

TRIPLE-S MANAGEMENT CORP

Form 10-Q

August 04, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 001-33865

Triple-S Management Corporation

Puerto Rico

(State or other jurisdiction of
incorporation or organization)

66-0555678

(I.R.S. Employer Identification No.)

1441 F.D. Roosevelt Avenue

San Juan, Puerto Rico

(Address of principal executive offices)

00920

(Zip code)

(787) 749-4949

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of each class	Outstanding at July 22, 2010
Common Stock Class A, \$1.00 par value	9,042,809
Common Stock Class B, \$1.00 par value	20,124,664

Triple-S Management Corporation
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Table of Contents**Part I Financial Information****Item 1. Financial Statements****Triple-S Management Corporation***Consolidated Balance Sheets (Unaudited)**(Dollar amounts in thousands, except per share data)*

	June 30, 2010	December 31, 2009
Assets		
Investments and cash:		
Equity securities held for trading, at fair value	\$ 41,643	\$ 43,909
Securities available for sale, at fair value:		
Fixed maturities	998,419	918,977
Equity securities	65,250	64,689
Securities held to maturity, at amortized cost:		
Fixed maturities	14,942	15,794
Policy loans	6,054	5,940
Cash and cash equivalents	34,303	40,376
Total investments and cash	1,160,611	1,089,685
Premiums and other receivables, net	335,121	272,932
Deferred policy acquisition costs and value of business acquired	140,456	139,917
Property and equipment, net	73,693	68,803
Deferred tax asset	28,305	37,551
Other assets	32,388	39,816
Total assets	\$ 1,770,574	\$ 1,648,704

Liabilities and Stockholders Equity

Claim liabilities	411,410	360,446
Liability for future policy benefits	229,097	222,619
Unearned premiums	93,256	108,342
Policyholder deposits	49,643	47,563
Liability to Federal Employees Health Benefits Program (FEHBP)	12,024	13,002
Accounts payable and accrued liabilities	140,423	139,161
Deferred tax liability	12,304	11,088
Short-term borrowings	17,695	
Long-term borrowings	166,847	167,667
Liability for pension benefits	40,739	41,044
Total liabilities	1,173,438	1,110,932

Stockholders equity:

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Common stock Class A, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 9,042,809 at June 30, 2010 and December 31, 2009	9,043	9,043
Common stock Class B, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 20,110,391 shares at June 30, 2010 and December 31, 2009, respectively	20,110	20,110
Additional paid-in capital	159,981	159,303
Retained earnings	387,141	360,892
Accumulated other comprehensive income (loss)	20,861	(11,576)
Total stockholders' equity	597,136	537,772
Total liabilities and stockholders' equity	\$ 1,770,574	\$ 1,648,704

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**Triple-S Management Corporation***Consolidated Statements of Earnings (Unaudited)**(Dollar amounts in thousands, except per share data)*

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Revenues:				
Premiums earned, net	\$ 502,761	\$ 463,072	\$ 996,938	\$ 914,509
Administrative service fees	12,166	11,319	24,664	20,185
Net investment income	12,671	13,360	25,094	25,901
Total operating revenues	527,598	487,751	1,046,696	960,595
Net realized investment losses:				
Total other-than-temporary impairment losses on securities	(761)	(3,052)	(2,616)	(5,713)
Net realized gains, excluding other-than-temporary impairment losses on securities	2,194	1,427	2,670	2,361
Total net realized investment gains (losses)	1,433	(1,625)	54	(3,352)
Net unrealized investment (loss) gain on trading securities				
	(6,010)	5,652	(3,980)	3,176
Other (expense) income, net	(324)	704	(172)	325
Total revenues	522,697	492,482	1,042,598	960,744
Benefits and expenses:				
Claims incurred	424,838	395,271	850,666	788,756
Operating expenses	76,720	68,603	153,591	136,855
Total operating costs	501,558	463,874	1,004,257	925,611
Interest expense	3,372	3,357	6,600	6,621
Total benefits and expenses	504,930	467,231	1,010,857	932,232
Income before taxes	17,767	25,251	31,741	28,512
Income tax expense (benefit):				
Current	4,877	9,090	8,421	9,541
Deferred	(2,167)	(2,499)	(2,929)	(3,621)
Total income taxes	2,710	6,591	5,492	5,920
Net income	\$ 15,057	\$ 18,660	\$ 26,249	\$ 22,592

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Basic net income per share	\$ 0.52	\$ 0.64	\$ 0.90	\$ 0.76
Diluted net income per share	\$ 0.51	\$ 0.63	\$ 0.90	\$ 0.76

See accompanying notes to unaudited consolidated financial statements.

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Table of Contents**Triple-S Management Corporation***Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) (Unaudited)**(Dollar amounts in thousands, except per share data)*

	2010	2009
Balance at January 1	\$ 537,772	\$ 485,099
Share-based compensation	678	2,452
Grant of restricted Class B common stock		27
Repurchase and retirement of common stock		(22,034)
Comprehensive income (loss):		
Net income	26,249	22,592
Net unrealized change in fair value of available for sale securities, net of taxes	31,843	(733)
Defined benefit pension plan:		
Actuarial loss, net	730	664
Prior service credit, net	(136)	(130)
Total comprehensive income (loss)	58,686	22,393
Balance at June 30	\$ 597,136	\$ 487,937

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**Triple-S Management Corporation***Consolidated Statements of Cash Flows (Unaudited)**(Dollar amounts in thousands, except per share data)*

	Six months ended	
	June 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 26,249	\$ 22,592
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,964	4,219
Net amortization of investments	1,683	367
Provision for doubtful receivables	5,048	7,012
Deferred tax benefit	(2,929)	(3,621)
Net realized investment (gain) loss on sale of securities	(54)	3,352
Net unrealized loss (gain) on trading securities	3,980	(3,176)
Share-based compensation	678	2,479
Proceeds from trading securities sold:		
Equity securities	2,706	2,419
Acquisition of securities in trading portfolio:		
Equity securities	(4,124)	(2,609)
(Increase) decrease in assets:		
Premium and other receivables, net	(67,174)	(19,015)
Deferred policy acquisition costs and value of business acquired	(539)	(4,964)
Other assets	13,049	12,292
Increase (decrease) in liabilities:		
Claim liabilities	50,964	40,204
Liability for future policy benefits	6,478	7,681
Unearned premiums	(15,086)	(13,361)
Policyholder deposits	267	457
Liability to FEHBP	(978)	(2,758)
Accounts payable and accrued liabilities	4,412	(4,442)
Net cash provided by operating activities	31,594	49,128

(Continued)

Table of Contents**Triple-S Management Corporation***Consolidated Statements of Cash Flows (Unaudited)**(Dollar amounts in thousands, except per share data)*

	Six months ended June 30,	
	2010	2009
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	\$ 43,443	\$ 114,876
Fixed maturities matured/called	58,312	123,995
Equity securities	14,685	1,629
Securities held to maturity:		
Fixed maturities matured/called	1,276	2,915
Acquisition of investments:		
Securities available for sale:		
Fixed maturities	(143,742)	(250,641)
Equity securities	(17,285)	(2,286)
Fixed maturity securities held to maturity	(250)	
Net outflows for policy loans	(114)	(70)
Net capital expenditures	(10,197)	(8,876)
Net cash used in investing activities	(53,872)	(18,458)
Cash flows from financing activities:		
Change in outstanding checks in excess of bank balances	(2,483)	(10,143)
Change in short-term borrowings	17,695	
Repayments of long-term borrowings	(820)	(820)
Repurchase and retirement of common stock		(22,034)
Proceeds from policyholder deposits	5,772	2,547
Surrenders of policyholder deposits	(3,959)	(3,616)
Net cash provided by (used in) financing activities	16,205	(34,066)
Net decrease in cash and cash equivalents	(6,073)	(3,396)
Cash and cash equivalents:		
Beginning of period	40,376	46,095
End of period	\$ 34,303	\$ 42,699

See accompanying notes to unaudited consolidated financial statements.

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Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

(1) Basis of Presentation

The accompanying consolidated interim financial statements prepared by Triple-S Management Corporation and its subsidiaries are unaudited. In this filing, the Corporation, the Company, TSM, we, us and our refer to Triple-S Management Corporation and its subsidiaries. The consolidated interim financial statements do not include all of the information and the footnotes required by accounting principles generally accepted in the U.S. (GAAP) for complete financial statements. These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2009.

Certain amounts in the 2009 consolidated statement of earnings were reclassified to conform to the 2010 presentation.

In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for a fair statement of such consolidated interim financial statements have been included. The results of operations for the three months and six months ended June 30, 2010 are not necessarily indicative of the results for the full year.

(2) Recent Accounting Standards

In April 2010, the FASB issued guidance to address the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. The guidance clarifies that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, such an award should not be classified as a liability if it otherwise qualifies as equity. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2010. We do not expect the adoption of this guidance to have an impact on our financial position or results of operations.

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the six months ended June 30, 2010 that could have a material impact on the Corporation's financial position, operating results or financials statement disclosures.

Table of Contents**Triple-S Management Corporation***Notes to Consolidated Financial Statements**(Dollar amounts in thousands, except per share data)*

(Unaudited)

(3) Segment Information

The operations of the Corporation are conducted principally through three business segments: Managed Care, Life Insurance, and Property and Casualty Insurance. The Corporation evaluates performance based primarily on the operating revenues and operating income of each segment. Operating revenues include premiums earned, net, administrative service fees and net investment income. Operating costs include claims incurred and operating expenses. The Corporation calculates operating income or loss as operating revenues less operating costs.

The following tables summarize the operations by major operating segment for the three months and six months ended June 30, 2010 and 2009:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Operating revenues:				
Managed Care:				
Premiums earned, net	\$ 451,688	\$ 414,077	\$ 894,747	\$ 816,701
Administrative service fees	12,166	11,319	24,664	20,185
Intersegment premiums /service fees	1,516	1,495	3,068	2,948
Net investment income	5,075	5,376	10,037	10,518
Total managed care	470,445	432,267	932,516	850,352
Life Insurance:				
Premiums earned, net	25,998	25,148	51,804	49,553
Intersegment premiums	96	94	194	185
Net investment income	4,240	4,383	8,446	8,387
Total life insurance	30,334	29,625	60,444	58,125
Property and Casualty Insurance:				
Premiums earned, net	25,075	23,846	50,387	48,254
Intersegment premiums	154	154	307	307
Net investment income	2,868	2,984	5,603	5,785
Total property and casualty insurance	28,097	26,984	56,297	54,346
Other segments intersegment service revenues *	14,171	13,210	27,675	25,114
Total business segments	543,047	502,086	1,076,932	987,937
TSM operating revenues from external sources	488	618	1,008	1,212
Elimination of intersegment premiums	(1,766)	(1,743)	(3,569)	(3,440)
Elimination of intersegment service fees	(14,171)	(13,210)	(27,675)	(25,114)
Consolidated operating revenues	\$ 527,598	\$ 487,751	\$ 1,046,696	\$ 960,595

- * Includes segments that are not required to be reported separately. These segments include the data processing services organization as well as the third-party administrator of managed care services.

Table of Contents**Triple-S Management Corporation***Notes to Consolidated Financial Statements**(Dollar amounts in thousands, except per share data)*

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Operating income:				
Managed care	\$ 18,467	16,207	\$ 31,115	21,982
Life insurance	4,688	3,912	8,526	6,946
Property and casualty insurance	1,971	2,802	1,069	4,149
Other segments *	311	235	498	362
Total business segments	25,437	23,156	41,208	33,439
TSM operating revenues from external sources	488	618	1,008	1,212
TSM unallocated operating expenses	(2,211)	(2,166)	(4,424)	(4,470)
Elimination of TSM intersegment charges	2,326	2,269	4,647	4,803
Consolidated operating income	26,040	23,877	42,439	34,984
Consolidated net realized investment gains (losses)	1,433	(1,625)	54	(3,352)
Consolidated net unrealized gain (loss) on trading securities	(6,010)	5,652	(3,980)	3,176
Consolidated interest expense	(3,372)	(3,357)	(6,600)	(6,621)
Consolidated other income (expense), net	(324)	704	(172)	325
Consolidated income before taxes	\$ 17,767	25,251	\$ 31,741	28,512
Depreciation expense:				
Managed care	3,162	1,413	5,390	2,728
Life insurance	168	165	337	310
Property and casualty insurance	406	378	805	750
Total business segments	3,736	1,956	6,532	3,788
TSM depreciation expense	216	216	432	431
Consolidated depreciation expense	\$ 3,952	2,172	\$ 6,964	4,219

* Includes segments that are not required to be reported separately. These segments include the data processing services

organization as well as the third-party administrator of managed care services.

Table of Contents**Triple-S Management Corporation***Notes to Consolidated Financial Statements**(Dollar amounts in thousands, except per share data)*

(Unaudited)

	June 30, 2010	December 31, 2009
Assets:		
Managed care	\$ 836,985	\$ 746,674
Life insurance	518,084	487,290
Property and casualty insurance	349,579	351,793
Other segments *	14,605	14,193
Total business segments	1,719,253	1,599,950
Unallocated amounts related to TSM:		
Cash, cash equivalents, and investments	45,503	39,029
Property and equipment, net	21,491	21,577
Other assets	3,172	4,780
	70,166	65,386
Elimination entries-intersegment receivables and others	(18,845)	(16,632)
Consolidated total assets	\$ 1,770,574	\$ 1,648,704

* Includes segments that are not required to be reported separately. These segments include the data processing services organization as well as the third-party administrator of managed care services.

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Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

(4) Investment in Securities

The amortized cost for debt securities and cost for equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for trading, available-for-sale and held-to-maturity securities by major security type and class of security at June 30, 2010 and December 31, 2009, were as follows:

	June 30, 2010			
	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Trading securities:				
Equity securities	\$ 43,789	\$ 4,912	\$ (7,058)	\$ 41,643
	December 31, 2009			
	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Trading securities:				
Equity securities	\$ 42,075	\$ 7,064	\$ (5,230)	\$ 43,909
	June 30, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Fixed maturities:				
Obligations of government- sponsored enterprises	\$ 197,377	\$ 11,010	\$	\$ 208,387
U.S. Treasury securities and obligations of U.S. government instrumentalities	47,813	6,502		54,315
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	152,102	4,090	(146)	156,046
Municipal securities	200,999	6,929	(275)	207,653
Corporate bonds	101,061	10,033	(31)	111,063
Residential mortgage-backed securities	15,089	1,003	(3)	16,089
Collateralized mortgage obligations	236,839	8,490	(463)	244,866
Total fixed maturities	951,280	48,057	(918)	998,419
Equity securities:				
Common stocks	900	2,920		3,820
Preferred stocks	4,386	67	(1,285)	3,168
Perpetual preferred stocks	1,075		(146)	929
Mutual funds	57,676	2,036	(2,379)	57,333
Total equity securities	64,037	5,023	(3,810)	65,250
Total	\$ 1,015,317	\$ 53,080	\$ (4,728)	\$ 1,063,669

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Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

	December 31, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Fixed maturities:				
Obligations of government- sponsored enterprises	\$ 252,513	\$ 2,240	\$ (3,325)	\$ 251,428
U.S. Treasury securities and obligations of U.S. government instrumentalities	48,190	3,148		51,338
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	154,754	3,113	(1,919)	155,948
Municipal securities	107,441	1,117	(1,851)	106,707
Corporate bonds	102,547	3,546	(728)	105,365
Residential mortgage-backed securities	16,605	677	(1)	17,281
Collateralized mortgage obligations	229,312	4,237	(2,639)	230,910
Total fixed maturities	911,362	18,078	(10,463)	918,977
Equity securities:				
Common stocks	4,074	3,435		7,509
Preferred stocks	4,000		(1,325)	2,675
Perpetual preferred stocks	2,849		(270)	2,579
Mutual funds	50,608	4,150	(2,832)	51,926
Total equity securities	61,531	7,585	(4,427)	64,689
Total	\$ 972,893	\$ 25,663	\$ (14,890)	\$ 983,666

	June 30, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
Obligations of government- sponsored enterprises	\$ 2,303	\$ 172	\$	\$ 2,475
U.S. Treasury securities and obligations of U.S. government instrumentalities	1,480	265		1,745
Corporate bonds	9,250	561		9,811
Residential mortgage-backed securities	893	47		940
Certificates of deposit	1,016			1,016
Total	\$ 14,942	\$ 1,045	\$	\$ 15,987

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Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

		December 31, 2009		
	Amortized	Gross	Gross	Estimated
	cost	unrealized	unrealized	fair value
		gains	losses	
Securities held to maturity:				
Obligations of government- sponsored enterprises	\$ 925	\$ 6	\$	\$ 931
U.S. Treasury securities and obligations of U.S. government instrumentalities	3,786	132		3,918
Corporate bonds	9,063	534		9,597
Residential mortgage-backed securities	1,256	25	(1)	1,280
Certificates of deposit	764			764
Total	\$ 15,794	\$ 697	\$ (1)	\$ 16,490

Gross unrealized losses on investment securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2010 and December 31, 2009 were as follows:

	Less than 12 months			June 30, 2010			Total		
	Gross		Number	12 months or longer		Number	Gross		Number
	Estimated	Unrealized	of	Estimated	Unrealized	of	Estimated	Unrealized	of
	Fair	Loss	Securities	Fair	Loss	Securities	Fair	Loss	Securities
	Value	Loss	Securities	Value	Loss	Securities	Value	Loss	Securities
Securities available for sale:									
Fixed maturities:									
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	2,135	(1)	6	7,318	(145)	5	9,453	(146)	11
Municipal securities	15,642	(274)	13	183	(1)	1	15,825	(275)	14
Corporate bonds	1,998	(31)	1				1,998	(31)	1
Residential mortgage-backed securities	389	(1)	1	36	(2)	1	425	(3)	2
Collateralized mortgage obligations	14,255	(201)	8	4,468	(262)	4	18,723	(463)	12
Total fixed maturities	34,419	(508)	29	12,005	(410)	11	46,424	(918)	40

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Equity securities:									
Preferred stocks				2,715	(1,285)	1	2,715	(1,285)	1
Perpetual preferred stocks				854	(146)	1	854	(146)	1
Mutual funds	18,443	(1,604)	11	18,542	(775)	10	36,985	(2,379)	21
Total equity securities	18,443	(1,604)	11	22,111	(2,206)	12	40,554	(3,810)	23
Total for securities available for sale	\$ 52,862	\$ (2,112)	40	\$ 34,116	\$ (2,616)	23	\$ 86,978	\$ (4,728)	63

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Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

	Less than 12 months			December 31, 2009			Total		
	Gross		Number	Gross		Number	Gross		Number
	Estimated Fair Value	Unrealized Loss	of Securities	Estimated Fair Value	Unrealized Loss	of Securities	Estimated Fair Value	Unrealized Loss	of Securities
Securites available for sale:									
Fixed maturities:									
Obligations of government-sponsored enterprises	\$ 110,602	\$ (2,264)	21	\$ 25,468	\$ (1,061)	5	\$ 136,070	\$ (3,325)	26
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	12,944	(201)	10	58,866	(1,718)	22	71,810	(1,919)	32
Municipal securities	62,292	(1,841)	39	173	(10)	1	62,465	(1,851)	40
Corporate bonds	10,997	(215)	4	7,975	(513)	6	18,972	(728)	10
Residential mortgage-backed securities				36	(1)	1	36	(1)	1
Collateralized mortgage obligations	101,265	(1,732)	21	7,171	(907)	10	108,436	(2,639)	31
Total fixed maturities	298,100	(6,253)	95	99,689	(4,210)	45	397,789	(10,463)	140
Equity securities:									
Preferred stocks				2,675	(1,325)	1	2,675	(1,325)	1
Perpetual preferred stocks				730	(270)	1	730	(270)	1
Mutual funds	9,994	(907)	4	21,667	(1,925)	15	31,661	(2,832)	19
Total equity securities	9,994	(907)	4	25,072	(3,520)	17	35,066	(4,427)	21
Total for securities available for sale	\$ 308,094	\$ (7,160)	99	\$ 124,761	\$ (7,730)	62	\$ 432,855	\$ (14,890)	161
Securities held to maturity:									

Residential
mortgage-backed
securities

\$ \$ \$ 55 \$ (1) 1 \$ 55 \$ (1) 1

The Corporation regularly monitors and evaluates the difference between the cost and estimated fair value of investments. For investments with a fair value below cost, the process includes evaluating: (1) the length of time and the extent to which the estimated fair value has been less than amortized cost for fixed maturity securities, or cost for equity securities, (2) the financial condition, near-term and long-term prospects for the issuer, including relevant industry conditions and trends, and implications of rating agency actions, (3) the Corporation's intent to sell or the likelihood of a required sale prior to recovery, (4) the recoverability of principal and interest for fixed maturity securities, or cost for equity securities, and (5) other factors, as applicable. This process is not exact and further requires consideration of risks such as credit and interest rate risks. Consequently, if an investment's cost exceeds its estimated fair value solely due to changes in interest rates, other-than temporary impairment may not be appropriate. Due to the subjective nature of the Corporation's analysis, along with the judgment that must be applied in the analysis, it is possible that the Corporation could reach a different conclusion whether or not to impair a security if it had access to additional information about the investee. Additionally, it is possible that the investee's ability to meet future contractual obligations may be different than what the Corporation determined during its analysis, which may lead to a different impairment conclusion in future periods. If after monitoring and analyzing impaired securities, the Corporation determines that a decline in the estimated fair value of any available-for-sale security below cost is other-than-temporary, the carrying amount of equity securities is reduced to its fair value and of fixed maturity securities is reduced by the credit component of the other-than-temporary impairment. When a decline in the estimated fair value of any held-to-maturity security below cost is deemed other-than-temporary, the carrying amount of the security is reduced by the other-than-temporary impairment. The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an other-than-temporary impairment, the impaired security is accounted for as if it had been purchased on the measurement date of the impairment. For debt securities, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield.

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Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

The Corporation's process for identifying and reviewing invested assets for other-than temporary impairments during any quarter includes the following:

Identification and evaluation of securities that have possible indications of other-than-temporary impairment, which includes an analysis of all investments with gross unrealized investment losses that represent 20% or more of their cost and all investments with an unrealized loss greater than \$50.

Review and evaluation of any other security based on the investee's current financial condition, liquidity, near-term recovery prospects, implications of rating agency actions, the outlook for the business sectors in which the investee operates and other factors. This evaluation is in addition to the evaluation of those securities with a gross unrealized investment loss representing 20% or more of their cost.

Consideration of evidential matter, including an evaluation of factors or triggers that may or may not cause individual investments to qualify as having other-than-temporary impairments; and

Determination of the status of each analyzed security as other-than-temporary or not, with documentation of the rationale for the decision.

The Corporation continually reviews its investment portfolios under the Corporation's impairment review policy. Given the current market conditions and the significant judgments involved, there is a continuing risk that further declines in fair value may occur and additional material other-than-temporary impairments may be recorded in future periods.

Obligations of States of the United States and Political Subdivisions of the States, and Obligations of the Commonwealth of Puerto Rico and its Instrumentalities: The unrealized losses on the Corporation's investments in obligations of states of the U.S. and political subdivisions of the states, and in obligations of the Commonwealth of Puerto Rico and its instrumentalities were mainly caused by fluctuations in interest rates and general market conditions. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment. In addition, most of these investments have investment grade ratings. Because the decline in fair value is attributable to changes in interest rates and not credit quality; because the Corporation does not intend to sell the investments; it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost basis, which may be maturity; and because the Corporation expects to collect all contractual cash flows, these investments are not considered other-than-temporarily impaired.

Corporate Bonds: The unrealized losses of these bonds were principally caused by fluctuations in interest rates and general market conditions. The estimated fair value of these corporate bonds has improved during the six months ended June 30, 2010. In addition, these corporate bonds have investment grade ratings. Because the decline in estimated fair value is principally attributable to changes in interest rates, the Corporation does not intend to sell the investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, and because the Corporation expects to collect all contractual cash flows, these investments are not considered other-than-temporarily impaired.

Residential Mortgage-Backed Securities and Collateralized Mortgage Obligations: The unrealized losses on investments in residential mortgage-backed securities and collateralized mortgage obligations were mostly caused by fluctuations in interest rates and credit spreads. The contractual cash flows of these securities, other than private CMOs, are guaranteed by a U.S. government-sponsored enterprise. The Corporation also has investments in private CMOs. Any loss in these securities is determined according to the seniority level of each tranche, with the least senior (or most junior), typically the unrated residual tranche, taking any initial loss. The investment grade credit rating of our securities reflects the seniority of the securities that the Corporation owns. Because the decline in fair value is attributable to changes in interest rates and not credit quality, the Corporation does not intend to sell the investments

and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, and because the Corporation expects to collect all contractual cash flows, these investments are not considered other-than-temporarily impaired.

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Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

Preferred Stocks: Because the issuer's capital ratios are above regulatory levels, this particular instrument has a specified maturity, the issuer has continued dividend payments on this instrument and interest payments on all of its outstanding debt instruments, the issuer does not have the ability to call the security at a price lower than its stated value, the Corporation expects to collect all contractual cash flows, the Corporation does not have the intent to sell the investment, and it is not more likely than not that the Corporation will be required to sell the investment before market price recovery or maturity, this investment is not considered other-than-temporarily impaired.

Perpetual Preferred Stocks: This security has experienced a slight improvement in value during the six months ended June 30, 2010. The issuer's capital ratios are above regulatory levels, analysts' target price is above market price and book value as of March 31, 2010, the Corporation does not have the intent to sell the investment, and the Corporation has the intent and ability to hold the investments until a market price recovery, this investment is not considered other-than-temporarily impaired.

Mutual Funds: The unrealized losses in the Corporation's investment in mutual funds are in several mutual funds that in turn invested in fixed income securities and in broad market indices securities. We evaluated for other-than-temporary impairment these securities as follows:

Mutual funds invested in fixed income securities: The unrealized loss of each position in this category represents 6% or less of its book value. The Corporation evaluated the invested assets that compose the funds, which are mostly fixed income obligations of the Puerto Rico and U.S. government or its agencies. In Puerto Rico these mutual funds are exempt and have a higher dividend yield than investments in other Puerto Rico securities. As these mutual funds are invested in fixed income securities, they are susceptible to fluctuations in interest rates as well as supply and demand. Earlier in the year the mutual funds showed a relative underperformance when compared to the underlying assets because of a decrease in supply and demand, which caused the market price to be closer to the net asset value compared to where this relationship had been historically. Lately, the demand for these mutual funds has increased because of the high yield the funds offer. Because the current valuations are close to the funds' underlying assets, the funds' underlying assets are mostly on investment grade fixed income securities (mostly U.S. and Puerto Rico government and its agencies, which have been affected by general market conditions), and the Corporation has the intent and ability to hold the investments until a market price recovery, these investments are not considered other-than-temporarily impaired.

Broad market indices securities: The unrealized loss of each position in this category is less than 15% of its book value and is the result of fluctuations in equity markets. These positions are designed to mirror the behavior of the Standard & Poor's 500 and the Russell 1000 Value indices and have been with an unrealized loss for a period less than three months. Because there has been an improvement in the market price of these positions in the period subsequent to June 30, 2010, these positions have been with an unrealized loss for a very short time period, and the Corporation has the intent and ability to hold the investments until a market price recovery, these investments are not considered other-than-temporarily impaired.

Table of Contents**Triple-S Management Corporation**

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

Maturities of investment securities classified as available for sale and held to maturity at June 30, 2010 were as follows:

	Amortized cost	Estimated fair value
Securities available for sale:		
Due in one year or less	\$ 15,512	\$ 15,652
Due after one year through five years	80,603	84,048
Due after five years through ten years	254,302	267,586
Due after ten years	348,935	370,178
Residential mortgage-backed securities	15,089	16,089
Collateralized mortgage obligations	236,839	244,866
	\$ 951,280	\$ 998,419
Securities held to maturity:		
Due in one year or less	\$ 1,016	\$ 1,016
Due after one year through five years	9,249	9,810
Due after five years through ten years	510	519
Due after ten years	3,274	3,702
Residential mortgage-backed securities	893	940
	\$ 14,942	\$ 15,987

Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations with or without call or prepayment penalties.

Table of Contents**Triple-S Management Corporation***Notes to Consolidated Financial Statements**(Dollar amounts in thousands, except per share data)*

(Unaudited)

Information regarding realized and unrealized gains and losses from investments for the three months and six months ended June 30, 2010 and 2009 is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Realized gains (losses):				
Fixed maturity securities:				
Securities available for sale:				
Gross gains from sales	\$ 37	\$ 1,814	\$ 69	\$ 3,057
Gross losses from sales	(84)	(3)	(124)	(3)
Gross losses from other-than-temporary impairments			(95)	(1,152)
Total debt securities	(47)	1,811	(150)	1,902
Equity securities:				
Trading securities:				
Gross gains from sales	212	102	825	320
Gross losses from sales	(320)	(452)	(529)	(730)
	(108)	(350)	296	(410)
Securities available for sale:				
Gross gains from sales	2,906		2,986	
Gross losses from sales	(557)	(34)	(557)	(283)
Gross losses from other-than-temporary impairments	(761)	(3,052)	(2,521)	(4,561)
	1,588	(3,086)	(92)	(4,844)
Total equity securities	1,480	(3,436)	204	(5,254)
Net realized gains (losses) on securities	\$ 1,433	\$ (1,625)	\$ 54	\$ (3,352)

The other-than-temporary impairments on its fixed maturity securities are attributable to credit losses.

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Changes in net unrealized gains (losses):				
Recognized in income:				
Equity securities trading	\$ (6,010)	\$ 5,652	\$ (3,980)	\$ 3,176
Recognized in accumulated other comprehensive income (loss):				
Fixed maturities available for sale	27,950	4,405	39,524	(349)

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Equity securities available for sale	(6,325)	7,205	(1,945)	(509)
	\$ 21,625	\$ 11,610	\$ 37,579	\$ (858)
Not recognized in the consolidated financial statements:				
Fixed maturities held to maturity	\$ 251	\$ (369)	\$ 349	\$ (531)

The deferred tax liability/asset on unrealized gains and losses, respectively, recognized in accumulated other comprehensive income/ (loss) during the six months ended June 30, 2010 and 2009 aggregated to \$7,361 and \$125, respectively.

As of June 30, 2010 and December 31, 2009, no individual investment in securities exceeded 10% of stockholders equity.

Table of Contents**Triple-S Management Corporation***Notes to Consolidated Financial Statements**(Dollar amounts in thousands, except per share data)*

(Unaudited)

Components of net investment income were as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Fixed maturities	\$ 11,406	\$ 11,745	\$ 22,596	\$ 22,869
Equity securities	943	1,165	1,839	2,093
Policy loans	111	99	217	197
Cash equivalents and interest-bearing deposits	33	152	102	359
Other	178	199	340	383
Total	\$ 12,671	\$ 13,360	\$ 25,094	\$ 25,901

(5) Premiums and Other Receivables

Premiums and other receivables as of June 30, 2010 and December 31, 2009 were as follows:

	June 30,	December
	2010	31,
		2009
Premium	\$ 162,146	\$ 98,429
Self-funded group receivables	74,585	70,315
FEHBP	10,884	10,297
Agents balances	30,442	37,888
Accrued interest	9,601	9,287
Reinsurance recoverable	49,730	43,951
Other	28,015	27,999
	365,403	298,166
Less allowance for doubtful receivables:		
Premiums	23,417	20,280
Other	6,865	4,954
	30,282	25,234
Total premiums and other receivables	\$ 335,121	\$ 272,932

Table of Contents**Triple-S Management Corporation***Notes to Consolidated Financial Statements**(Dollar amounts in thousands, except per share data)*

(Unaudited)

(6) Claim Liabilities

The activity in the total claim liabilities for the three months and six months ended June 30, 2010 and 2009 is as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Claim liabilities at beginning of period	\$ 397,634	\$ 362,583	\$ 360,446	\$ 323,710
Reinsurance recoverable on claim liabilities	(31,955)	(29,387)	(30,712)	(30,432)
Net claim liabilities at beginning of period	365,679	333,196	329,734	293,278
Incurred claims and loss-adjustment expenses:				
Current period insured events	421,912	392,433	841,876	786,714
Prior period insured events	574	(655)	3,335	(4,603)
Total	422,486	391,778	845,211	782,111
Payments of losses and loss-adjustment expenses:				
Current period insured events	389,179	379,223	567,609	550,331
Prior period insured events	20,645	11,991	228,995	191,298
Total	409,824	391,214	796,604	741,629
Net claim liabilities at end of period	378,341	333,760	378,341	333,760
Reinsurance recoverable on claim liabilities	33,069	30,154	33,069	30,154
Claim liabilities at end of period	\$ 411,410	\$ 363,914	\$ 411,410	\$ 363,914

As a result of differences between actual amounts and estimates of insured events in prior periods, the amounts included as incurred claims for prior period insured events differ from anticipated claims incurred.

The amount of incurred claims and loss-adjustment expenses for prior period insured events for the three months and six months ended June 30, 2010 is due primarily to higher than expected utilization trends. The credits in the incurred claims and loss-adjustment expenses for prior period insured events for the three months and six months ended June 30, 2009 is due primarily to better than expected utilization trends.

Reinsurance recoverable on unpaid claims is reported as premium and other receivables, net in the accompanying consolidated financial statements. The claims incurred disclosed in this table exclude the change in the liability for future policy benefits expense, which amounted to \$2,352 and \$5,455, during the three months and six months ended June 30, 2010, respectively. The change in the liability for future policy benefits during the three months and six months ended June 30, 2009 amount to \$3,493 and 6,645, respectively.

Table of Contents**Triple-S Management Corporation***Notes to Consolidated Financial Statements**(Dollar amounts in thousands, except per share data)*

(Unaudited)

(7) Fair Value Measurements

Assets recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by FASB guidance for fair value measurements and disclosures, are as follows:

Level Input: Input Definition:

Level 1 Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The fair value information of financial instruments in the accompanying consolidated financial statements was determined as follows:

(i) Cash and Cash Equivalents

The carrying amount approximates fair value because of the short-term nature of such instruments.

(ii) Investment in Securities

The fair value of investment securities is estimated based on quoted market prices for those or similar investments. Additional information pertinent to the estimated fair value of investment in securities is included in note 4.

(iii) Policy Loans

Policy loans have no stated maturity dates and are part of the related insurance contract. The carrying amount of policy loans approximates fair value because their interest rate is reset periodically in accordance with current market rates.

(iv) Receivables, Accounts Payable and Accrued Liabilities

The carrying amount of receivables, accounts payable and accrued liabilities approximates fair value because they mature and should be collected or paid within 12 months after June 30, 2010.

(v) Policyholder Deposits

The fair value of policyholder deposits is the amount payable on demand at the reporting date, and accordingly, the carrying value amount approximates fair value.

(vi) Borrowings

The carrying amounts and fair value of the Corporation's borrowings are as follows:

	June 30, 2010		December 31, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans payable to bank	\$ 21,847	\$ 21,847	\$ 22,667	\$ 22,667
6.3% senior unsecured notes payable	50,000	49,725	50,000	48,000
6.6% senior unsecured notes payable	60,000	59,025	60,000	57,420
6.7% senior unsecured notes payable	35,000	34,470	35,000	33,320
Totals	\$ 166,847	\$ 165,067	\$ 167,667	\$ 161,407

Table of Contents**Triple-S Management Corporation***Notes to Consolidated Financial Statements**(Dollar amounts in thousands, except per share data)*

(Unaudited)

The carrying amount of the loans payable to bank approximates fair value due to its floating interest-rate structure. The fair value of the senior unsecured notes payable was determined using broker quotations. The carrying amount of short-term borrowings approximates fair value because of the short-term nature of such instruments.

(vii) Derivative Instruments

Current market pricing models were used to estimate fair value of structured notes agreements. Fair values were determined using market quotations provided by outside securities consultants or prices provided by market makers using observable inputs.

The following table summarizes fair value measurements by level at June 30, 2010 and December 31, 2009 for assets measured at fair value on a recurring basis:

	June 30, 2010			
	Level 1	Level 2	Level 3	Total
Equity securities held for trading	\$ 41,643	\$	\$	\$ 41,643
Securities available for sale:				
Fixed maturity securities				
Obligations of government-sponsored U.S. Treasury securities and obligations of U.S. government instrumentalities	54,315	208,387		208,387
Obligations of the Commonwealth of Puerto and its instrumentalities		156,046		156,046
Municipal securities		207,653		207,653
Corporate bonds		111,063		111,063
Residential agency mortgage-backed securities		16,089		16,089
Collateralized mortgage obligations		244,866		244,866
Total fixed maturities	54,315	944,104		998,419
Equity securities				
Common stocks	3,820			3,820
Preferred stocks	3,168			3,168
Perpetual preferred stocks	929			929
Mutual funds	10,527	46,107	699	57,333
Total equity securities	18,444	46,107	699	65,250
Derivatives (reported within other assets in the consolidated balance sheets)		735		735
Total	\$ 114,402	\$ 990,211	\$ 699	\$ 1,105,312

Table of Contents**Triple-S Management Corporation***Notes to Consolidated Financial Statements**(Dollar amounts in thousands, except per share data)*

(Unaudited)

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Equity securities held for trading	\$ 43,909	\$	\$	\$ 43,909
Securities available for sale:				
Fixed maturity securities				
Obligations of government-sponsored		251,428		251,428
U.S. Treasury securities and obligations of U.S				
government instrumentalities	51,338			51,338
Obligations of the Commonwealth of Puerto and its				
instrumentalities		155,948		155,948
Municipal securities		106,707		106,707
Corporate bonds		105,365		105,365
Residential agency mortgage-backed securities		17,281		17,281
Collateralized mortgage obligations		230,910		230,910
Total fixed maturities	51,338	867,639		918,977
Equity securities				
Common stocks	7,509			7,509
Preferred stocks	2,675			2,675
Perpetual preferred stocks	2,579			2,579
Mutual funds	6,961	44,190	775	51,926
Total equity securities	19,724	44,190	775	64,689
Derivatives (reported within other assets in the				
consolidated balance sheets)		1,608		1,608
Total	\$ 114,971	\$ 913,437	\$ 775	\$ 1,029,183

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months and six months ended June 30, 2010 and 2009 is as follows:

	June 30, 2010			June 30, 2009		
	Fixed Maturity Securities	Equity Securities	Total	Fixed Maturity Securities	Equity Securities	Total
Beginning balance	\$	\$ 775	\$ 775	\$ 560	\$ 1,086	\$ 1,646
Total gains or losses -						
Unrealized in other		(76)	(76)		661	661
accumulated comprehensive						

income

Ending balance	\$	\$	699	\$	699	\$	560	\$	1,747	\$	2,307
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