaplan, Mr. Ross and Mr. Stangherlin. Based on the Board's qualitative

10

assessment of Mr. Hindes' level of knowledge and experience, the Board has determined that Mr. Hindes, who currently serves as Managing Director of a professional investment management firm, will be the Financial Expert. The Governance Committee met two times in 2003.

The principal functions of the Governance Committee are to (i) assist Board oversight of the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence, and the performance of the Company's internal audit function and independent auditors; (ii) prepare an audit committee report as required by the Securities and Exchange Commission to be included in the Company's annual proxy statement; (iii) identify individuals qualified to become Board members, consistent with the standards for director nominees approved by the Board, and to select, or to recommend that the Board select, the director nominees for the next annual meeting of shareholders; (iv) to develop and recommend to the Board a set of corporate governance principles applicable to the Company; and (v) to oversee the evaluation of the Board and management. The Governance Committee's Charter is attached as an appendix to this Proxy Statement and will be posted on Penn Treaty's website.

Mr. Stangherlin previously served as the Secretary to Penn Treaty and its subsidiaries from 1971 to 2000. The Board of Directors has determined in its business judgment that Mr. Stangherlin's membership on the Governance Committee is in the best interests of Penn Treaty and its shareholders based upon his substantial experience as a member of Penn Treaty's Board of Directors and private industry management tenure.

Compensation Committee. The members of the Compensation Committee are Mr. Clark, Mr. Grebe, Mr. Hindes, Mr. Kaplan, Mr. Ross and Mr. Stangherlin. The

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

Compensation Committee met 15 times in 2003.

The principal functions of the Compensation Committee are to review and approve corporate goals and objectives relevant to Chief Executive Officer ("CEO") compensation, evaluate the CEO's performance in light of those goals and objectives, and, either as a committee or together with the other independent directors (as directed by the Board), determine and approve the CEO's compensation level based on this evaluation; make recommendations to the Board with respect to non-CEO compensation, incentive-compensation plans and equity-based plans; and produce a compensation committee report on executive compensation as required by the SEC to be included in the Company's annual proxy statement or annual report on Form 10-K filed with the SEC. The Compensation Committee's Charter will be posted on Penn Treaty's website.

Executive Committee. During the periods between Board meetings, the Executive Committee exercises all of the powers of the Board of Directors, except that the Executive Committee may not elect directors, change the membership of or fill vacancies in the Executive Committee, fix the compensation of the directors, change the Bylaws, or take any action restricted by the Pennsylvania Business Corporation Law or the Bylaws (including actions delegated to another Board Committee). The members of the Executive Committee during 2003 were Mr. Clark, Mr. Hindes and Mr. Hunt. The Executive Committee did not meet in 2003.

11

How are Directors compensated?

Each director who is not a Company employee receives as compensation for services as a director an annual retainer of \$5,000, a meeting fee of \$1,000 for each Board Meeting attended and \$500 for each Governance Committee meeting attended, and option grants to purchase shares of Penn Treaty common stock. Directors who are Company employees receive no separate compensation for service on the Board of Directors or Committees of the Board of Directors. These compensation policies were adopted by the Board in July 2002 and May 2003.

Information with respect to the share ownership of the directors and the nominees is set forth below. See "Principal Shareholders."

Certain Relationships and Related Transactions

IMC, an insurance agency which is owned by Irving Levit, produced approximately \$13,000 of renewal premiums for PTNA for the year ended December 31, 2003, for which it received commissions of approximately \$3,000. While IMC has only been minimally involved in the sale of insurance products since 1979 and IMC'S operations since that time have not been significant, IMC continues to receive overriding commissions from Penn Treaty of 5% on business written for PTNA by any IMC general agents who were appointed prior to 1979 and any of their sub-agents hired prior and subsequent to January 1979 and one agent appointed in 1981. For the year ended December 31, 2003, these override commissions totaled approximately \$433,000.

The terms on which commissions have been paid to IMC are consistent with (i) the terms on which commissions have been paid by Penn Treaty to comparable unaffiliated agencies in the past and are currently paid by Penn Treaty to an unaffiliated agency performing similar services, and (ii) the terms on which commissions are paid in the industry in general, and were no more favorable than would have been obtained from unrelated third parties.

Until February 2004, Francis R. Grebe was a partner at the investment counseling firm of Davidson Investment Counselors, an affiliate of Davidson

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

Capital Management. Davidson Capital Management manages a portion of our investment portfolio for which it received fees of \$20,000 for the year ended December 31, 2003. Mr. Grebe was not directly involved with any of Penn Treaty's investment matters. Mr. Grebe serves as a financial advisor to Irving Levit on some of Mr. Levit's personal matters for which he is compensated by Mr. Levit.

Alexander M. Clark is a Managing Director with Advest, Inc. Advest, Inc. has engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with Penn Treaty. Advest, Inc. has received and will receive customary fees for these transactions. In 2003, Advest, Inc. received fees of \$581,000 for financial advisory services provided to Penn Treaty in connection with the sale of convertible subordinated notes.

Matthew W. Kaplan has in the past (from 1996 to 2000) been a principal and has an ownership interest in U.S. Care, Inc., a marketing organization to which Penn Treaty paid commissions of \$165,000 in 2003. Penn Treaty also made a loan of \$100,000, with interest applied at 9%, to U.S. Care, Inc. in 2001, which is guaranteed by renewal commissions payable to Penn Treaty in future periods.

12

### Other Executive Officers of Penn Treaty

James M. Heyer (40) has served as a Senior Vice President of Penn Treaty and its insurance company subsidiaries since May 2002. Mr. Heyer also served as the Chief Operating Officer of Penn Treaty's insurance company subsidiaries from January 1999 to May 2002. Mr. Heyer served as a director of Penn Treaty from May 2001 to May 2002, of ANIC since 1996, and of AINIC since 1997. From 1993 to 1998, Mr. Heyer served as the companies' Vice President of Administration. Mr. Heyer oversees all aspects of claims, underwriting, compliance and product development for Penn Treaty's insurance company subsidiaries. Prior to joining Penn Treaty in 1988, Mr. Heyer was employed by The Guardian Life Insurance Company of North America. Mr. Heyer received his B.S. in Business Administration and Marketing from Penn State University. Mr. Heyer has over 15 years experience in the insurance business.

Patrick D. Patterson (52) has served as Executive Vice President and Chief Marketing Officer of Penn Treaty, ANIC, AINIC and PTNA since April 2003. Mr. Patterson founded UIG in 1980, serving as President and Chief Executive Officer of UIG until its acquisition by Penn Treaty in 1999. Prior to 1980, Mr. Patterson was employed as an agent and sales manager with Bankers Life and Casualty Insurance Company.

Bruce A. Stahl (47) has served as Chief Actuary of Penn Treaty, ANIC, AINIC and PTNA since July 2001, and was promoted to Senior Vice President of Penn Treaty, ANIC, AINIC and PTNA in March 2004. Mr. Stahl previously served as Vice President of Penn Treaty, ANIC, AINIC and PTNA from July 2001 to March 2004. From 1994 to 2001, Mr. Stahl owned BAS Actuarial Services, an actuarial consulting services firm. Prior to 1994, Mr. Stahl served as a consulting actuary for KPMG and as Assistant Actuary for American Integrity Insurance Company. Mr. Stahl is a graduate of the Wharton School of the University of Pennsylvania, and is a member of the Society of Actuaries and the American Academy of Actuaries. Mr. Stahl has over 25 years experience in the insurance business.

Cameron B. Waite (43) has served as Executive Vice President and Chief Financial Officer of Penn Treaty since May 2002 and as Chief Financial Officer of Penn Treaty since May 1996. Mr. Waite also serves as Director, Treasurer and Chief Financial Officer of NISHD, and as Director of UIG. From 1994 to 1996, Mr.

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

Waite was Chief Financial Officer and Treasurer of Blue Fish Clothing, Inc. From 1983 to 1994, Mr. Waite held various positions with Independence Bancorp. Inc., which merged with CoreStates Financial Corporation, his last position being Vice President of Asset Liability Management. Mr. Waite holds a B.A. in Economics from Dickinson College and an M.B.A. from Lehigh University.

### Section 16(a) Beneficial Ownership Reporting Compliance

The rules of the Securities and Exchange Commission require that Penn Treaty disclose delinquent filings of reports of stock ownership (and changes in stock ownership) by its directors, executive officers and persons who own more than 10% of a registered class of Penn Treaty's equity securities. To the best of Penn Treaty's knowledge, all Form 3, Form 4 and Form 5 reports were timely filed, except for the Form 4 reports for Mr. Clark, Mr. Grebe, Mr. Hindes, Mr. Kaplan, Mr. Levit and Mr. Stangherlin for transactions dated May 23, 2003, all of which were reported to the Securities and Exchange Commission on February 13, 2004 on their respective Form 5 reports.

13

### PROPOSAL II - RATIFICATION OF INDEPENDENT PUBLIC AUDITORS

-----

The Board of Directors, upon recommendation of the Audit Committee, has selected the firm of PricewaterhouseCoopers LLP as the independent public auditors of Penn Treaty for the year ending December 31, 2004. In taking this action, the members of the Board and the Audit Committee considered carefully PricewaterhouseCoopers' performance for the Company in that capacity since 1986, its independence with respect to the services to be performed and its general reputation for adherence to professional auditing standards. A representative of PricewaterhouseCoopers LLP is expected to be present at the Annual Meeting for the purpose of making a statement if he so desires and to respond to appropriate questions. If the shareholders do not approve this proposal, the Audit Committee and the Board of Directors will reconsider the matter of the appointment of independent public auditors.

#### Audit Fees

-----

The aggregate fees billed by PricewaterhouseCoopers for professional services rendered for the audit of the Company's annual financial statements for 2002 and 2003 and the reviews of the financial statements included in the Company's Forms 10-Q for those fiscal years were approximately \$844,071 and \$670,460, respectively.

#### Audit-Related Fees

-----

The aggregate fees billed by PricewaterhouseCoopers for audit-related services in 2002 and 2003 were \$14,000 and \$0, respectively. The services included the 2001 Employee Benefit Plan audit.

#### Tax Fees

-----

The aggregate fees billed by PricewaterhouseCoopers for tax services in 2002 and 2003 were \$215,662 and \$144,750, respectively. Such services included a premium tax review, Internal Revenue Code Section 382 assistance, tax compliance services, preparation of corporate tax returns and human resource consulting services.

# Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

## All Other Fees

The aggregate fees billed by PricewaterhouseCoopers for additional professional services rendered during the years ended December 31, 2002 and 2003, other than for the services described above, were \$56,255 and \$0, respectively. Prior to engaging PricewaterhouseCoopers for these additional services, the Audit Committee considered whether the provision of these services was compatible with maintaining PricewaterhouseCoopers' independence. These additional services included an executive compensation review.

## Audit Committee's Pre-Approval Policies and Procedures

Prior to 2003, the Audit Committee was not required to pre-approve services to be provided by PricewaterhouseCoopers, but as a matter of course the Audit Committee generally pre-approved of such services subject to materiality and management discretion. The Governance Committee will approve all services rendered by PricewaterhouseCoopers prior to its rendering of such services. The Governance Committee may delegate its pre-approval authority to one or more of its members and has authorized the chairman of the Governance Committee, Alexander M. Clark, to pre-approve services to be

14

rendered by PricewaterhouseCoopers at a cost of \$25,000 or less. Penn Treaty estimates that in 2002 and 2003, the Audit Committee pre-approved approximately 90% of the services provided by PricewaterhouseCoopers as described above.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE INDEPENDENT PUBLIC AUDITORS FOR PENN TREATY AND ITS SUBSIDIARIES FOR THE YEAR ENDING DECEMBER 31, 2004.

15

## Executive Compensation and Other Matters

### Summary Compensation Table

The following table sets forth information concerning the annual and long-term compensation for services in all capacities to Penn Treaty for the fiscal years ended December 31, 2001, 2002 and 2003 for the Chief Executive Officer and the four other most highly compensated individuals who were Executive Officers at December 31, 2003.

| Name and<br>Principal Position | Year | Annual Compensation |          |              | Long-Term<br>Compensation           |
|--------------------------------|------|---------------------|----------|--------------|-------------------------------------|
|                                |      | Salary              | Bonus    | Other<br>(1) | Securities<br>Underlying<br>Options |
| Irving Levit (3)               | 2003 | \$216,000           | \$ 0     | \$ 9,400 (4) | 20,000                              |
| Founding Chairman,             | 2002 | \$520,000           | \$ 0     | \$ 1,600     | 0                                   |
| Director and Former            | 2001 | \$545,000           | \$85,000 | \$ 3,200     | 241,455                             |
| Chief Executive Officer        |      |                     |          |              |                                     |

# Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

|                             |      |           |          |          |        |
|-----------------------------|------|-----------|----------|----------|--------|
| William W. Hunt, Jr. (6)    | 2003 | \$266,454 | \$68,600 | \$ 0     | 75,000 |
| President and Chief         | 2002 | \$197,500 | \$ 0     | \$ 0     | 0      |
| Executive Officer           | 2001 | \$ 93,462 | \$ 5,000 | \$ 0     | 30,000 |
| Cameron B. Waite            | 2003 | \$234,000 | \$63,000 | \$ 0     | 60,000 |
| Executive Vice President    | 2002 | \$182,500 | \$ 0     | \$ 800   | 0      |
| and Chief Financial Officer | 2001 | \$146,250 | \$15,000 | \$ 3,200 | 8,000  |
| Bruce A. Stahl (7)          | 2003 | \$176,800 | \$34,000 | \$ 0     | 15,000 |
| Senior Vice President       | 2002 | \$157,500 | \$ 0     | \$ 0     | 0      |
| and Chief Actuary           | 2001 | \$ 70,827 | \$ 0     | \$ 0     | 0      |
| James M. Heyer              | 2003 | \$176,800 | \$34,000 | \$ 0     | 22,500 |
| Senior Vice President       | 2002 | \$147,500 | \$ 0     | \$ 1,200 | 0      |
| Risk Management             | 2001 | \$127,500 | \$12,000 | \$ 2,400 | 37,500 |
| Patrick D. Patterson (8)    | 2003 | \$170,193 | \$ 0     | \$ 0     | 20,000 |
| Executive Vice President    |      |           |          |          |        |
| and Chief Marketing         |      |           |          |          |        |
| Officer                     |      |           |          |          |        |

-----

- (1) Represents directors' fees of \$400 for each regular board meeting of Penn Treaty and for each board meeting of the insurance company subsidiaries attended during the applicable calendar year. Effective July 2002, directors who are Company employees no longer receive separate compensation for service on the Board of Directors or Committees of the Board of Directors.

16

- (2) Represents company contributions to Penn Treaty's 401(k) Plan on behalf of each of the named individuals and certain allowances for automobile expenses and reimbursements.
- (3) Mr. Levit's employment with Penn Treaty ended on May 23, 2003. Excludes cash overriding commissions and direct commissions totaling approximately \$544,000, \$510,000 and \$433,000 paid to IMC by Penn Treaty in 2001, 2002 and 2003, respectively, in connection with policies written for Penn Treaty. See "Certain Relationships and Related Transactions."
- (4) Includes outside director's annual retainer of \$5,000, and outside director's fees of \$1,000 for each regular board meeting of Penn Treaty and outside director's fees of \$400 for each board meeting of the insurance company subsidiaries attended from June 1, 2003 through December 31, 2003.
- (5) Includes consulting and post-retirement compensation.
- (6) Mr. Hunt's employment with Penn Treaty began on May 14, 2001.
- (7) Mr. Stahl's employment with Penn Treaty began on June 30, 2001.
- (8) Mr. Patterson's employment with Penn Treaty began on April 16, 2003.

## Option Grants in Last Fiscal Year

The following table sets forth information concerning grants of stock options during the fiscal year ended December 31, 2003 to each of the Company's executive officers named in the Summary Compensation Table.

Potential Re

Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

| Name                 | Individual Grants  |                                                                 |                           |                    | Value at Assum                            |
|----------------------|--------------------|-----------------------------------------------------------------|---------------------------|--------------------|-------------------------------------------|
|                      | Options<br>Granted | % of Total<br>Options Granted<br>to Employees<br>in Fiscal Year | Exercise or<br>Base Price | Expiration<br>Date | Annual Rates<br>Price Apprec<br>Option Te |
| -----                | -----              | -----                                                           | -----                     | -----              | ---                                       |
| Irving Levit         | 20,000             | 5.1%                                                            | \$1.64                    | 5/23/13            | \$20,628                                  |
| William W. Hunt, Jr. | 75,000             | 19.0%                                                           | \$1.58                    | 3/12/13            | \$74,524                                  |
| Cameron B. Waite     | 60,000             | 15.2%                                                           | \$1.58                    | 3/12/13            | \$59,619                                  |
| Bruce A. Stahl       | 15,000             | 3.8%                                                            | \$1.58                    | 3/12/13            | \$14,905                                  |
| James M. Heyer       | 22,500             | 5.7%                                                            | \$1.58                    | 3/12/13            | \$22,357                                  |
| Patrick D. Patterson | 20,000             | 5.1%                                                            | \$1.52                    | 4/16/13            | \$19,118                                  |

1. The dollar amounts set forth under these columns are the result of calculations made at assumed 5% and 10% appreciation rates as required by the Securities and Exchange Commission regulations and are not intended to indicate future price appreciation, if any, of the Company's common stock.

17

Aggregated Option Exercises and Year-End Option Values

The following table sets forth the number of shares acquired on exercise of stock options and the aggregate gains realized on exercise of stock options in 2003 by the executive officers named in the Summary Compensation Table. The table also sets forth the number of shares covered by exercisable and unexercisable options held by such executive officers on December 31, 2003 and the aggregate gains that would have been realized had these options been exercised on December 31, 2003, even though these options were not exercised, and the unexercisable options could not have been exercised, on December 31, 2003.

| Name                    | Shares<br>Acquired on<br>Exercise | Value<br>Realized(1) | Number of Securities<br>Underlying Unexercised<br>Options at Fiscal Year-End |               | Value<br>In-the-<br>at Fis<br>Exercisab |
|-------------------------|-----------------------------------|----------------------|------------------------------------------------------------------------------|---------------|-----------------------------------------|
|                         |                                   |                      | Exercisable                                                                  | Unexercisable |                                         |
| -----                   | -----                             | -----                | -----                                                                        | -----         | -----                                   |
| Irving Levit            | 0                                 | \$0                  | 241,455                                                                      | 20,000        | \$0                                     |
| William W.<br>Hunt, Jr. | 0                                 | \$0                  | 30,000                                                                       | 75,000        | \$0                                     |
| Cameron B.<br>Waite     | 0                                 | \$0                  | 8,000                                                                        | 60,000        | \$0                                     |
| Bruce A                 |                                   |                      |                                                                              |               |                                         |

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

|                         |   |     |        |        |     |
|-------------------------|---|-----|--------|--------|-----|
| Stahl                   | 0 | \$0 | 0      | 15,000 | \$0 |
| James M.<br>Heyer       | 0 | \$0 | 37,500 | 22,500 | \$0 |
| Patrick D.<br>Patterson | 0 | \$0 | 0      | 20,000 | \$0 |

- 
- (1) The value realized represents the difference between the fair market value per share of our common stock on the date of exercise and the per share exercise price, multiplied by the applicable number of options.
- (2) These values represent the difference between the closing price per share on The New York Stock Exchange on December 31, 2003 (\$1.84) and the per share exercise price of the option.

### 401(k) Plan

On August 1, 1996, Penn Treaty adopted a 401(k) retirement plan, covering substantially all employees with one year of service. Under the plan, participating employees may contribute up to 15% of their annual salary on a pre-tax basis, and Penn Treaty equally matches employee contributions up to the first 3% of the employee's salary. The Penn Treaty and employee portions of the plan vest immediately. Penn Treaty's expense in 2003 under the plan was \$240,000. Penn Treaty may elect to make a discretionary contribution to the plan, which will be contributed proportionately to each eligible employee. Penn Treaty did not make a discretionary contribution in 2003.

18

### Incentive Stock Option Plans

The shareholders of Penn Treaty adopted an Incentive Stock Option Plan (the "Plan") in March 1987. The Plan, as amended by shareholder action on May 25, 1990, May 28, 1993, and May 23, 1997, provided for the granting of options to purchase up to 1,200,000 shares of our common stock. The Plan was replaced by the 1998 Employee Non-Qualified Incentive Stock Option Plan (the "1998 Plan") and all options under the Plan were forfeited and replaced under the 1998 Plan in 2001. No new options may be granted under the Plan. The shareholders of Penn Treaty adopted the 2002 Employee Incentive Stock Option Plan in May 2002 (the "2002 Plan"). The 2002 Plan does not replace the 1998 Plan, which continues in effect.

The 2002 Plan authorizes Penn Treaty to grant "incentive stock options" under Section 422 of the Internal Revenue Code, and non-qualified stock options, covering up to an aggregate of 2,000,000 shares of our common stock. The purpose of the 2002 Plan is to enable Penn Treaty to offer officers, directors and employees of Penn Treaty and its subsidiaries options to acquire equity interests in Penn Treaty, thereby attracting, retaining and rewarding such persons, and strengthening the mutuality of interests between such persons and our shareholders. The maximum allowable term of each option granted under the 2002 Plan is ten years (five years in the case of holders of more than 10% of the combined voting power of all classes of outstanding stock), and the options become exercisable one year from the option grant date.

As of April 22, 2004, 757,542 stock options under the 2002 Plan have been granted and are outstanding with exercise prices ranging from \$1.52 to \$4.40. No stock options under the 2002 Plan have been canceled and no stock options have been exercised. Under the 1998 plan, 590,363 options are outstanding with exercise prices ranging from \$3.40 to \$19.25.

# Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

## Agent Stock Option Plan

In October 1994, the Board of Directors of Penn Treaty authorized a stock option plan for its agents (the "Agent Plan"). The Agent Plan, adopted by the Board of Directors in May 1995, provides for the grant of options to purchase up to 300,000 shares of common stock and is designed to reward Penn Treaty's agents by providing for the grant of options to purchase common stock to agents who attain certain sales objectives determined by the Board of Directors. The exercise price of all options granted under the Agent Plan may not be less than the fair market value of the shares on the date of grant. The maximum allowable term of each option is ten years, and the options become exercisable in four equal annual installments commencing one year from the option grant date. Under the Agent Plan, stock options have been granted and are outstanding to date with respect to 47,900 shares. Exercise prices of these options range from \$12.63 to \$32.25 per share. No options were granted under the Agent Plan during 2001, 2002 or 2003.

19

## Equity Compensation Plan Information

| Plan Category                                                        | Number of securities<br>to be issued upon<br>exercise of<br>outstanding options,<br>warrants and rights | Weighted-average<br>exercise price of<br>outstanding options,<br>warrants and rights | Number of securities<br>remaining available<br>for issuance under<br>equity compensation<br>(excluding securities<br>reflected in<br>the first column) |
|----------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| -----                                                                | -----                                                                                                   | -----                                                                                | -----                                                                                                                                                  |
| Equity compensation<br>plans approved by<br>security holders:        |                                                                                                         |                                                                                      |                                                                                                                                                        |
| o Stock Options (1)                                                  | 1,349,189                                                                                               | \$ 4.06                                                                              | 1,685,246                                                                                                                                              |
| o Warrants (2)                                                       | 46,502,935                                                                                              | \$ 6.20                                                                              | 0                                                                                                                                                      |
| Total.....                                                           | 47,852,124                                                                                              | \$ 6.04                                                                              | 1,685,246                                                                                                                                              |
| Equity compensation<br>Plans not approved by<br>security holders(3): | 47,900                                                                                                  | \$25.55                                                                              | 240,500                                                                                                                                                |
| Total.....                                                           | 47,900,024                                                                                              | \$ 6.16                                                                              | 1,925,746                                                                                                                                              |
| -----                                                                |                                                                                                         |                                                                                      |                                                                                                                                                        |

(1) Includes options to purchase shares of Penn Treaty common stock under the following shareholder-approved plans: the 1998 Employee Non-Qualified Incentive Stock Option Plan and the 2002 Employee Incentive Stock Option Plan.

(2) Reflects the conversion of all warrants (pursuant to the terms of the Reinsurance Agreement with Centre Solutions (Bermuda), Limited) to purchase shares of non-voting convertible preferred stock, and assumes the conversion of each share of preferred stock into three shares of common stock, pursuant to the terms of the Reinsurance Agreement.

(3) Includes options to purchase shares of Penn Treaty common stock under the Agent Stock Option Plan, which is described more fully above.

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

### Change in Control, Employment and Consulting Agreements

Penn Treaty has entered into Change in Control Agreements with each of the executive officers named in the Summary Compensation Table. Under these agreements, if Penn Treaty merges into another entity or ownership of the voting control of Penn Treaty otherwise changes and, as a result of such change in control, any of the named executive officers are terminated or their positions or work locations are materially changed at any time during the three-year period after the change in control, they will be entitled to receive a lump sum payment of their base salary through the end of the three-year period and they shall be entitled to continue to receive certain other insurance and retirement benefits for the remainder of the three-year period.

The Company and William W. Hunt, Jr. entered into an Employment Agreement on June 1, 2001 under which it was agreed that Mr. Hunt will serve in an executive capacity for the Company on an at-will basis for an unspecified term. Pursuant to the Agreement, Mr. Hunt's salary is determined at the discretion of the Board of Directors and Mr. Hunt is eligible to

20

participate in the various employee benefit plans that cover Penn Treaty's salaried employees and executives, including insurance benefits, stock option grants, and bonus programs. The Agreement provided for an initial grant to Mr. Hunt of 30,000 stock options at an exercise price of \$3.40 with 10,000 options vesting on the initial grant date and the remaining options vesting on July 31, 2002. If Penn Treaty terminates the Agreement for a reason other than cause, or if Mr. Hunt terminates the Agreement for good reason as defined in the Agreement, Penn Treaty shall pay Mr. Hunt a severance payment in an amount equal to twelve months of Mr. Hunt's most current base salary rate.

On April 28, 2003, the Company executed a Consulting Agreement with its former Chief Executive Officer, Irving Levit. Mr. Levit's Consulting Agreement provides that he is to serve as the Founding Chairman of the Company for up to two years. Under the terms of the Consulting Agreement, beginning on May 24, 2003 and continuing until the end of the consulting arrangement, Mr. Levit will provide certain services to the Company, in exchange for which the Company will pay him an annual retainer of \$100,000 and provide him with other standard Company benefits. Additionally, the Company has agreed to pay Mr. Levit or his spouse, beginning on May 23, 2003 and continuing until the later of Mr. Levit's death or the death of his spouse, a retirement benefit of \$100,000 per year. If Penn Treaty merges into another entity or ownership of the voting control of Penn Treaty otherwise changes, the consulting arrangement between Penn Treaty and Mr. Levit will terminate automatically. Upon such termination, Mr. Levit will receive what he would have received under his Change of Control Agreement if he had been employed by Penn Treaty at the time of a change of control with a base salary equal to the amount of his annual retainer under the Consulting Agreement. Penn Treaty also will make a single lump sum payment to Mr. Levit equal to the actuarial present value of the remaining retirement annual payments. Penn Treaty has also agreed to provide Mr. Levit with health and welfare benefits comparable to those the Company offers to its executives from time to time until the later of Mr. Levit's death or the death of his spouse.

### Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee of the Board of Directors during 2003 were Mr. Clark, Mr. Grebe, Mr. Hindes, Mr. Kaplan and Mr. Stangherlin, who are non-employee directors. Mr. Ross joined the Compensation Committee in December 2003.

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

Until February 2004, Francis R. Grebe was a partner at the investment counseling firm of Davidson Investment Counselors, an affiliate of Davidson Capital Management. Davidson Capital Management manages a portion of our investment portfolio, for which it received fees of \$20,000 for the year ended December 31, 2003. Mr. Grebe was not directly involved with any of Penn Treaty's investment matters. Mr. Grebe serves as a financial advisor to Irving Levit on some of Mr. Levit's personal matters for which he is compensated by Mr. Levit.

Alexander M. Clark is a Managing Director with Advest, Inc. Advest, Inc. has engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with Penn Treaty. Advest, Inc. has received and will receive customary fees for these transactions. In 2003, Advest, Inc. received fees of \$581,000 for financial

21

advisory services provided to Penn Treaty in connection with the sale of convertible subordinated notes.

### Audit Committee Report

-----

With respect to the audited financial statements of Penn Treaty and its subsidiaries for the year ended December 31, 2003, the Audit Committee:

- o has reviewed and discussed the audited financial statements with management of Penn Treaty;
- o has discussed with Penn Treaty's independent auditors matters such as the quality (in addition to acceptability), clarity, consistency and completeness of Penn Treaty's financial reporting, as required by Statement on Auditing Standards No. 61, Communication with Audit Committee; and
- o has received the written disclosures and the letter from the independent auditors concerning the independent auditors' independence from Penn Treaty, as required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and has discussed with Penn Treaty's independent auditors the independent auditors' independence.

Based on the review and discussions described above, the Audit Committee has recommended the inclusion by the Board of Directors of the audited financial statements in Penn Treaty's Annual Report on Form 10-K for the year ended December 31, 2003 for filing with the SEC.

### Audit Committee Financial Expert

The Securities and Exchange Commission promulgated rules requiring public companies to disclose whether they have an audit committee financial expert. These rules are effective for Penn Treaty, and Gary E. Hindes has been determined by the Board to be independent under the rules promulgated by the Securities and Exchange Commission and to qualify as the Audit Committee Financial Expert.

Alexander M. Clark  
Francis R. Grebe  
Gary E. Hindes  
Matthew W. Kaplan  
Peter M. Ross  
Domenic P. Stangherlin

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

### Compensation Committee Report on Executive Compensation

-----

Penn Treaty's Executive Compensation Program is administered by the Compensation Committee (the "Committee"), a committee of the Board of Directors consisting of independent non-employee directors. The primary functions of the Committee are to review and evaluate the performance and leadership of the Chief Executive Officer and all other executive officers and to recommend compensation amounts to the Board of Directors. In 2002, the Committee compared all executive compensation with industry and regional executive compensation levels and determined that Penn Treaty's compensation levels compare conservatively to those of comparable companies and, as a result, the

22

Committee increased certain executive salary levels to the 25th percentile of comparable industry data provided by an independent consultant. The Board of Directors accepted and adopted all of the Committee's recommendations concerning executive compensation amounts during 2003.

The Committee seeks to:

- o provide compensation that is closely linked to Company and individual performance;
- o align the interests of Penn Treaty's executives with those of its shareholders through award opportunities that can result in ownership of common stock; and
- o ensure that compensation is sufficiently competitive to attract and retain high quality executive talent.

Consistent with these objectives, the Committee employs a system of quantitative measures and qualitative assessments in evaluating and measuring executive officer performance. Quantitative measures include earnings performance, return on assets and growth of revenues. Qualitative assessments include the quality and measured progress of the operations of Penn Treaty and the success of strategic actions taken.

In addition to company-wide measures of performance, the Committee considers performance factors particular to each executive officer, such as the performance of the departments for which such officer had management responsibility, individual managerial accomplishments and contribution to the achievement of corporate goals.

#### CEO Compensation

In accordance with the Committee's general practice and Penn Treaty's compensation policies, Mr. Levit and Mr. Hunt's compensation during the 2003 fiscal year were based principally upon Penn Treaty's performance and Mr. Levit and Mr. Hunt's contribution to that performance. Mr. Levit and Mr. Hunt's salaries were determined in the Committee's sole discretion after its consideration of competitive data, the Board's assessment and recognition of Mr. Levit and Mr. Hunt's performance during the respective portions of 2003 for which they each served as Chief Executive Officer.

Alexander M. Clark  
Francis R. Grebe  
Gary E. Hinds  
Matthew W. Kaplan

# Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

Peter M. Ross  
Domenic P. Stangherlin

23

## PRINCIPAL SHAREHOLDERS

The following table sets forth, as of April 20, 2004, information with respect to the beneficial ownership of our Common Stock by (i) each person known to Penn Treaty to own notes convertible into more than 5% of the outstanding shares of our Common Stock, (ii) each Director, the former Chief Executive Officer, the Chief Executive Officer and the four most highly compensated Executive Officers and (iii) all Directors and Executive Officers as a group. Except as set forth in the table, we do not know of any person who beneficially owns 5% or more of the outstanding shares of our Common Stock.

| Name and Address(1)<br>-----                                              | Shares<br>Beneficially<br>Owned(2)<br>----- | Percentage<br>Ownership(3)<br>----- |
|---------------------------------------------------------------------------|---------------------------------------------|-------------------------------------|
| (i) Certain Beneficial Owners(4):                                         |                                             |                                     |
| LC Capital Master Fund, LTD (5).....                                      | 2,285,714                                   | 5.5%                                |
| (ii) Directors and Executive Officers:                                    |                                             |                                     |
| William W. Hunt, Jr. (6).....                                             | 145,000                                     | *                                   |
| Irving Levit (7).....                                                     | 2,499,275                                   | 6.3%                                |
| Jack D. Baum (8).....                                                     | 54,408                                      | *                                   |
| Alexander M. Clark (9).....                                               | 36,000                                      | *                                   |
| Francis R. Grebe (10).....                                                | 21,000                                      | *                                   |
| James M. Heyer (11).....                                                  | 62,910                                      | *                                   |
| Gary E. Hinds (12).....                                                   | 86,500                                      | *                                   |
| Matthew W. Kaplan (13).....                                               | 20,000                                      | *                                   |
| Patrick D. Patterson (14).....                                            | 234,000                                     | *                                   |
| Peter M. Ross (15).....                                                   | 5,000                                       | *                                   |
| Bruce A. Stahl (16).....                                                  | 30,000                                      | *                                   |
| Domenic P. Stangherlin (17).....                                          | 107,963                                     | *                                   |
| Cameron B. Waite (18).....                                                | 95,200                                      | *                                   |
| All Directors and Executive Officers as<br>a group (13 persons) (19)..... | 3,397,256                                   | 8.5%                                |

\* Less than 1%

- 
- (1) Unless otherwise noted, the address of each person named above is in care of Penn Treaty American Corporation 3440 Lehigh Street, Allentown, Pennsylvania 18103.
- (2) Beneficial ownership is determined in accordance with rules of the Securities and Exchange Commission. Shares of Common Stock issuable upon exercise or conversion of options or convertible notes currently exercisable or convertible or exercisable or convertible within 60 days of April 20, 2004 are deemed outstanding for computing the percentage beneficially owned by such holder but are not deemed outstanding for purposes of computing the percentage beneficially owned by any other person. Except as otherwise indicated, Penn Treaty believes that the beneficial owners of the Common Stock listed above, based on

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable, and that there are no other affiliations among the shareholders listed in the table.

24

- (3) Based on 39,412,995 shares outstanding on April 20, 2004.
- (4) Other investors who have purchased significant portions of the 6 1/4% convertible subordinated notes due 2008 ("2008 Notes") may beneficially own 5% or more of the outstanding shares of Common Stock.
- (5) Consists of shares issuable upon conversion of Notes purchased on February 2, 2004. According to the Subscription Agreement executed by LC Capital Master Fund, LTD, its address is c/o Lampe Conway & Co LLC, 680 5th Avenue, Suite 1202, New York, New York 10019. LC Capital Master Fund owns approximately \$4,000,000 in aggregate principal amount of the Notes.
- (6) Includes exercisable options to purchase 105,000 shares of Common Stock.
- (7) Includes 46,000 shares held by a private foundation of which Mr. Levit is an officer and director, 45,007 shares held by Mr. Levit as trustee of a retirement account, 147,167 shares held by Mr. Levit as co-trustee of an irrevocable trust for Mr. Levit's children and exercisable options to purchase 261,455 shares of Common Stock. Also includes 46,000 shares held by Mr. Levit's wife as to which he disclaims beneficial ownership. Excludes 59,233 shares held by other family members as to which he also disclaims beneficial ownership.
- (8) Includes exercisable options to purchase 54,327 shares of Common Stock.
- (9) Includes exercisable options to purchase 20,000 shares of Common Stock.
- (10) Includes exercisable options to purchase 20,000 shares of Common Stock.
- (11) Includes exercisable options to purchase 60,000 shares of Common Stock.
- (12) Includes 59,500 shares owned by Fallen Angels Fund, L.P., a limited partnership of which Mr. Hinds has sole voting power as the managing member of the general partnership, exercisable options to purchase 20,000 shares of Common Stock, 1,500 shares held by Mr. Hinds' wife as to which he disclaims beneficial ownership and 1,700 shares held by Mr. Hinds' children as to which he disclaims beneficial ownership.
- (13) Consists of exercisable options to purchase shares of Common Stock.
- (14) Includes exercisable options to purchase 20,000 shares of Common Stock.
- (15) Consists of shares held in trust, for which Mr. Ross is settlor and trustee.
- (16) Includes exercisable options to purchase 15,000 shares of Common Stock.
- (17) Includes exercisable options to purchase 20,000 shares of Common Stock.
- (18) Includes exercisable options to purchase 68,000 shares of Common Stock.
- (19) Includes exercisable options held by members of the group to purchase

# Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

683,782 shares of Common Stock.

25

## Performance Graph

The following graph compares the cumulative total shareholder return on the Company's Common Stock with the cumulative total return of the New York Stock Exchange and the Standard and Poor's Insurance Composite for the period December 31, 1998 through December 31, 2003, assuming an initial investment of \$100 and that dividends are reinvested annually.

### PENN TREAY AMERICAN CORPORATION Performance Graph

[GRAPHIC OMITTED]

|                     | 1998     | 1999     | 2000     | 2001     | 2002     | 2003     |
|---------------------|----------|----------|----------|----------|----------|----------|
| PTA STOCK           | \$100.00 | \$ 58.46 | \$ 64.96 | \$ 23.57 | \$ 7.39  | \$ 6.39  |
| NYSE COMPOSITE      | \$100.00 | \$111.23 | \$114.70 | \$105.05 | \$ 85.91 | \$113.23 |
| S&P INSURANCE INDEX | \$100.00 | \$107.48 | \$145.14 | \$127.39 | \$101.11 | \$122.39 |

26

## HOUSEHOLDING OF ANNUAL MEETING MATERIALS

Some banks, brokers and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of this proxy statement has been sent to multiple shareholders in your household. If you would like to obtain another copy of either document, please contact Cameron B. Waite, Executive Vice President and Chief Financial Officer, Penn Treaty American Corporation, 3440 Lehigh Street, Allentown, PA 18103, telephone 610) 965-2222. If you want to receive separate copies of our proxy statements and annual reports in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or other nominee record holder, or your may contact us at the above address or telephone number.

INCORPORATION OF DOCUMENTS BY REFERENCE

-----

The following information is incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 001-14681), a copy of which is being delivered to Penn Treaty's shareholders in conjunction with this Proxy Statement: Financial Statements and Notes to Consolidated Financial Statements at pages F-1 to F-43; Management's Discussion and Analysis of Financial Condition and Results of Operations at pages 43 to 70; Quantitative and Qualitative Disclosures About Market Risk at pages 71 to 72; and Changes in and Disagreements With Accountants on Accounting and Financial Disclosure at page 73.

OTHER MATTERS

-----

At the date of this Proxy Statement, the only business that the Board of Directors intends to present or knows that others will present at the Annual Meeting is that which is presented above. If any other matter or matters are properly brought before the Annual Meeting, or any adjournment or postponement, it is the intention of the persons named in the accompanying proxy card to vote proxies on such matters in accordance with their judgment.

By Order of the Board of Directors,

/s/ JANE MENIN BAGLEY

-----  
Jane Menin Bagley, Secretary

Allentown, Pennsylvania  
April 27, 2004

APPENDIX "A"

-----  
PENN TREATY AMERICAN CORPORATION

AUDIT, NOMINATING AND CORPORATE GOVERNANCE  
COMMITTEE CHARTER

Purpose

The Audit, Nominating and Corporate Governance Committee (the "Committee") is appointed by the Board of Directors (the "Board") of Penn Treaty American Corporation (the "Company") to:

- o assist Board oversight of:
  - o the integrity of the Company's financial statements;

- o the Company's compliance with legal and regulatory requirements;
  - o the independent auditor's qualifications and independence; and
  - o the performance of the Company's internal audit function and independent auditors;
- o prepare an audit committee report as required by the Securities and Exchange Commission to be included in the Company's annual proxy statement;
- o identify individuals qualified to become Board members, consistent with the standards for director nominees approved by the Board, and to select, or to recommend that the Board select, the director nominees for the next annual meeting of shareholders;
- o to develop and recommend to the Board a set of corporate governance principles applicable to the Company; and
- o to oversee the evaluation of the Board and management.

#### Committee Membership

The Committee shall be comprised of at least three members.

#### Committee Member Qualifications

All members of the Committee shall meet the independence requirements as set forth under Section 303A of the New York Stock Exchange's Listed Company Manual and set forth in Rule 10A-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Each member of the Committee shall be financially literate, or become financially literate within a reasonable period of time after appointment to the Committee, and have a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall have accounting or related

29

financial management expertise so as to constitute a financial expert, as defined in Item 401(h) of Regulation S-K promulgated under the Securities Act of 1933, as amended. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or an outside consultant.

No member of the Committee shall serve simultaneously on the audit committees of more than three public companies, unless, in each case, the Board determines that such simultaneous service will not impair the ability of such member to effectively serve on the Committee.

The members of the Committee shall be elected by the Board at the annual organizational meeting of the Board and shall serve until their successors shall be duly elected and qualified. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

#### Committee Structure and Operations

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

With Board approval, the Committee may form and delegate authority to subcommittees when appropriate, provided that the subcommittees are composed entirely of independent directors.

The Committee shall meet at such times as it determines to be necessary or appropriate, but not less than once a year. Committee meetings may be called by the Chair of the Committee or at the request of the Company's independent accountants. A majority of the members present in person or by telephone by means of which all persons participating in the meeting can hear each other shall constitute a quorum. The Committee shall maintain minutes of its meeting and records relating to those meetings.

The Committee may adopt such other rules and procedures for the conduct of its affairs as it deems necessary or appropriate if not inconsistent with the Company's bylaws.

### Committee Reporting to the Board

The Committee shall make regular reports to the Board, including a review of any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors or the performance of the internal audit function.

### Committee Authority and Responsibilities

- o The Committee is directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the listed issuer, and each such registered public accounting firm must report directly to the Committee.
- o The Committee must establish and maintain procedures for the receipt, retention and treatment of complaints received by the

30

Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

- o The Committee is authorized to engage independent counsel and other advisers, as it determines necessary to carry out its duties.
- o The Company shall provide appropriate funding, as determined by the Committee, in its capacity as a committee of the Board, for payment of: compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; compensation to any advisers employed by the Committee; and ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
- o The Committee shall, at least annually, obtain and review a

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

report by the independent auditor describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the Company.

- o The Committee shall evaluate the auditor's qualifications, performance and independence, including a review and evaluation of the lead partner, and taking into account the opinions of management and the Company's internal auditors (or other personnel responsible for the internal audit function), consider rotation of the audit firm and present its conclusions with respect to the independent auditor to the full Board.
- o The Committee shall ensure the rotation of the audit partners as required by law.
- o The Committee shall review and discuss the Company's annual audited financial statements and quarterly financial statements with management and the independent auditor, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the independent auditor's report and the nature and extent of any significant changes in accounting principles or their application.
- o The Committee shall generally discuss the Company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, in terms of the types of information to be disclosed and the type of presentation to be made (paying particular attention to any use of "pro forma" or "adjusted" non-GAAP information).

31

- o The Committee shall generally review and discuss with management, the internal auditors and the independent accountants guidelines and policies governing risk assessment and risk management processes, including a discussion of the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
- o The Committee shall meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with independent auditors.
- o The Committee shall review with the independent auditor any audit problems or difficulties the auditor encountered in the course of the audit work, including any restrictions on the scope of the independent auditor's activities or on access to requested information, any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise), any communications between the audit team and the audit firm's national office respecting auditing

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

or accounting issues presented by the engagement and any "management" or "internal control" letter issued, or proposed to be issued, by the audit firm to the Company, management's response to any audit problems or difficulties and any significant disagreements with management.

- o The Committee shall discuss with the independent auditor and management the responsibilities, budget and staffing of the Company's internal audit function.
- o The Committee shall set clear hiring policies for employees or former employees of the independent auditors, taking into account the pressures that may exist for auditors consciously or subconsciously seeking a job with the Company.
- o The Committee shall review major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies.
- o The Committee shall review analyses prepared by management and/or the Company's independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.
- o The Committee shall review the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.
- o The Committee shall pre-approve all auditing services, internal-control related services and permitted non-audit services

32

(including all terms thereof) to be performed for the Company by its independent auditor, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Committee prior to the completion of the audit. The Committee may form and delegate authority to subcommittees consisting of one or members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided the decisions of such subcommittee to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.

- o The Committee shall confer with the independent accountants and the internal auditors concerning the scope of their examinations of the books and records of the Company and its subsidiaries, review and approve the independent accountants' annual engagement letter, review and approve the Company's internal audit engagement letter, annual audit plans and budgets, direct the special attention of the auditors to specific matters or areas deemed by the Committee or the auditors to be of special significance and authorize the

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

auditors to perform such supplemental reviews or audits as the Committee may deem desirable.

- o The Committee shall oversee management's maintenance of the reliability and integrity of the accounting policies and financial reporting and the disclosure practices of the Company.
- o The Committee shall oversee management's establishment and maintenance of processes to assure that an adequate system of internal control is functioning within the Company and shall periodically review and discuss with management the adequacy of the such system, any material control deficiencies and the adequacy of disclosures about changes in internal controls over financial reporting.
- o The Committee shall provide for communication among the Board, financial and senior management, the internal auditors and the independent accountants.
- o The Committee shall consider such other matters in relation to the financial affairs of the Company and its accounts, and in relation to the internal and external audit of the Company, as the Committee may, in its discretion, determine to be advisable. o The Committee shall actively seek individuals qualified to become board members, consistent with the standards for director nominees set forth in the Company's Corporate Governance Guidelines, for recommendation to the Board and may consult with the Chairman of the Board, the Chief Executive Officer and others inside and outside the Company.
- o The Committee shall select, or recommend that the Board select, the director nominees for the each annual meeting of shareholders.

33

- o The Committee shall have the sole authority to retain and terminate any search firm to be used to identify director candidates and shall have sole authority to approve the search firm's fees and other retention terms.
- o The Committee shall receive comments from all directors and report annually to the Board with an assessment of the Board's performance, to be discussed with the full Board following the end of each fiscal year.
- o The Committee shall report annually to the Board with an assessment of management's performance, to be discussed with the full Board following the end of each fiscal year.
- o The Committee shall review the structure of board committees, recommend qualifications for membership on particular committees and recommend director candidates for membership on committees.
- o The Committee shall review and reassess the adequacy of the Company's Corporate Governance Guidelines annually and when necessary or desirable, make recommendations to the Board of Directors (i) to ensure its continued compliance with

## Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

applicable law and (ii) to ensure that it meets or exceeds industry standards.

- o The Committee shall administer both the Company's Code of Business Conduct and Ethics and Code of Ethics for the CEO and Senior Financial Executives (together, the "Codes"), as set forth in the Codes.
- o The Committee shall review with appropriate Company personnel the actions taken to ensure compliance with the Company's Code of Business Conduct and Ethics by the Company's employees, agents and representatives and the results of confirmations and violations of such Code.
- o The Committee shall monitor compliance of the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer with the Company's Code of Ethics for the CEO and Senior Financial Executives.
- o The Committee shall monitor compliance of directors with the Code of Business Conduct and Ethics.
- o The Committee shall oversee management's establishment and maintenance of processes to assure compliance by the Company and its officers, directors, employees, agents and representatives with all applicable laws, regulations and Company policy.
- o The Committee shall review the programs and policies of the Company designed to ensure compliance with applicable laws and regulations by the Company and its officers, directors, employees, agents and representatives and shall monitor the results of these compliance efforts.

34

- o The Committee shall review the independence of the members of the Board and committees of the Board on a periodic basis (but at least annually), as well as any relationships directors may have with the Company and/or its subsidiaries or affiliates or otherwise that may reasonably create the appearance of non independence and, based on such review, make a recommendation to the Board, as to whether or not each Board member should be considered independent. Without limiting the information and factors that the Committee may review and consider, the Committee's review should be based upon applicable laws, rules and regulations concerning independence, including those of the Securities and Exchange Commission and of the New York Stock Exchange
- o The Committee shall provide guidance to the Board regarding programs that will constitute new directors' orientation and directors' continuing education.
- o The Committee should encourage continuous improvement of, and should foster adherence to, the Company's policies, procedures and practices at all levels.
- o The Committee shall conduct or authorize investigations into any matters within the Committee's scope of responsibilities.

Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

- o The Committee shall be responsible for creating an agenda for each year.
- o The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

Annual Performance Evaluation

The Committee shall conduct an annual evaluation of its performance and powers and report and make recommendations to the Board.

Adopted by the Board of Directors on April 23, 2004

35

TO VOTE BY MAIL, PLEASE DETACH PROXY CARD HERE

Please mark  
votes as in [ ]  
this example.

1. PROPOSAL TO ELECT DIRECTORS: [ ]

Name of Nominee:

[ ] Alexander M. Clark [ ] Matthew W. Kaplan [ ] Patrick E. Falconio

FOR

ALL

[ ] FOR ALL EXCEPT\*

[ ] WITHHOLD FOR ALL

(\*) To withhold authority to vote for any individual nominee, strike a line through the nominee's name listed above and mark an [X] in the "For All Except" box.

2. PROPOSAL TO APPROVE THE APPOINTMENT OF PRICEWATERHOUSECOOPERS, LLP as the independent public auditors for the Company and its subsidiaries for the year ending December 31, 2004.

FOR

AGAINST

ABSTAIN

3. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the Meeting or any adjournment(s) or postponement(s) thereof.

FOR

AGAINST

ABSTAIN

IMPORTANT: When signing as attorney, executor, administrator, trustee or guardian, please give your full title as such. In the case of JOINT HOLDERS, all should sign.

Dated: \_\_\_\_\_, 2004

-----

-----

(Signature)

-----

(Signature)

PLEASE ACT PROMPTLY. SIGN, DATE & MAIL YOUR PROXY CARD TODAY.

Edgar Filing: PENN TREATY AMERICAN CORP - Form DEF 14A

TO VOTE BY MAIL, PLEASE DETACH PROXY CARD HERE

R  
E  
V  
O  
C  
A  
B  
L  
E  
  
P  
R  
O  
X  
Y

PENN TREATY AMERICAN CORPORATION ANNUAL MEETING  
OF SHAREHOLDERS - May 28, 2004

This Proxy is solicited on Behalf of the Board of Directors

Francis R. Grebe, Peter M. Ross and Domenic P. Stangherlin, each with the power of substitution and with all the powers and discretion the undersigned would have if personally present, are hereby appointed the Proxy Agents to represent the undersigned at the Annual Meeting of Shareholders of Penn Treaty American Corporation (the "Company") to be held at 9:00 A.M., prevailing local time on May 28, 2004 (the "Meeting"), including any adjournments thereof, and to vote all shares of stock of the Company which the undersigned is entitled to vote on all matters that properly come before the Meeting, subject to any directions indicated in the boxes below. Indicate your vote by placing an [X] in the appropriate box.

SHARES REPRESENTED BY ALL PROPERLY EXECUTED PROXIES WILL BE VOTED AT THE ANNUAL MEETING IN THE MANNER SPECIFIED. IF PROPERLY EXECUTED AND RETURNED, AND NO SPECIFICATION IS MADE, VOTES WILL BE CAST "FOR" ALL ITEMS ON THE PROXY. Receipt of the Notice of the Annual Meeting of Shareholders and the Proxy Statement dated April 27, 2004 are hereby acknowledged.

CONTINUED AND TO BE SIGNED ON REVERSE SIDE  
SEE REVERSE SIDE