



OFFICE OF INSURANCE REGULATION

FILED

JUN 4 2007

KEVIN M. McCARTY
COMMISSIONER

Handled by: _____

BB

IN THE MATTER OF:

CASE NO.: 90386-07

PENN TREATY NETWORK AMERICA
INSURANCE COMPANY

ORDER

TO: Cameron B. Waite, Executive Vice President
Penn Treaty Network America Insurance Company
3440 Lehigh Street
Allentown, PA 18103-7001

THIS CAUSE came on for consideration as a result of the failure of PENN TREATY NETWORK AMERICA INSURANCE COMPANY (hereinafter referred to as "PENN TREATY") to comply with the terms of a Consent Order executed between PENN TREATY and the OFFICE OF INSURANCE REGULATION (hereinafter referred to as the "OFFICE") on November 15, 2006 (hereinafter referred to as the "November 2006 Consent Order"). The OFFICE, having considered this matter and being fully advised in the premises, finds as follows:

1. Attached as Exhibit "A" is the November 2006 Consent Order.
2. Section 624.424(8)(a), Florida Statutes, states in part that, "all authorized insurers must have conducted an annual audit by an independent certified public accountant and must file an audited financial report with the office on or before June 1 for the preceding year ending December 31....The office may immediately suspend an insurer's certificate of authority by order

subsection or rule adopted pursuant thereto creates a significant uncertainty as to the insurer's continuing eligibility for a certificate of authority."

3. Section 624.421(1)(a), Florida Statutes, states that "suspension of an insurer's certificate of authority shall be for a fixed period of time not to exceed 2 years."

4. In Paragraph 6 of the November 2006 Consent Order, PENN TREATY agreed that it would report all future required state filings by the required due dates, unless first approved by the OFFICE. Further, PENN TREATY agreed that failure to timely file Florida required state filings without the prior approval of the OFFICE shall be grounds for the automatic suspension of PENN TREATY's Florida Certificate of Authority.

5. PENN TREATY has failed to file its audited financial report which was due by June 1, 2007, and consequently, has failed to comply with Paragraph 6 of the November 2006 Consent Order. PENN TREATY also did not timely file audited financial reports that were due on June 1, 2005, and June 1, 2006.

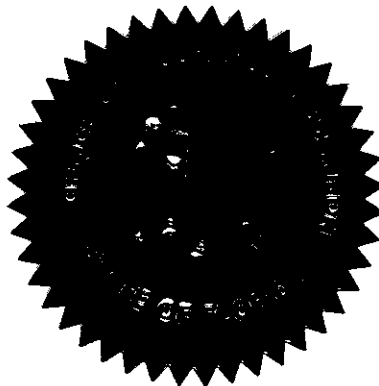
6. PENN TREATY has not complied with the November 2006 Consent Order and has failed to comply with the financial reporting requirements of Section 624.424(8), Florida Statutes. Additionally, this is PENN TREATY's third consecutive violation of Section 624.424(8), Florida Statutes. For these reasons, and in accordance with Section 624.421, Florida Statutes, PENN TREATY's certificate of authority is suspended for a period of twelve (12) months from the date of execution of this Order.

7. If, upon the expiration of the twelve (12) month period, PENN TREATY has fully complied with all required state filings and is otherwise in compliance with the Florida Statutes, the OFFICE will reinstate PENN TREATY's certificate of authority.

8. Pursuant to the provisions of Section 624.421(3), Florida Statutes, if, upon the expiration of the twelve (12) month period, the OFFICE finds that PENN TREATY is not in compliance with the requirements of this code, including all required state filings, and in particular, the financial reporting requirements of Section 624.424(8)(a), Florida Statutes, PENN TREATY's certificate of authority shall be deemed to have expired as of the end of the suspension period.

9. Pursuant to Section 624.421(2), Florida Statutes, during the period of suspension, PENN TREATY shall file with the OFFICE all documents and information and pay all license fees and taxes as required under this code as if the certificate had continued in full force.

DONE and ORDERED this 4th day of June, 2007.



A handwritten signature in black ink, reading "Kevin M. McCarty", is written over a horizontal line.

Kevin M. McCarty
Commissioner
Office of Insurance Regulation

NOTICE OF RIGHTS

Pursuant to Sections 120.569 and 120.57, Florida Statutes and Rule Chapters 28-106 and 28-107, Florida Administrative Code (F.A.C.), you may have a right to request a proceeding to contest this action by the Office of Insurance Regulation (hereinafter the "Office"). You may request a proceeding by filing a Petition. Your Petition for a proceeding must be in writing and must be filed with the General Counsel acting as the Agency Clerk, Office of Insurance Regulation. If served by U.S. Mail the Petition should be addressed to the Florida Office of Insurance Regulation at 612 Larson Building, Tallahassee, Florida 32399-4206. If Express Mail or hand-delivery is utilized, the Petition should be delivered to 612 Larson Building, 200 East Gaines Street, Tallahassee, Florida 32399-0300. The written Petition must be received by, and filed in the Office no later than 5:00 p.m. on the twenty-first (21) day after your receipt of this notice. Unless your Petition challenging this action is received by the Office within twenty-one (21) days from the date of the receipt of this notice, the right to a proceeding shall be deemed waived. Mailing the response on the twenty-first day will not preserve your right to a hearing.

If a proceeding is requested and there is no dispute of material fact the provisions of Section 120.57(2), Florida Statutes would apply. In this regard you may submit oral or written evidence in opposition to the action taken by this agency or a written statement challenging the grounds upon which the agency has relied. While a hearing is normally not required in the absence of a dispute of fact, if you feel that a hearing is necessary one will be conducted in Tallahassee, Florida or by telephonic conference call upon your request.

If you dispute material facts, which are the basis for this agency's action, you may request a formal adversarial proceeding pursuant to Sections 120.569 and 120.57(1), Florida Statutes. If you request this type of proceeding, the request must comply with all of the requirements of Rule Chapter 28-106.201, F.A.C., must demonstrate that your substantial interests have been affected by this agency's action, and must contain:

- a) A statement of all disputed issues of material fact. If there are none, the petition must so indicate;
- b) A concise statement of the ultimate facts alleged, including the specific facts the Petitioner contends warrant reversal or modification of the agency's proposed action;
- c) A statement of the specific rules or statutes the petitioner contends require reversal or modification of the agency's proposed action; and
- d) A statement of the relief sought by the petitioner, stating precisely the action Petitioner wishes the agency to take with respect to the agency's proposed action.

These proceedings are held before a State hearing officer of the Division of Administrative Hearings. Unless the majority of witnesses are located elsewhere, the Office will request that the hearing be conducted in Tallahassee.

In some instances you may have additional statutory rights than the ones described herein.

Failure to follow the procedure outlined with regard to your response to this notice may result in the request being denied. Any request for administrative proceeding received prior to the date of this notice shall be deemed abandoned unless timely renewed in compliance with the guidelines as set out above.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of this ORDER was sent by Certified Mail to, Cameron B. Waite, Penn Treaty Network America Insurance Company, 3440 Lehigh Street, Allentown, PA 18103-7001, this 4th day of June, 2007.



Amanda Parnell
Assistant General Counsel
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-4206
(850) 413-4281

COPIES FURNISHED TO:

Norman E. Taplin, Esq.
Regions Bank Tower, Suite 1510
1555 Palm Beach Lakes Boulevard
West Palm Beach, Florida 33401



OFFICE OF INSURANCE REGULATION

KEVIN MCCARTY
COMMISSIONER

FILED

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~~CONFIDENTIAL~~ SPB

IN THE MATTER OF:

PENN TREATY NETWORK AMERICA
INSURANCE COMPANY

CASE NO.: 88045-06-CO

CONSENT ORDER

THIS CAUSE came on to be considered upon the request by PENN TREATY NETWORK AMERICA INSURANCE COMPANY (hereinafter referred to as "PENN TREATY") to the FLORIDA OFFICE OF INSURANCE REGULATION (hereinafter referred to as the ("OFFICE")) for approval to resume writing business. After a complete review of the entire record and upon consideration thereof, and otherwise being fully advised in the premises, the OFFICE hereby finds as follows:

1. The OFFICE has jurisdiction over the subject matter and of the parties herein.
2. PENN TREATY is a foreign insurer, domiciled in the State of Pennsylvania, that holds a Florida Certificate of Authority and is subject to the jurisdiction and regulation of the OFFICE pursuant to the Florida Insurance Code.
3. PENN TREATY, in accordance with Paragraph 6 of Consent Order 87073-06, which was extended by Order 87815-06-CO, has filed its audited financial report. In addition to the audited financial report, PENN TREATY has filed a letter from its independent auditor BDO Seidman, LLP, attached as Exhibit "A", which states that their audit included a review of all

A

guidance under SAP 61 and Appendix A-791 and that PENN TREATY'S accounting is in compliance with SAP 61 and Appendix A-791.

4. In consideration of the above, the OFFICE and PENN TREATY agree that, in accordance with Paragraph 5 of Consent Order 87073-06, PENN TREATY can resume writing business in Florida subject to the following:

(a) PENN TREATY shall submit monthly financial statements to the OFFICE on or before the twenty-fifth day subsequent to the last calendar day of the prior month unless prior written approval is received from the OFFICE. The financial information shall be on the National Association of Insurance Commissioners (hereinafter referred to as "NAIC") statement blanks and, at a minimum, shall consist of a jurat page, balance sheet, income statement, and statement of cash flow. Additionally, PENN TREATY shall file a supplemental schedule of premiums written for the State of Florida, as well as nationwide, broken down by new and renewal premiums.

(b) PENN TREATY shall at all times maintain a Risk-Based Capital Ratio in excess of 2.5 times its authorized control level risk-based capital.

(c) PENN TREATY shall notify the OFFICE immediately in writing of any change in the terms of PENN TREATY'S reinsurance contracts.

(d) PENN TREATY shall maintain continued utilization of at least a 75% quota share reinsurance program for new business issues unless prior approval is received in writing from the OFFICE.

(e) Any new reinsurance treaty shall be written in accordance with SAP 61 and Appendix A-791 or the current NAIC guidance in place at the time the treaty is written and

subject to independent compliance review by a firm or individual selected by the OFFICE at PENN TREATY'S expense if requested by the OFFICE.

(f) Total Florida gross new and renewal annual premium on a calendar year basis, before adjusting for reinsurance, shall not exceed \$48,000,000, such amount to be increased to reflect the anticipated impact of any future collected premium attributable to premium rate increases approved by the OFFICE. Any increase in this amount will be first submitted to and approved by the OFFICE prior to its inclusion. In determining gross annual premium for the purpose of this sub-paragraph, the premium limitation shall be calculated as reported on Schedule T of the NAIC reporting blanks. PENN TREATY shall monitor its monthly production reports and take action as needed so that the annual limitation is not exceeded.

(g) New business Florida premium writings for the remainder of 2006 (November and December) shall not exceed \$200,000 in total.

(h) Should A.M. Best Company or Standard & Poor's Corporation change their rating upward of PENN TREATY, or based upon evidence of PENN TREATY's increased financial strength, PENN TREATY may request and the OFFICE agrees to consider a review of the limitations found in this Consent Order, but such a request will not be made prior to six months from the execution of this Consent Order. Should either rating be lowered, or other deteriorating event occurs, the OFFICE may modify the provisions of this Consent Order which could include the suspension of new business writings. A deteriorating event could include, but is not limited to, suspension, limitation, or revocation of PENN TREATY'S authority in another state, provided such event as determined by the OFFICE is shown to have a potential adverse impact upon Florida policyholders.

(i) A copy of the 10K Securities and Exchange Commission (hereinafter referred to as "SEC") filing for year-end 2005 for Penn Treaty American Corporation shall be furnished to the OFFICE as soon as it is publicly available. Should that statement or subsequent SEC filing contain information of material concern not previously disclosed or if these filings, other examination or audit report reflect a qualified opinion for Penn Treaty American Corporation or contain information of material concern as determined in the sole discretion of the OFFICE, the OFFICE may order additional limitations of new business writings.

(j) PENN TREATY shall report to the OFFICE, Life and Health Financial Oversight, any time that it is named as a party defendant in a class action lawsuit, within fifteen (15) days after the class is certified and PENN TREATY shall include a copy of the complaint at the time it reports the class action lawsuit to the OFFICE.

(k) PENN TREATY shall develop and provide to the OFFICE as soon as practical a corrective action plan which will bring PENN TREATY into compliance with Section 624.408, Florida Statutes.

(l) Any public announcement of this agreement shall include a statement of the limitations.

5. The OFFICE'S decision to enter into this Consent Order was based on the reported financial condition of PENN TREATY as of August 31, 2006. Should the financial condition of PENN TREATY materially deteriorate, the OFFICE reserves its rights to modify the conditions in this Consent Order as it deems necessary.

6. PENN TREATY agrees that it will report all future required state filings by the required due dates, unless first approved by the OFFICE. Failure to timely file Florida required

state filings without the prior approval of the OFFICE shall be grounds for the automatic suspension of PENN TREATY'S Florida Certificate of Authority.

7. Upon written notification from the OFFICE to PENN TREATY of a perceived violation of paragraphs 4 (e), (f), (g), (h), (i) and (5) above, the OFFICE agrees to allow PENN TREATY a reasonable period of time, as determined by the OFFICE, in which to cure such violation prior to taking any action under this Consent Order, unless the OFFICE provides good and substantive reason that Florida policyholders may be in imminent peril as a result of such violation(s).

8. PENN TREATY'S 2005 Independent Audit Report which was due to be filed in Florida on June 1, 2006 was not filed until August 31, 2006. PENN TREATY'S MARCH 31, 2006 quarterly financial statement was due May 15, 2006 and was not received until June 15, 2006. Within 10 days of the execution of this Consent Order, PENN TREATY shall pay an administrative penalty of eight thousand one hundred dollars (\$8,100) for the late filings and three thousand dollars (\$3,000) for administrative costs for a total of eleven thousand one hundred dollars (\$11,100).

9. This Consent Order shall not be construed to apply to any matters not specifically addressed herein. PENN TREATY remains subject to all applicable conditions of the Florida Insurance Code.

10. PENN TREATY expressly waives a hearing in this matter, the making of Findings of Fact and Conclusions of Law by the OFFICE, and all further and other proceedings herein to which the parties may be entitled by law or rules of the OFFICE. PENN TREATY hereby knowingly and voluntarily waives all rights to challenge or to contest this order, in any

forum now available to them, including the right to any administrative proceeding, circuit or federal court action, or any appeal.

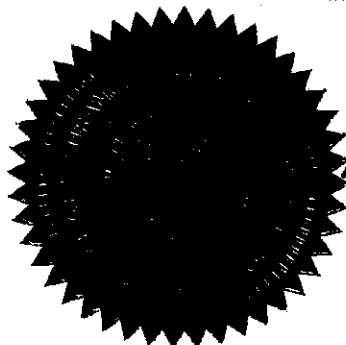
11. The parties agree that this Consent Order will be deemed to be executed when the Commissioner has signed a copy of this Consent Order bearing the signature of PENN TREATY or its authorized representative, notwithstanding the fact that the copy was transmitted to the OFFICE by facsimile machine or electronically. PENN TREATY agrees that the signature of its authorized representative as affixed to this Consent Order shall be under seal of Notary Public.

12. Failure to comply to one or more of the terms and conditions established herein shall result, without further proceedings, in the immediate suspension or revocation of PENN TREATY'S Florida Certificate of Authority pursuant to Sections 120.569(2)(n) and 120.60(6), Florida Statutes, or in such lesser penalties or sanctions as may be determined by the OFFICE in its sole discretion.

WHEREFORE, PENN TREATY'S request to resume writing business in the State of Florida, subject to the terms and conditions of this Consent Order, is hereby APPROVED.

FURTHER, all terms and conditions contained herein are hereby ORDERED.

DONE and ORDERED this 15TH day of NOVEMBER, 2006.




Kevin M. McCarty
Commissioner
Office of Insurance Regulation

By execution hereof, PENN TREATY NETWORK AMERICA INSURANCE COMPANY consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions therein. The undersigned represents that he has the authority to bind PENN TREATY NETWORK AMERICA INSURANCE COMPANY to the terms and conditions of this Consent Order.

PENN TREATY NETWORK AMERICA
INSURANCE COMPANY

Corporate Seal

By: [Signature]

Printed Name: CAMERON B WAITE

Title: EVP, STRATEGIC OPERATIONS

STATE OF Pennsylvania
COUNTY OF Lehigh

The foregoing instrument was acknowledged before me this 15th day of
November, 2006 by Cameron B. Waite as

EVP Strategic Operations
(Name of Person)
(type of authority...e.g. officer, trustee, attorney in fact)

for Penn Treaty Network America Ins. Co.

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Linda G. Carraghan, Notary Public
City Of Allentown, Lehigh County
My Commission Expires July 5, 2008
Member, Pennsylvania Association Of Notaries

[Signature]
(Signature of Notary)

LINDA G. CARRAGHAN
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known X OR Produced Identification _____
Type of Identification Produced _____

My Commission Expires:

COPIES FURNISHED TO:

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BDO Seidman, LLP
Accountants and Consultants

1700 Market Street, 29th Floor
Philadelphia, Pennsylvania 19103-9902
Telephone: (215) 696-9900
Fax: (215) 696-9901

October 13, 2006

The Audit Committee
Penn Treaty American Corporation
3440 Lehigh Street
Allentown, PA 18103
Attn: Mr. Alexander Clark
Audit Committee Chairman

Dear Audit Committee:

This letter is being furnished in response to a request from the Board of Directors (the "Board") of Penn Treaty Network America Insurance Company (the "Company") regarding the appropriate application of statutory accounting for the quota share reinsurance agreements, effective June 30 and October 1, 2005, with Imagine International Reinsurance Limited (the "Imagine Treaties").

The Company has filed its audited statutory financial statements as of, and for the year ended December 31, 2005 (the "Company's 2005 Statutory Financial Statements") with the state insurance departments to whose jurisdiction the Company is subject. At the Board's request, and in connection with the Company's 2005 Statutory Financial Statements and BDO's audit report thereon, BDO is making reference in this letter to specific statutory accounting literature related to the Imagine Treaties with which the Company was in compliance during fiscal 2005. These references to specific accounting literature are cited below and are in addition to the language from BDO's audit report and Note 2 from the Company's 2005 Statutory Financial Statements indicating that the Company's statutory "financial statements have been prepared in conformity with statutory accounting principles prescribed or permitted by the Insurance Department ("SAP")."

BDO's audit report dated August 31, 2006 on the Company's 2005 Statutory Financial Statements states the following:

"In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of the Company as of December 31, 2005, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 2."

Note 2 from the Company's 2005 statutory financial statements are also noted for your reference:



Note 2 - Basis of Presentation states (in part, with non-relevant items excluded):

"The accompanying financial statements have been prepared in conformity with statutory accounting principles prescribed or permitted by the Insurance Department ("SAP"). Prescribed SAP include, State laws, regulations and general administrative rules, as well as a variety of Publications of the National Association of Insurance Commissioners ("NAIC"). These practices differ from accounting principles generally accepted in the United States of America ("GAAP"). The significant differences are:

Reinsurance transactions are shown as a reduction of related direct amounts. Under GAAP, reinsurance transactions are shown gross on the balance sheet. While both SAP and GAAP require the transfer of risk to be treated as reinsurance accounting, GAAP further requires that the reinsurer possess a reasonable probability of material loss. Therefore, certain agreements meet the requirements to qualify as reinsurance under SAP, but not under GAAP"

The specific statutory accounting literature, with which the Company was in compliance, to support the appropriate application during fiscal 2005 of the statutory accounting for the Imagine Treaties is as follows:

The Company utilizes SAP as the basis of accounting for the Imagine Treaties. Our opinion, dated August 31, 2006, that the Company's accounting is in conformity with SAP included a review of all guidance under SAP 61 and Appendix A-791, including paragraph 2.F. of Appendix A-791. The Company has accounted for the transfer of all the significant risk regarding the categories required by Paragraph 2.F. for Health Insurance-LTC/LTD in its ceded reserves under the Imagine Treaties. This aforementioned accounting treatment is in compliance with SAP 61 and Appendix A-791.

This letter is intended solely for the information and use of the board of directors and the management of the Company and the state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than those specified parties.

Regards,

BDO Seidman, LLP

BDO Seidman, LLP