

TRIPLE-S MANAGEMENT CORP

Form 10-Q

November 03, 2009

**Table of Contents**

**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 September 30, 2009**

**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**

(Exact name of registrant as specified in its charter)

**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, or 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. (Check one)

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.

<b>Title of each class</b>	<b>Outstanding at October 31, 2009</b>
Common Stock Class A, \$1.00 par value	9,042,809
Common Stock Class B, \$1.00 par value	20,361,063

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**Triple-S Management Corporation**  
**FORM 10-Q**  
For the Quarter Ended September 30, 2009  
Table of Contents

**Part I Financial Information**

<u>Item 1. Financial Statements</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	43
<u>Item 4. Controls and Procedures</u>	43

**Part II Other Information**

<u>Item 1. Legal Proceedings</u>	45
<u>Item 1A. Risk Factors</u>	45
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
<u>Item 3. Defaults Upon Senior Securities</u>	45
<u>Item 4. Submissions of Matters to a Vote of Security Holders</u>	45
<u>Item 5. Other Information</u>	45
<u>Item 6. Exhibits</u>	46

<b><u>SIGNATURES</u></b>	47
<u>EX-10.4</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

**Table of Contents****Part I Financial Information****Item 1. Financial Statements****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Consolidated Balance Sheets (Unaudited)**(Dollar amounts in thousands, except per share data)*

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
<b>Assets</b>		
Investments and cash:		
Equity securities held for trading, at fair value	\$ 40,065	32,184
Securities available for sale, at fair value:		
Fixed maturities	929,506	887,684
Equity securities	65,296	68,629
Securities held to maturity, at amortized cost:		
Fixed maturities	15,702	21,753
Policy loans	5,736	5,451
Cash and cash equivalents	54,698	46,095
 Total investments and cash	 <b>1,111,003</b>	 1,061,796
Premiums and other receivables, net	252,523	237,158
Deferred policy acquisition costs and value of business acquired	134,299	126,347
Property and equipment, net	66,645	58,448
Net deferred tax asset	36,832	25,195
Other assets	31,611	39,515
 Total assets	 <b>\$1,632,913</b>	 1,548,459
<b>Liabilities and Stockholders Equity</b>		
Claim liabilities:		
Claims processed and incomplete	\$ 206,707	156,137
Unreported losses	151,815	150,079
Unpaid loss-adjustment expenses	19,275	17,494
 Total claim liabilities	 <b>377,797</b>	 323,710
Liability for future policy benefits	219,292	207,545
Unearned premiums	95,993	110,141
Policyholder deposits	48,031	48,684
Liability to Federal Employees Health Benefits Program (FEHBP)	14,015	11,157
Accounts payable and accrued liabilities	140,038	148,713
Long-term borrowings	168,077	169,307
Liability for pension benefits	41,476	44,103
 Total liabilities	 <b>1,104,719</b>	 1,063,360

## Stockholders' equity:

Common stock Class A, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 9,042,809 at September 30, 2009 and December 31, 2008	<b>9,043</b>	9,043
Common stock Class B, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 20,361,063 and 22,104,989 shares at September 30, 2009 and December 31, 2008, respectively	<b>20,361</b>	22,105
Additional paid-in capital	<b>162,472</b>	179,504
Retained earnings	<b>332,788</b>	292,112
Accumulated other comprehensive income (loss)	<b>3,530</b>	(17,665)
<b>Total stockholders' equity</b>	<b>528,194</b>	485,099
<b>Total liabilities and stockholders' equity</b>	<b>\$1,632,913</b>	1,548,459

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Consolidated Statements of Earnings (Unaudited)*

For the three months and nine months ended September 30, 2009 and 2008

*(Dollar amounts in thousands, except per share data)*

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Revenues:</b>				
Premiums earned, net	<b>\$477,503</b>	433,219	<b>\$1,396,208</b>	1,256,775
Administrative service fees	<b>9,797</b>	4,448	<b>29,982</b>	12,081
Net investment income	<b>12,955</b>	14,072	<b>38,856</b>	41,806
Total operating revenues	<b>500,255</b>	451,739	<b>1,465,046</b>	1,310,662
Net realized investment gain (losses):				
Total other-than-temporary impairment losses on securities	<b>(240)</b>	(1,557)	<b>(5,953)</b>	(3,941)
Net realized gains, excluding other-than-temporary impairment losses on securities	<b>2,390</b>	456	<b>4,751</b>	1,708
Total net realized investment gain (losses)	<b>2,150</b>	(1,101)	<b>(1,202)</b>	(2,233)
Net unrealized investment gain (loss) on trading securities	<b>4,860</b>	(3,605)	<b>8,036</b>	(10,806)
Other income (expense), net	<b>67</b>	(1,147)	<b>392</b>	(1,308)
Total revenues	<b>507,332</b>	445,886	<b>1,472,272</b>	1,296,315
<b>Benefits and expenses:</b>				
Claims incurred	<b>413,626</b>	365,585	<b>1,206,578</b>	1,070,572
Operating expenses	<b>71,205</b>	63,572	<b>208,060</b>	185,002
Total operating costs	<b>484,831</b>	429,157	<b>1,414,638</b>	1,255,574
Interest expense	<b>3,338</b>	3,749	<b>9,959</b>	11,348
Total benefits and expenses	<b>488,169</b>	432,906	<b>1,424,597</b>	1,266,922
Income before taxes	<b>19,163</b>	12,980	<b>47,675</b>	29,393
<b>Income tax expense (benefit):</b>				
Current	<b>2,096</b>	4,580	<b>11,637</b>	8,687
Deferred	<b>(1,017)</b>	(1,071)	<b>(4,638)</b>	(2,104)
Total income taxes	<b>1,079</b>	3,509	<b>6,999</b>	6,583
Net income	<b>\$ 18,084</b>	9,471	<b>\$ 40,676</b>	22,810

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Basic net income per share	\$	<b>0.62</b>	0.29	\$	<b>1.37</b>	0.71
Diluted net income per share	\$	<b>0.62</b>	0.29	\$	<b>1.37</b>	0.71

See accompanying notes to unaudited consolidated financial statements.

4

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**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Consolidated Statements of Stockholders' Equity and  
Comprehensive Income (Loss) (Unaudited)*For the nine months  
ended September 30, 2009 and 2008*(Dollar amounts in thousands, except per share data)*

	<b>2009</b>	<b>2008</b>
<b>Balance at January 1</b>	<b>\$485,099</b>	482,538
Share-based compensation	<b>3,231</b>	2,392
Grant of restricted Class B common stock	<b>27</b>	20
Repurchase and retirement of common stock	<b>(22,034)</b>	
Other		(14)
Comprehensive income (loss):		
Net income	<b>40,676</b>	22,810
Net unrealized change in fair value of available for sale securities, net of taxes	<b>20,299</b>	(24,210)
Defined benefit pension plan:		
Actuarial loss, net	<b>1,103</b>	874
Prior service credit, net	<b>(207)</b>	(220)
Net change in fair value of cash flow hedges		(56)
Total comprehensive (loss) income	<b>61,871</b>	(802)
<b>Balance at September 30</b>	<b>\$528,194</b>	484,134

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Consolidated Statements of Cash Flows (Unaudited)*

For the nine months ended September 30, 2009 and 2008

*(Dollar amounts in thousands, except per share data)*

	<b>Nine months ended</b>	
	<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 40,676	22,810
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,358	5,419
Net amortization of investments	544	739
Provision (reversal of provision) for doubtful receivables	10,070	(2,243)
Deferred tax benefit	(4,638)	(2,104)
Net loss on sale of securities	1,202	2,233
Net unrealized (gain) loss on trading securities	(8,036)	10,806
Share-based compensation	3,258	2,392
Proceeds from trading securities sold:		
Equity securities	2,923	23,480
Acquisition of securities in trading portfolio:		
Equity securities	(3,206)	(9,367)
Loss on sale of property and equipment		11
(Increase) decrease in assets:		
Premiums receivable	(37,358)	(50,744)
Agents balances	9,240	2,787
Accrued interest receivable	1,131	(2,484)
Other receivables	3,313	(4,508)
Reinsurance recoverable on paid losses	(1,540)	8,924
Deferred policy acquisition costs and value of business acquired	(7,952)	(8,083)
Prepaid income tax	6,172	(6,901)
Other deferred taxes	(11,150)	
Other assets	1,732	9,918
Increase (decrease) in liabilities:		
Claims processed and incomplete	50,570	5,840
Unreported losses	1,736	(8,001)
Unpaid loss-adjustment expenses	1,781	887
Liability for future policy benefits	11,747	10,074
Unearned premiums	(14,148)	(31,915)
Policyholder deposits	568	1,407
Liability to FEHBP	2,858	(6,243)
Accounts payable and accrued liabilities	(1,197)	4,972
Net cash provided by (used in) operating activities	\$ 66,654	(19,894)

(Continued)

**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Consolidated Statements of Cash Flows (Unaudited)*

For the nine months ended September 30, 2009 and 2008

*(Dollar amounts in thousands, except per share data)*

	<b>Nine months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from investing activities:</b>		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	\$ 125,951	162,802
Fixed maturities matured/called	151,898	65,088
Equity securities	6,849	4,449
Securities held to maturity:		
Fixed maturities matured/called	6,893	20,107
Acquisition of investments:		
Securities available for sale:		
Fixed maturities	(294,628)	(449,515)
Equity securities	(3,209)	(17,069)
Fixed maturity securities held to maturity	(577)	(554)
Net (outflows) proceeds for policy loans	(285)	73
Net capital expenditures	(14,555)	(12,116)
Net cash used in investing activities	(21,663)	(226,735)
<b>Cash flows from financing activities:</b>		
Change in outstanding checks in excess of bank balances	(11,903)	17,992
Change in short-term borrowings		31,795
Repayments of long-term borrowings	(1,230)	(1,229)
Repurchase and retirement of common stock	(22,034)	
Proceeds from policyholder deposits	3,708	7,156
Surrenders of policyholder deposits	(4,929)	(5,793)
Other		6
Net cash (used in) provided by financing activities	(36,388)	49,927
Net increase (decrease) in cash and cash equivalents	8,603	(196,702)
Cash and cash equivalents at beginning of the period	46,095	240,153
Cash and cash equivalents at end of the period	\$ 54,698	43,451

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents**

**TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES**

*Notes to Consolidated Financial Statements*

September 30, 2009

*(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, 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 U.S. generally accepted accounting principles (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, 2008.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such consolidated interim financial statements have been included. The results of operations for the three months and nine months ended September 30, 2009 are not necessarily indicative of the results for the full year.

**(2) Recent Accounting Standards**

In April 2009, the Financial Accounting Standards Board (FASB) issued guidance to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This guidance is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of the new guidance did not have impact on the Corporation's consolidated financial statements.

In April 2009, the FASB issued guidance to amend the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This guidance does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The guidance is effective for interim and annual periods ending after June 15, 2009. The adoption of this new guidance did not have a material impact on the consolidated financial position and results of operations. See note 4, Investment in Securities, to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q for the required new disclosures as the result of the adoption of this guidance.

In April 2009, the FASB issued guidance to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This guidance also require those disclosures in summarized financial information at interim reporting periods. The guidance is effective for interim and annual periods ending after June 15, 2009. The adoption of this guidance did not have an impact on the consolidated financial position and results of operations. See note 7, Fair Value Measurement, to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q for the required new disclosure as the result of the adoption of this guidance.

In April 2009, the FASB issued guidance to provides additional assistance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This guidance also includes assistance on identifying circumstances that indicate a transaction is not orderly. The guidance is effective for interim and annual periods ending after June 15, 2009. The adoption of this guidance had no impact on the consolidated financial position and results of operations.

In May 2009, the FASB issued guidance to establish the general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance requires disclosure of the date through which subsequent events have been evaluated, as well as

**Table of Contents**

**TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES**

*Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. This guidance is effective for interim or annual financial periods ended after June 15, 2009. The adoption of this guidance did not have impact on the Corporation's consolidated financial statements.

In August 2009, the FASB issued additional guidance for the fair value measurement of liabilities. The Corporation had chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with GAAP. This guidance is effective for the first reporting period, including interim periods, beginning after issuance. The adoption of this guidance did not have an impact on our consolidated financial statements.

In September 2009, the FASB issued guidance for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). The amendments in this guidance improve financial reporting by permitting use of a practical expedient, with appropriate disclosures, when measuring the fair value of an alternative investment that does not have a readily determinable fair value. The amendments in this guidance also improve transparency by requiring additional disclosures about investments in the scope of the amendments in this guidance to enable users of financial statements to understand the nature and risks of investments and whether the investments are probable of being sold at amounts different from net asset value per share. The adoption of this guidance did not have an impact on our consolidated financial statements.

Other than the accounting pronouncements disclosed above, there were no other new accounting pronouncements issued during the nine months ended September 30, 2009 that could have a material impact on the Corporation's financial position, operating results or financials statement disclosures.

**(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 nine months ended September 30, 2009 and 2008:

**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Operating revenues:</b>				
<b>Managed Care:</b>				
Premiums earned, net	<b>\$428,566</b>	387,052	<b>\$1,249,463</b>	1,119,602
Administrative service fees	<b>9,798</b>	4,449	<b>29,983</b>	12,082
Intersegment premiums /service fees	<b>1,533</b>	1,587	<b>4,481</b>	4,897
Net investment income	<b>5,435</b>	5,879	<b>15,953</b>	17,556
<b>Total managed care</b>	<b>445,332</b>	398,967	<b>1,299,880</b>	1,154,137
<b>Life Insurance:</b>				
Premiums earned, net	<b>24,645</b>	23,407	<b>74,198</b>	68,319
Intersegment premiums	<b>108</b>	91	<b>293</b>	276
Net investment income	<b>4,093</b>	4,156	<b>12,480</b>	12,147
<b>Total life insurance</b>	<b>28,846</b>	27,654	<b>86,971</b>	80,742
<b>Property and Casualty Insurance:</b>				
Premiums earned, net	<b>24,293</b>	22,761	<b>72,547</b>	68,855
Intersegment premiums	<b>153</b>	152	<b>460</b>	458
Net investment income	<b>2,998</b>	2,910	<b>8,783</b>	8,933
<b>Total property and casualty insurance</b>	<b>27,444</b>	25,823	<b>81,790</b>	78,246
Other segments intersegment service revenues *	<b>13,889</b>	11,705	<b>39,003</b>	33,978
<b>Total business segments</b>	<b>515,511</b>	464,149	<b>1,507,644</b>	1,347,103
TSM operating revenues from external sources	<b>427</b>	1,125	<b>1,639</b>	3,168
Elimination of intersegment premiums	<b>(1,794)</b>	(1,830)	<b>(5,234)</b>	(5,631)
Elimination of intersegment service fees	<b>(13,889)</b>	(11,705)	<b>(39,003)</b>	(33,978)
<b>Consolidated operating revenues</b>	<b>\$500,255</b>	451,739	<b>\$1,465,046</b>	1,310,662

\* 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 AND SUBSIDIARIES***Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Operating income:</b>				
Managed care	\$ <b>10,098</b>	15,114	\$ <b>32,080</b>	34,416
Life insurance	<b>3,992</b>	2,906	<b>10,938</b>	8,611
Property and casualty insurance	<b>245</b>	2,884	<b>4,394</b>	7,252
Other segments *	<b>451</b>	31	<b>813</b>	319
Total business segments	<b>14,786</b>	20,935	<b>48,225</b>	50,598
TSM operating revenues from external sources	<b>427</b>	1,125	<b>1,638</b>	3,168
TSM unallocated operating expenses	<b>(2,178)</b>	(1,996)	<b>(6,648)</b>	(6,152)
Elimination of TSM intersegment charges	<b>2,389</b>	2,518	<b>7,193</b>	7,474
Consolidated operating income	<b>15,424</b>	22,582	<b>50,408</b>	55,088
Consolidated net realized investment gains (losses)	<b>2,150</b>	(1,101)	<b>(1,202)</b>	(2,233)
Consolidated net unrealized gain (loss) on trading securities	<b>4,860</b>	(3,605)	<b>8,036</b>	(10,806)
Consolidated interest expense	<b>(3,338)</b>	(3,749)	<b>(9,959)</b>	(11,348)
Consolidated other income (expense), net	<b>67</b>	(1,147)	<b>392</b>	(1,308)
Consolidated income before taxes	<b>\$ 19,163</b>	12,980	<b>\$ 47,675</b>	29,393
<b>Depreciation expense:</b>				
Managed care	\$ <b>1,364</b>	1,093	\$ <b>4,092</b>	3,085
Life insurance	<b>181</b>	172	<b>491</b>	521
Property and casualty insurance	<b>378</b>	366	<b>1,128</b>	1,105
Total business segments	<b>1,923</b>	1,631	<b>5,711</b>	4,711
TSM depreciation expense	<b>216</b>	216	<b>647</b>	708
Consolidated depreciation expense	<b>\$ 2,139</b>	1,847	<b>\$ 6,358</b>	5,419
			<b>September</b>	<b>December</b>
			<b>30,</b>	<b>31,</b>
			<b>2009</b>	<b>2008</b>
<b>Assets:</b>				
Managed care			\$ <b>753,808</b>	678,889
Life insurance			<b>491,615</b>	460,109

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Property and casualty insurance	<b>337,185</b>	337,869
Other segments *	<b>13,603</b>	12,620
Total business segments	<b>1,596,211</b>	1,489,487
Unallocated amounts related to TSM:		
Cash, cash equivalents, and investments	<b>36,306</b>	58,480
Property and equipment, net	<b>21,793</b>	21,648
Other assets	<b>3,957</b>	4,079
	<b>62,056</b>	84,207
Elimination entries-intersegment receivables and others	<b>(25,354)</b>	(25,235)
Consolidated total assets	<b>\$ 1,632,913</b>	1,548,459

\* 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 AND SUBSIDIARIES**

*Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

**(4) Investment in Securities**

The Corporation adopted the other-than-temporary impairment guidance or FASB OTTI guidance effective April 1, 2009. This interpretation significantly changed the Corporation's accounting policy regarding the timing and amount of other-than-temporary impairments for available-for-sale debt securities. This guidance indicates that an other-than-temporary impairment must be recognized in earnings for a debt security in an unrealized loss position when an entity either (a) has the intent to sell the debt security or (b) more likely than not will be required to sell the debt security before its anticipated recovery. Prior to the adoption of this guidance the Corporation was required to record an other-than-temporary impairment for a debt security unless it could assert that it had both the intent and ability to hold the security for a period of time sufficient to allow for a recovery in its fair value to its amortized cost basis.

For all debt securities in unrealized loss positions that do not meet either of these two criteria, the guidance requires the Corporation to analyze its ability to recover the amortized cost by comparing the net present value of projected future cash flows with the amortized cost of the security. The net present value is calculated by discounting the Corporation's best estimate of projected future cash flows at the effective interest rate implicit in the debt security prior to impairment.

Under the FASB OTTI guidance, when an other-than-temporary impairment of a debt security has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether the Corporation intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the debt security meets either of these two criteria, the other-than-temporary impairment recognized in earnings is equal to the entire difference between the security's amortized cost basis and its fair value at the impairment measurement date. For other-than-temporary impairments of debt securities that do not meet these two criteria, the net amount recognized in earnings is equal to the difference between the amortized cost of the debt security and the present value of the cash flow expected to be collected. Any difference between the fair value and the net present value of the cash flow expected to be collected of the debt security at the impairment measurement date is recorded in other comprehensive income (loss). Unrealized gains or losses on securities for which an other-than-temporary impairment has been recognized in earnings is tracked as a separate component of accumulated other comprehensive income (loss). Prior to the adoption of this guidance, an other-than-temporary impairment recognized in earnings for debt securities was equal to the total difference between amortized cost and fair value at the time of 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.

The amortized cost for debt securities and 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 September 30, 2009 and December 31, 2008, were as follows:

**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

**September 30, 2009**

	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value</b>
Trading securities:				
Equity securities	\$ 40,692	5,213	(5,840)	40,065

**December 31, 2008**

	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value</b>
Trading securities:				
Equity securities	\$ 40,847	2,781	(11,444)	32,184

**September 30, 2009**

	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value</b>
Securities available for sale:				
Obligations of government- sponsored enterprises	\$ 363,776	5,894	(510)	369,160
U.S. Treasury securities and obligations of U.S. government instrumentalities	48,375	4,746		53,121
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	185,662	6,493	(1,659)	190,496
Municipal securities	53,628	2,088	(160)	55,556
Obligations of states of the United States and political subdivisions of the states	12,330	721		13,051
Corporate bonds	100,149	7,132	(940)	106,341
Residential agency mortgage-backed securities	17,416	768	(1)	18,183
Collateralized mortgage obligations	119,105	6,022	(1,529)	123,598
Total fixed maturities	900,441	33,864	(4,799)	929,506
Equity securities	63,890	7,751	(6,345)	65,296
Total	\$ 964,331	41,615	(11,144)	994,802



**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

**December 31, 2008**

	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value</b>
Securities available for sale:				
Obligations of government- sponsored enterprises	\$ 422,038	7,991	(220)	429,809
U.S. Treasury securities and obligations of U.S. government instrumentalities	78,024	11,961		89,985
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	121,934	448	(6,077)	116,305
Municipal securities	31,415	390	(6)	31,799
Obligations of states of the United States and political subdivisions of the states	4,196	36	(110)	4,122
Corporate bonds	100,745	1,625	(7,399)	94,971
Residential agency mortgage-backed securities	17,420	425	(3)	17,842
Collateralized mortgage obligations	103,891	1,287	(2,327)	102,851
Total fixed maturities	879,663	24,163	(16,142)	887,684
Equity securities	70,060	1,752	(3,183)	68,629
Total	\$ 949,723	25,915	(19,325)	956,313

**September 30, 2009**

	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value</b>
Securities held to maturity:				
Obligations of government- sponsored enterprises	\$ 3,229	97		3,326
Residential agency mortgage-backed securities	1,255	25	(1)	1,279
U.S. Treasury securities and obligations of U.S. government instrumentalities	1,485	202		1,687
Corporate bonds	8,970	546		9,516
Certificates of deposit	763			763
Total	\$ 15,702	870	(1)	16,571

**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

**December 31, 2008**

	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value</b>
Securities held to maturity:				
Obligations of government- sponsored enterprises	\$ 9,082	240		9,322
Residential agency mortgage-backed securities	1,749		(7)	1,742
U.S. Treasury securities and obligations of U.S. government instrumentalities	1,488	379		1,867
Corporate bonds	8,698	698		9,396
Certificates of deposit	736			736
<b>Total</b>	<b>\$ 21,753</b>	<b>1,317</b>	<b>(7)</b>	<b>23,063</b>

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 September 30, 2009 and December 31, 2008 were as follows:

	<b>September 30, 2009</b>				<b>Total</b>	
	<b>Less than 12 months Gross Estimated fair value</b>	<b>Gross unrealized losses</b>	<b>12 months or longer Estimated fair value</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value</b>	<b>Gross unrealized losses</b>
Securities available for sale:						
Obligations of government- sponsored enterprises	\$ 59,417	(418)	19,923	(92)	79,340	(510)
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	34,022	(770)	37,743	(889)	71,765	(1,659)
Municipal securities	2,681	(125)	148	(35)	2,829	(160)
Corporate bonds	984	(6)	14,155	(934)	15,139	(940)
Residential agency mortgage-backed securities			36	(1)	36	(1)
Collateralized mortgage obligations	11,067	(291)	6,839	(1,238)	17,906	(1,529)
<b>Total fixed maturities</b>	<b>108,171</b>	<b>(1,610)</b>	<b>78,844</b>	<b>(3,189)</b>	<b>187,015</b>	<b>(4,799)</b>
Equity securities	25,306	(4,624)	10,899	(1,721)	36,205	(6,345)

Total for securities available for sale	\$ 133,477	(6,234)	89,743	(4,910)	223,220	(11,144)
Securities held to maturity:						
Residential mortgage-backed securities	\$		54	(1)	54	(1)



**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

	<b>December 31, 2008</b>				<b>Total</b>	
	<b>Less than 12 months</b>	<b>12 months or longer</b>				
	<b>Gross</b>	<b>Gross</b>				
	<b>Estimated</b>	<b>Estimated</b>				
	<b>fair value</b>	<b>fair value</b>				
	<b>losses</b>	<b>losses</b>				
	<b>fair value</b>	<b>losses</b>				
	<b>fair value</b>	<b>losses</b>				
Securities available for sale:						
Obligations of government-sponsored enterprises	\$ 16,550	(191)	2,956	(29)	19,506	(220)
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	79,045	(5,230)	8,932	(847)	87,977	(6,077)
Municipal securities			1,276	(6)	1,276	(6)
Obligations of states of the United States and political subdivisions of the states	2,223	(75)	183	(35)	2,406	(110)
Corporate bonds	31,324	(2,688)	29,044	(4,711)	60,368	(7,399)
Residential agency mortgage-backed securities	1,374	(2)	36	(1)	1,410	(3)
Collateralized mortgage obligations	5,797	(2,327)			5,797	(2,327)
Total fixed maturities	136,313	(10,513)	42,427	(5,629)	178,740	(16,142)
Equity securities	18,571	(2,190)	9,651	(993)	28,222	(3,183)
Total for securities available for sale	\$ 154,884	(12,703)	52,078	(6,622)	206,962	(19,325)
Securities held to maturity:						
Residential mortgage-backed securities	\$		1,741	(7)	1,741	(7)

The Corporation regularly monitors the difference between the cost and estimated fair value of investments. For investments with a fair value below cost, the process includes evaluating the length of time and the extent to which cost exceeds fair value, the prospects and financial condition of the issuer, whether the Corporation (a) has the intent to sell the debt security or (b) more likely than not will be required to sell the debt security before its anticipated recovery, and the probability to recuperate the unrealized loss, among other factors. This process is not exact and requires further consideration of risks such as credit and interest rate risks. Consequently, if an investment's cost exceeds its fair value solely due to changes in interest rates, impairment may not be appropriate. If after monitoring and analyzing, the Corporation determines that a decline in the estimated fair value of any available-for-sale or held-to-maturity security below cost is other than temporary, the carrying amount of the security is reduced to its fair

value, as described above.

We continue to review the 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 Government-sponsored Enterprises, U.S. Treasury Securities and Obligations of U.S. Government Instrumentalities, 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 government-sponsored enterprises, U.S. Treasury securities and obligations of U.S. government instrumentalities, obligations of states of the United States 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 rate 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. Because the decline in fair value is

**Table of Contents**

**TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES**

***Notes to Consolidated Financial Statements***

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

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.

*Corporate Bonds:* Unrealized losses of these bonds were principally caused by fluctuations in interest rates and general market conditions. The fair value of these corporate bonds has improved during the nine months ended September 30, 2009. In addition, most of these corporate bonds have investment grade ratings. Because the decline in 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.

*Mortgage-Backed Securities and Collateralized Mortgage Obligations:* The unrealized losses on investments in mortgage-backed securities and collateralized mortgage obligations ( CMO ) were caused by fluctuations in interest rates. 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 the initial loss. The investment grade credit rating of our securities reflects the seniority of the securities that we own. 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.

*Equity Securities:* The Corporation's investment in equity securities classified as available for sale consist mainly of investments in common and preferred stock of local banking institutions and investments in several mutual funds. The unrealized loss experienced in the investment in common stocks of local banking institutions is mainly due to recent adverse economic conditions. The unrealized loss related to the Corporation's investments in preferred stock of local banking institutions and in investments in several mutual funds investing in fixed income securities is mainly caused by interest rate increases and general market conditions. Because the unrealized losses on equity securities were mainly caused by temporary general economic conditions and because the Corporation has the ability and intent to hold these investments until a market price recovery, these investments are not considered other-than-temporarily impaired.

**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

Information regarding realized and unrealized gains and losses from investments for the three months and nine months ended September 30, 2009 and 2008 is as follows:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Realized gains (losses):				
Fixed maturity securities:				
Securities available for sale:				
Gross gains from sales	\$ 65	131	3,122	1,056
Gross losses from sales			(3)	(117)
Gross losses from other-than-temporary impairments	(240)	(1,516)	(1,393)	(3,872)
Total debt securities	(175)	(1,385)	1,726	(2,933)
Equity securities:				
Trading securities:				
Gross gains from sales	107	433	416	3,377
Gross losses from sales	(104)	(334)	(823)	(2,812)
Gross losses from other-than-temporary impairments				(28)
	3	99	(407)	537
Securities available for sale:				
Gross gains from sales	2,322	318	2,322	318
Gross losses from sales		(92)	(283)	(114)
Gross losses from other-than-temporary impairments		(41)	(4,560)	(41)
	2,322	185	(2,521)	163
Total equity securities	2,325	284	(2,928)	700
Net realized gains (losses) on securities	\$2,150	(1,101)	(1,202)	(2,233)

During the three months and nine months ended September 30, 2009, the Corporation recognized other-than-temporary impairments amounting to \$0.2 and \$5.9 million, respectively. During the three months and nine months ended September 30, 2008, the Corporation recognized other-than-temporary impairments amounting to \$1.6 and \$3.9 million, respectively. The other-than-temporary impairments recognized during 2009 and 2008 related to our investments in equity securities and corporate bonds. The other-than-temporary impairment on its fixed maturities securities is attributable to credit losses.



**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

Contractual maturities of investment securities classified as available for sale and held to maturity at September 30, 2009 were as follows:

	<b>Amortized cost</b>	<b>Estimated fair value</b>
Securities available for sale:		
Due in one year or less	\$ 15,963	16,259
Due after one year through five years	84,148	85,686
Due after five years through ten years	240,777	249,853
Due after ten years	423,032	435,927
Collateralized mortgage obligations	119,105	123,598
Residential mortgage-backed securities	17,416	18,183
	<b>\$900,441</b>	<b>929,506</b>
Securities held to maturity:		
Due in one year or less	\$ 1,688	1,703
Due after one year through five years	8,970	9,516
Due after five years through ten years	510	530
Due after ten years	3,279	3,543
Residential mortgage-backed securities	1,255	1,279
	<b>\$ 15,702</b>	<b>16,571</b>

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.

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Changes in net unrealized gains (losses):				
Recognized in income:				
Equity securities trading	\$ <b>4,860</b>	(3,605)	<b>8,036</b>	(10,806)
Recognized in accumulated other comprehensive loss:				
Fixed maturities available for sale	\$ <b>21,393</b>	(10,105)	<b>21,044</b>	(20,097)
Equity securities available for sale	<b>3,346</b>	(1,900)	<b>2,837</b>	(8,552)
	<b>\$24,739</b>	(12,005)	<b>23,881</b>	(28,649)

Not recognized in the consolidated financial statements:

Fixed maturities held to maturity	\$	<b>90</b>	52	<b>(441)</b>	(5)
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The deferred tax liability on unrealized gains and losses recognized in accumulated other comprehensive income during the nine months ended September 30, 2009 and 2008 aggregated \$3,582 and \$(4,433), respectively. As of September 30, 2009 and December 31, 2008, no investments in equity securities and no investments in obligations that are payable from and secured by the same source of revenue or taxing authority, other than investment instruments of the U.S. and the Commonwealth of Puerto Rico governments, exceeded 10% of stockholders' equity.

**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

Components of net investment income were as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Fixed maturities	\$11,629	12,390	34,498	36,045
Equity securities	891	1,152	2,984	3,469
Policy loans	105	97	302	287
Cash equivalents and interest-bearing deposits	127	111	485	937
Other	203	322	587	1,068
Total	\$12,955	14,072	38,856	41,806

**(5) Premiums and Other Receivables**

Premiums and other receivables as of September 30, 2009 and December 31, 2008 were as follows:

	September 30, 2009	December 31, 2008
Premiums	\$114,739	90,315
Self-funded group receivables	47,846	35,749
FEHBP	10,437	9,600
Agents balances	29,251	38,491
Accrued interest	10,671	11,802
Reinsurance recoverable	43,721	42,181
Other	20,673	23,765
	277,338	251,903
Less allowance for doubtful receivables:		
Premiums	19,925	10,467
Other	4,890	4,278
	24,815	14,745
Total premiums and other receivables	\$252,523	237,158



**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

**(6) Claim Liabilities**

The activity in the total claim liabilities for the three months and nine months ended September 30, 2009 and 2008 is as follows:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Claim liabilities at beginning of period	<b>\$363,914</b>	359,495	<b>323,710</b>	353,830
Reinsurance recoverable on claim liabilities	<b>(30,154)</b>	(39,604)	<b>(30,432)</b>	(54,834)
Net claim liabilities at beginning of period	<b>333,760</b>	319,891	<b>293,278</b>	298,996
Incurred claims and loss-adjustment expenses:				
Current period insured events	<b>408,885</b>	360,013	<b>1,199,795</b>	1,068,339
Prior period insured events	<b>1,731</b>	2,592	<b>(2,872)</b>	(6,311)
Total	<b>410,616</b>	362,605	<b>1,196,923</b>	1,062,028
Payments of losses and loss-adjustment expenses:				
Current period insured events	<b>354,477</b>	348,382	<b>909,004</b>	828,827
Prior period insured events	<b>44,728</b>	20,095	<b>236,026</b>	218,178
Total	<b>399,205</b>	368,477	<b>1,145,030</b>	1,047,005
Net claim liabilities at end of period	<b>345,171</b>	314,019	<b>345,171</b>	314,019
Reinsurance recoverable on claim liabilities	<b>32,626</b>	38,537	<b>32,626</b>	38,537
Claim liabilities at end of period	<b>\$377,797</b>	352,556	<b>377,797</b>	352,556

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 credits in the incurred claims and loss-adjustment expenses for prior period insured events for the nine months ended September 30, 2009 and 2008 is due primarily to better than expected utilization trends. The amount of incurred claims and loss-adjustment expense for the prior period insured events for the three months ended September 30, 2009 and 2008 is primarily due to higher than expected utilization trends.

The claims incurred disclosed in this table exclude the change in the liability for future policy benefits, which amount to \$3,010 and \$9,655, during the three months and nine months ended September 30, 2009, respectively. The change in the liability for future policy benefits amount to \$2,980 and \$8,544, during the three months and nine months ended September 30, 2008, respectively.

**Table of Contents**

**TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES**

***Notes to Consolidated Financial Statements***

September 30, 2009

*(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 September 30, 2009.

**(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.

**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

**(vi) Borrowings**

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

	September 30, 2009		December 31, 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans payable to bank	\$ 23,077	23,077	24,307	24,307
6.3% senior unsecured notes payable	50,000	46,500	50,000	46,250
6.6% senior unsecured notes payable	60,000	56,250	60,000	55,800
6.7% senior unsecured notes payable	35,000	33,320	35,000	34,059
Totals	\$ 168,077	159,147	169,307	160,416

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.

**(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 September 30, 2009 and December 31, 2008 for assets measured at fair value on a recurring basis:

	September 30, 2009			
	Level 1	Level 2	Level 3	Total
Equity securities held for trading	\$ 40,065			40,065
Securities available for sale:				
Fixed maturity securities	53,121	876,065	320	929,506
Equity securities	23,268	40,281	1,747	65,296
Derivatives (reported within other assets in the consolidated balance sheets)		1,536		1,536
Total	\$ 116,454	917,882	2,067	1,036,403
	December 31, 2008			
	Level 1	Level 2	Level 3	Total
Equity securities held for trading	\$ 32,184			32,184
Securities available for sale:				
Fixed maturity securities	89,985	796,418	1,281	887,684
Equity securities	31,506	36,037	1,086	68,629
		1,674		1,674

Derivatives (reported within other assets in the consolidated balance sheets)

Total	\$153,675	834,129	2,367	990,171
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23

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**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

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 nine months ended September 30, 2009 is as follows:

	Three months ended September 30, 2009			Nine months ended September 30, 2009		
	Fixed Maturity Securities	Equity Securities	Total	Fixed Maturity Securities	Equity Securities	Total
Beginning balance	\$ 560	1,747	2,307	1,281	1,086	2,367
Total gains or losses:						
Realized in earnings	(240)		(240)	(1,264)		(1,264)
Unrealized in other accumulated comprehensive income				303	661	964
Purchases and sales						
Transfers in and/or out of Level 3						
Ending balance	\$ 320	1,747	2,067	320	1,747	2,067

**Three months and nine months ended September 30, 2008**

	Fixed Maturity Securities
Beginning balance	\$
Total gains or losses:	
Realized in earnings	
Unrealized in other accumulated comprehensive income	
Purchases and sales	
Transfers in and/or out of Level 3	1,567
Ending balance	\$1,567

During the three months and nine months ended September 30, 2009, certain debt securities classified at Level 3 were thinly traded due to issuer liquidity concerns. Consequently, broker quotes or other observable inputs were not always available and the fair value of these securities was estimated using internal estimates for inputs including, but not limited to, credit spreads, default rates and benchmark yields. An other-than-temporary impairment of approximately \$0.2 million and \$1.3 million was recorded on Level 3 securities during the three months and nine months ended September 30, 2009.

**(8) Share-Based Compensation**

Share-based compensation expense recorded during the three months and nine months ended September 30, 2009 was \$779 and \$3,231, respectively. Share-based compensation expense recorded during the three months and nine months ended September 30, 2008 was \$862 and \$2,390, respectively. Share based compensation expense for the nine months ended September 30, 2009 includes \$937 of compensation cost that should have been recorded in earlier periods. This adjustment relates to employees that qualified for approved retirement as defined under the plan. No prior period was materially impacted by this adjustment. Pursuant to the 2007 Incentive Plan, on January 2, 2009, the Corporation granted to certain key employees 13,321 stock options, 3,002 shares of restricted stocks,

**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

and 3,002 performance awards. Stock options can be granted with an exercise price at least equal the stock's fair market value at the date of grant. The stock option awards vest in equal annual installments over 3 years and their expiration date cannot exceed 7 years. The restricted stock and performance awards are issued at the fair value of the stock on the grant date. Restricted stock awards vest in equal annual installments over 3 years. Performance awards vest on the last day of the performance period, provided that at least minimum performance standards are achieved. Effective April 27, 2009, the Corporation granted 24,360 shares of restricted stock to non-employee directors pursuant to the 2007 Incentive Plan. Restricted stock was issued at the fair value of the stock on the grant date and vest in one year. The restriction period ends six months after each director ceases to be a member of the Board of Directors.

**(9) Comprehensive Loss**

The accumulated balances for each classification of other comprehensive loss are as follows:

	<b>Net unrealized gain (loss) on securities</b>	<b>Liability for pension benefits</b>	<b>Accumulated other comprehensive (loss) income</b>
<b>Balance at January 1</b>	<b>\$ 5,602</b>	<b>(23,267)</b>	<b>(17,665)</b>
Net current period change	<b>20,299</b>	<b>896</b>	<b>21,195</b>
<b>Balance at September 30</b>	<b>\$ 25,901</b>	<b>(22,371)</b>	<b>3,530</b>

**(10) Income Taxes**

Under Puerto Rico income tax law, the Corporation is not allowed to file consolidated tax returns with its subsidiaries. The Corporation and its subsidiaries are subject to Puerto Rico income taxes. The Corporation's insurance subsidiaries are also subject to U.S. federal income taxes for foreign source dividend income. As of September 30, 2009, tax years 2005 through 2008 for the Corporation and its subsidiaries are subject to examination by Puerto Rico taxing authorities.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of earnings in the period that includes the enactment date. Quarterly income taxes are calculated using the effective tax rate determined based on the income forecasted for the full fiscal year.

On July 10, 2009 the Governor of Puerto Rico signed into law Puerto Rico's Act No. 37, which requires certain corporations to pay a 5% additional special tax over tax liability. The effective tax rate includes the additional special tax, as enacted.

**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

**(11) Pension Plan**

The components of net periodic benefit cost for the three months and nine months ended September 30, 2009 and 2008 were as follows:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Components of net periodic benefit cost:				
Service cost	<b>\$ 1,372</b>	1,385	<b>3,791</b>	4,210
Interest cost	<b>1,614</b>	1,429	<b>4,290</b>	4,345
Expected return on assets	<b>(1,135)</b>	(1,317)	<b>(3,047)</b>	(4,003)
Prior service cost (credit)	<b>(127)</b>	(118)	<b>(340)</b>	(358)
Actuarial loss	<b>718</b>	468	<b>1,809</b>	1,423
Net periodic benefit cost	<b>\$ 2,442</b>	1,847	<b>6,503</b>	5,617

*Employer contributions*

The Corporation disclosed in its audited consolidated financial statements for the year ended December 31, 2008 that it expected to contribute \$7,000 to its pension program in 2009. As of September 30, 2009, the Corporation has contributed \$8,000 to the pension program. The Corporation does not anticipate further contributions to fund its pension program in 2009.

**(12) Acquired Intangible Asset**

On July 1, 2009, the Corporation, through Triple-S Salud, Inc. (TSS), its managed care subsidiary, closed an Asset Purchase Agreement (the Agreement) to acquire certain managed care assets of La Cruz Azul de Puerto Rico, Inc. ( LCA ) in Puerto Rico and the U.S. Virgin Islands on such date. Intangible asset, net as of September 30, 2009 amounted to \$5.3 million and is included within the other assets in the accompanying consolidated balance sheets. The estimated weighted-average useful life is 4 years. Amortization expense recorded during the three months ended September 30, 2009 amounted to \$831. There could be additional payments depending upon certain conditions as defined in the Agreement.



**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Notes to Consolidated Financial Statements*

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

**(13) Net Income Available to Stockholders and Basic Net Income per Share**

The following table sets forth the computation of basic and diluted earnings per share for the three months and nine months ended September 30, 2009 and 2008:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Numerator for earnings per share:				
Net income available to stockholders	\$ 18,084	9,471	\$ 40,676	22,810
Denominator for basic earnings per share:				
Weighted average of common shares	29,265,472	32,142,809	29,607,691	32,142,809
Effect of dilutive securities	107,462	50,998	64,876	42,396
Denominator for diluted earnings per share	29,372,934	32,193,807	29,672,567	32,185,205
Basic net income per share	\$ 0.62	0.29	\$ 1.37	0.71
Diluted net income per share	\$ 0.62	0.29	\$ 1.37	0.71

**(14) Contingencies**

As of September 30, 2009, the Corporation is a defendant in various lawsuits arising in the ordinary course of business. We are also defendants in various other claims and proceedings, some of which are described below. Furthermore, the Commissioner of Insurance, as well as other Federal and Puerto Rico government authorities, regularly make inquiries and conduct audits concerning the Corporation's compliance with applicable insurance and other laws and regulations.

Management believes that the aggregate liabilities, if any, arising from all such claims, assessments, audits and lawsuits will not have a material adverse effect on the consolidated financial position or results of operations of the Corporation. However, given the inherent unpredictability of these matters, it is possible that an adverse outcome in certain matters could have a material adverse effect on the financial condition, operating results and/or cash flows. Where the Corporation believes that a loss is both probable and estimable, such amounts have been recorded. In other cases, it is at least reasonably possible that the Corporation may incur a loss related to one or more of the mentioned pending lawsuits or investigations, but the Corporation is unable to estimate the range of possible loss which may be ultimately realized, either individually or in the aggregate, upon their resolution.

Additionally, we may face various potential litigation claims that have not been asserted to date, including claims from persons purporting to have contractual rights to acquire shares of the Corporation on favorable terms or to have inherited such shares notwithstanding applicable transfer and ownership restrictions.

*Hau et al Litigation (formerly known as Jordan et al)*

On April 24, 2002, Octavio Jordán, Agripino Lugo, Ramón Vidal, and others filed a suit against the Corporation, the Corporation's subsidiary Triple-S Salud, Inc. ( TSS ) and others in the Court of First Instance for San Juan, Superior Section (the Court of First Instance ), alleging, among other things, violations by the defendants of provisions of the

Puerto Rico Insurance Code, antitrust violations, unfair business practices, RICO violations, breach of contract with providers, and damages in the amount of \$12 million. Following years of complaint amendments, motions practice and interim appeals up to the level of the Puerto Rico Supreme Court, the plaintiffs amended their complaint on June 20, 2008 to allege with particularity the same claims initially asserted but on behalf of a more

**Table of Contents**

**TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES**

***Notes to Consolidated Financial Statements***

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

limited group of plaintiffs, and increase their claim for damages to approximately \$207 million. Discovery is expected to conclude by March 2010. The Corporation intends to vigorously defend this claim.

*Dentists Association Litigation*

On February 11, 2009, the Puerto Rico Dentists Association (Colegio de Cirujanos Dentistas de Puerto Rico) filed a complaint in the Court of First Instance against 24 health plans operating in Puerto Rico that offer dental health coverage. The Corporation and two of its subsidiaries, TSS and Triple-C, Inc., were included as defendants. This litigation purports to be a class action filed on behalf of Puerto Rico dentists who are similarly situated; however, the complaint does not include a single dentist as a class representative nor a definition of the intended class.

The complaint alleges that the defendants, on their own and as part of a common scheme, systematically deny, delay and diminish the payments due to dentists so that they are not paid in a timely and complete manner for the covered medically necessary services they render. The complaint also alleges, among other things, violations to the Puerto Rico Insurance Code, antitrust laws, the Puerto Rico racketeering statute, unfair business practices, breach of contract with providers, and damages in the amount of \$150 million. In addition, the complaint claims that the Puerto Rico Insurance Companies Association is the hub of an alleged conspiracy concocted by the member plans to defraud dentists.

There are numerous available defenses to oppose both the request for class certification and the merits. The Corporation intends to vigorously defend this claim.

Two codefendant plans removed the case to federal court, which the plaintiffs and the other codefendants, including the Corporation, opposed. The federal District Court decided that it lacked jurisdiction under the Class Action Fairness Act ( CAFA ) and remanded the case to state court. The removing defendants petitioned to appeal to the First Circuit Court of Appeals. Having accepted the appeal, the First Circuit Court of Appeals issued an order in late October 2009 which found the lower court's decision premature. The Court of Appeals remanded the case to the federal District Court and allowed limited discovery to determine whether the case should be heard in federal court pursuant to CAFA.

*Colón Litigation*

On October 15, 2007, José L. Colón-Dueño, a former holder of one share of TSS predecessor stock, filed suit against TSS and the Puerto Rico Commissioner of Insurance (the Commissioner ) in the Court of First Instance. The sale of that share to Mr. Colón-Dueño was voided in 1999 pursuant to an order issued by the Commissioner in which the sale of 1,582 shares to a number of TSS shareholders was voided. TSS, however, appealed the Commissioner's order before the Puerto Rico Court of Appeals, which upheld the order on March 31, 2000. Plaintiff requests that the court direct TSS to return his share of stock and compensate him for alleged damages in excess of \$500,000 plus attorney's fees. The Corporation is vigorously contesting this lawsuit because, among other reasons, the Commissioner's order is final and cannot be collaterally attacked in this litigation.

*Puerto Rico Center for Municipal Revenue Collection*

On March 1, 2006 and March 3, 2006, respectively, the Puerto Rico Center for Municipal Revenue Collection (CRIM) imposed a real property tax assessment of approximately \$1.3 million and a personal property tax assessment of approximately \$4.0 million upon TSS for fiscal years 1992-1993 through 2002-2003. During that time, TSS qualified as a tax-exempt entity under Puerto Rico law pursuant to rulings issued by the Puerto Rico tax authorities. In imposing the tax assessments, CRIM revoked the tax rulings retroactively, based on its contention that a for-profit corporation such as TSS is not entitled to such an exemption. On March 28, 2006 and March 29, 2006, respectively, TSS challenged the real and personal property tax assessments in the Court of First Instance. The court

**Table of Contents**

**TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES**

***Notes to Consolidated Financial Statements***

September 30, 2009

*(Dollar amounts in thousands, except per share data)*

(Unaudited)

granted summary judgment affirming the real property and personal property tax assessments on October 29, 2007 and December 5, 2007, respectively.

After unsuccessfully filing motions for reconsideration in both cases, TSS appealed the court's decisions before the Puerto Rico Court of Appeals on November 29, 2007 and February 21, 2008, respectively. TSS also requested a consolidation of both cases, which the Court of Appeals approved on April 17, 2008. On June 30, 2008 the Court of Appeals confirmed the summary judgment issued by the Court of First Instance in both property tax cases. On September 29, 2008, TSS timely filed a certiorari petition with the Puerto Rico Supreme Court. The court denied the petition on March 13, 2009, and notified such denial on March 16, 2009. TSS filed a request for reconsideration before the Puerto Rico Supreme Court on March 30, 2009, which was denied on April 29, 2009. TSS filed a second request for reconsideration, which was denied on May 22, 2009. The Corporation recorded an accrual which is included within accounts payable and accrued liabilities in the accompanying consolidated financial statements. The Corporation submitted a petition for certiorari to the U.S. Supreme Court on August 26, 2009, based on its strong belief that CRIM's retroactive revocation of applicable tax rulings and its imposition of a tax liability reaching back over ten years constituted a violation of the Corporation's due process rights. The U.S. Supreme Court has requested that CRIM file a response, which is due by November 12, 2009.

*Claims by Heirs of Former Shareholders*

The Corporation and TSS are defending four individual lawsuits, all filed in state court, from persons who claim to have inherited a total of 90 shares of the Corporation or one of its predecessors or affiliates (before giving effect to the 3,000-for-one stock split). While each case presents unique facts, the lawsuits generally allege that the redemption of the shares by the Corporation pursuant to transfer and ownership restrictions contained in the Corporation's (or its predecessors' or affiliates') articles of incorporation and bylaws was improper. Discovery is underway in each case. Management believes all these claims are time barred under one or more statutes of limitations and is vigorously defending them.

*Thomas Litigation*

On May 22, 2003, Kenneth A. Thomas, M.D. and Michael Kutell, M.D. filed a putative class action suit against the Blue Cross Blue Shield Association and substantially all of the other Blue Cross and Blue Shield plans in the United States, including TSS. The complaint alleges that the defendants, on their own and as part of a common scheme, systematically deny, delay and diminish the payments due to doctors so that they are not paid in a timely manner for the covered medically necessary services they render. TSS, along with the other defendants, moved to dismiss the complaint on multiple grounds, including but not limited to an arbitration right and the applicability of the McCarran Ferguson Act. The parties announced a Settlement Agreement on April 27, 2007 and on April 19, 2008, the court granted final approval of the settlement. A small group of physicians filed an appeal of the settlement in the Eleventh Circuit, but all the appeals have been dismissed and the defendants satisfied the payment obligations under the settlement agreement. The amount paid by the Corporation was recorded as an operating expense in a previous year.

**(15) Subsequent Event**

The Corporation evaluated subsequent events through November 3, 2009, the date that these consolidated interim financial statements were issued.

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Quarterly Report on Form 10-Q is intended to update the reader on matters affecting the financial condition and results of operations for the three months and nine months ended September 30, 2009. Therefore, the following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K filed with the United States Securities and Exchange Commission as of and for the year ended December 31, 2008.

**Cautionary Statement Regarding Forward-Looking Information**

This Quarterly Report on Form 10-Q and other of our publicly available documents may include statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, among other things: statements concerning our business and our financial condition and results of operations. These statements are not historical, but instead represent our belief regarding future events, any of which, by their nature, are inherently uncertain and outside of our control. These statements may address, among other things, future financial results, strategy for growth, and market position. It is possible that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. The factors that could cause actual results to differ from those in the forward-looking statements are discussed throughout this form. We are not under any obligation to update or alter any forward-looking statement (and expressly disclaims any such obligations), whether as a result of new information, future events or otherwise. Factors that may cause actual results to differ materially from those contemplated by such forward looking statements include, but are not limited to, rising healthcare costs, business conditions and competition in the different insurance segments, government action and other regulatory issues.

**Overview**

We are the largest managed care company in Puerto Rico in terms of membership and have 50 years of experience in the managed care industry. We offer a broad portfolio of managed care and related products in the Commercial, Commonwealth of Puerto Rico Health Reform (the Reform) and Medicare (including Medicare Advantage and the Part D stand-alone prescription drug plan (PDP)) markets. In the Commercial market we offer products to corporate accounts, U.S. federal government employees, local government employees, individual accounts and Medicare Supplement. The Reform is a government of Puerto Rico-funded managed care program for the medically indigent, similar to the Medicaid program in the U.S. We have the exclusive right to use the Blue Cross and Blue Shield name and mark throughout Puerto Rico and the U.S. Virgin Islands, serve approximately 1.3 million members across all regions of Puerto Rico and the U.S. Virgin Islands and hold a leading market position covering approximately 34% of the Puerto Rico population. For the nine months ended September 30, 2009, our managed care segment represented approximately 90% of our total consolidated premiums earned. We also have significant positions in the life insurance and property and casualty insurance markets. Our life insurance segment had a market share of approximately 7% (in terms of premiums written) as of December 31, 2008. Our property and casualty segment had a market share of approximately 8% (in terms of direct premiums) as of December 31, 2008.

We participate in the managed care market through our subsidiary, Triple-S Salud, Inc. ( TSS ) (formerly known as Triple-S, Inc.). Our managed care subsidiary is a Blue Cross and Blue Shield Association (BCBSA) licensee, which provides us with exclusive use of the Blue Cross and Blue Shield name and mark throughout Puerto Rico and the U.S. Virgin Islands.

We participate in the life insurance market through our subsidiary, Triple-S Vida, Inc. ( TSV ) and in the property and casualty insurance market through our subsidiary, Triple-S Propiedad, Inc. ( TSP ) (formerly known as Seguros Triple-S, Inc.), each one representing approximately 5% of our consolidated premiums earned, net for the nine months ended September 30, 2009.

Intersegment revenues and expenses are reported on a gross basis in each of the operating segments but eliminated in the consolidated results. Except as otherwise indicated, the numbers for each segment presented in this Quarterly Report on Form 10-Q do not reflect intersegment eliminations. These intersegment revenues and expenses affect the amounts reported on the financial statement line items for each segment, but are eliminated in consolidation and do not change net income.



## **Table of Contents**

Our revenues primarily consist of premiums earned, net and administrative service fees. These revenues are derived from the sale of managed care products in the Commercial market to employer groups, individuals and government-sponsored programs, principally Medicare and Reform. Premiums are derived from insurance contracts and administrative service fees are derived from self-funded contracts, under which we provide a range of services, including claims administration, billing and membership services, among others. Revenues also include premiums earned from the sale of property and casualty and life insurance contracts, and investment income. Substantially all of our earnings are generated in Puerto Rico.

Claims incurred include the payment of benefits and losses, mostly to physicians, hospitals and other service providers, and to policyholders. Each segment's results of operations depend in significant part on their ability to accurately predict and effectively manage claims. A portion of the claims incurred for each period consists of claims reported but not paid during the period, as well as a management and actuarial estimate of claims incurred but not reported during the period. Operating expenses consist primarily of compensation expenses, commission payments to brokers and other overhead business expenses.

We use operating income as a measure of performance of the underwriting and investment functions of our segments. We also use the loss ratio and the operating expense ratio as measures of performance. The loss ratio is claims incurred divided by premiums earned, net, multiplied by 100. The operating expense ratio is operating expenses divided by premiums earned, net and administrative service fees, multiplied by 100.

### **Recent Developments**

#### *Acquisition of La Cruz Azul de Puerto Rico*

On July 1, 2009, the Corporation and TSS, its managed care subsidiary, obtained the licensing rights to the Blue Cross brand in Puerto Rico and the Blue Cross Blue Shield brand in the U.S. Virgin Islands from the BCBSA pursuant to license agreements with BCBSA. According to the license agreements, the Corporation and TSS acquired the right to sell, market and administer health care plans and related services under the brands in Puerto Rico and the U.S. Virgin Islands. The license agreements became effective upon the closing of the acquisition by TSS of certain managed care assets of La Cruz Azul de Puerto Rico, Inc. (LCA) in Puerto Rico and the U.S. Virgin Islands on such date. Further details of this transaction were included in note 12 to the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

#### *Healthcare Reform Contracts*

In June 2009 the Government of Puerto Rico (the government) extended the two fully-insured contracts managed by us until October 31, 2009. In July 2009, the Government of Puerto Rico issued a request for proposal for all Reform regions, for which TSS submitted proposals. In October 2009, the government notified that the proposals presented by all proponents were not accepted and that current contracts were extended for one additional month in order to negotiate an extension of the contracts.

#### *Special Additional Tax*

On July 10, 2009 the Governor of Puerto Rico signed into law Puerto Rico's Act No. 37, which requires certain corporations to pay a 5% additional special tax over tax liability. This additional special tax will be effective for three years, beginning with the income tax return corresponding to the year ending December 31, 2009.

### **Recent Accounting Standards**

For a description of recent accounting standards, see note 2 to the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

**Table of Contents****Managed Care Membership**

	<b>As of September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Managed care enrollment:</b>		
Commercial <sup>1</sup>	<b>745,933</b>	588,073
Reform <sup>2</sup>	<b>537,414</b>	340,710
Medicare <sup>3</sup>	<b>69,290</b>	73,893
<b>Total</b>	<b>1,352,637</b>	1,002,676
<b>Managed care enrollment by funding arrangement:</b>		
Fully-insured	<b>890,987</b>	826,127
Self-insured	<b>461,650</b>	176,549
<b>Total</b>	<b>1,352,637</b>	1,002,676

(1) Commercial membership includes corporate accounts, self-funded employers, individual accounts, Medicare Supplement, U.S. Federal government employees and local government employees.

(2) Includes rated and self-funded members.

(3) Includes Medicare Advantage as well as stand-alone PDP plan membership.

**Consolidated Operating Results**



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The following table sets forth the Corporation's consolidated operating results. Further details of the results of operations of each reportable segment are included in the analysis of operating results for the respective segments.

<i>(Dollar amounts in millions)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Revenues:</b>				
<b>Premiums earned, net</b>	<b>\$ 477.5</b>	433.2	<b>\$ 1,396.2</b>	1,256.8
<b>Administrative service fees</b>	<b>9.8</b>	4.5	<b>30.0</b>	12.1
<b>Net investment income</b>	<b>12.9</b>	14.1	<b>38.9</b>	41.8
<b>Total operating revenues</b>	<b>500.2</b>	451.8	<b>1,465.1</b>	1,310.7
<b>Net realized investment gain (losses)</b>	<b>2.1</b>	(1.1)	<b>(1.2)</b>	(2.2)
<b>Net unrealized investment (loss) gain on trading securities</b>	<b>4.9</b>	(3.6)	<b>8.1</b>	(10.8)
<b>Other income (expense), net</b>	<b>0.1</b>	(1.1)	<b>0.4</b>	(1.3)
<b>Total revenues</b>	<b>507.3</b>	446.0	<b>1,472.4</b>	1,296.4
<b>Benefits and expenses:</b>				
<b>Claims incurred</b>	<b>413.6</b>	365.6	<b>1,206.6</b>	1,070.6
<b>Operating expenses</b>	<b>71.2</b>	63.6	<b>208.1</b>	185.0
<b>Total operating expenses</b>	<b>484.8</b>	429.2	<b>1,414.7</b>	1,255.6
<b>Interest expense</b>	<b>3.4</b>	3.8	<b>10.0</b>	11.4
<b>Total benefits and expenses</b>	<b>488.2</b>	433.0	<b>1,424.7</b>	1,267.0
<b>Income before taxes</b>	<b>19.1</b>	13.0	<b>47.7</b>	29.4
<b>Income tax expense</b>	<b>1.0</b>	3.5	<b>7.0</b>	6.6
<b>Net income</b>	<b>\$ 18.1</b>	9.5	<b>\$ 40.7</b>	22.8

**Table of Contents*****Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008******Operating Revenues***

Consolidated premiums earned, net and administrative service fees increased by \$49.6 million, or 11.3%, to \$487.3 million during the three months ended September 30, 2009 compared to the three months ended September 30, 2008. The increase was mostly due to an increase in the premiums earned, net in our managed care segment, primarily from growth in Commercial membership, reflecting, in large part, the acquisition of La Cruz Azul (LCA), the addition of the Metro-North region in the Reform business, as well as higher premium rates across all businesses.

The increase in administrative service fees of \$5.3 million, to \$9.8 million in the 2009 period, is attributed to a higher self-insured member months enrollment. Increase is mostly due to the fact that the Corporation was granted the contract for the Reform's Metro-North region, which began on November 2008 on an ASO basis and added approximately 190,000 members to our enrollment and new members in our Commercial business primarily as the result of the aforementioned acquisition of LCA effective July 1, 2009.

Consolidated net investment income decreased by \$1.2 million, or 8.5%, to \$12.9 million during the three months ended September 30, 2009. This decrease is attributed to lower yields in investments acquired during the quarter.

***Net Realized Investment Gain***

Consolidated net realized investment gain of \$2.1 million during the three months ended September 30, 2009 are the result of net realized gains from the sale of fixed income and equity securities amounting to \$2.4 million. The realized gains were offset in part by \$0.2 million other-than-temporary impairments related to fixed income securities.

***Net Unrealized Gains on Trading Securities and Other Income, Net***

The combined balance of our consolidated net unrealized gain on trading securities and other income, net increased by \$9.7 million, to \$5.0 million during the three months ended September 30, 2009. This increase is attributable to an increase in the fair value of our trading securities portfolio and in the derivative component of our investment in structured notes linked to the Euro Stoxx 50 and Nikkei 225 stock indexes; both fluctuations are due to general increase in market values. The gain experienced on our trading portfolio represents a combined increase of 13.2% in the market value of the portfolio, which compares favorably with the changes experienced by the comparable indexes; the Standard and Poor's 500 Index increased by 15.0% and the Russell 1000 Growth increased by 13.5% during this period. The change in the fair value of the derivative component of these structured notes is included within other income (expense), net.

***Claims Incurred***

Consolidated claims incurred increased by \$48.0 million, or 13.1%, to \$413.6 million during the three months ended September 30, 2009 when compared to the claims incurred during the three months ended September 30, 2008. This increase is principally due to increased claims in the managed care segment as a result of higher enrollment, partially attributed to claims incurred from LCA members. The consolidated loss ratio increased by 2.2 percentage points to 86.6%, largely reflecting the increased utilization among local government employees, the effect of reserve developments in our managed care segment, and the impact of premium adjustments in the Reform business.

Excluding the effect of reserve developments in our managed care segment, and the impact of premium adjustments in the Reform business, the consolidated loss ratio increased 1.50 percentage points.

***Operating Expenses***

Consolidated operating expenses during the three months ended September 30, 2009 increased by \$7.6 million, or 11.9%, to \$71.2 million as compared to the operating expenses during the three months ended September 30, 2008. This increase is primarily attributed to a higher volume of business, particularly in our managed care segment as a result of the Metro-North region, which began in November 2008, as well as additional expenses resulting from the acquisition of LCA's membership. The consolidated operating expense ratio reflects a slight increase of 0.1 percentage point, to 14.6% during 2009.

**Table of Contents***Income tax expense*

Consolidated income tax expense during the three months ended September 30, 2009 decreased by \$2.5 million to \$1.0 million as compared to the income tax expense during the three months ended September 30, 2008. This decrease is primarily attributable to the use of tax credits during the 2009 period; the increase in weight in exempt income as compared to taxable income; and increase in the taxable income of the Life segment which is taxed at a lower rate.

***Nine Months Ended September 30, 2009 Compared to nine Months Ended September 30, 2008****Operating Revenues*

Consolidated premiums earned, net and administrative service fees increased by \$157.3 million, or 12.4%, to \$1,426.2 million during the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. The increase was primarily due to an increase in the premiums earned, net in our managed care segment, primarily from growth in Commercial membership, reflecting, in large part, the acquisition of La Cruz Azul (LCA) and the addition of the Metro-North region in the Reform business, as well as higher premium rates across all businesses.

The increase in the administrative service fees of the managed care segment of \$17.9 million in the 2009 period is attributed to a higher self-insured member months enrollment. Increase is mostly due to the fact that the Corporation was granted the contract for the Reform's Metro-North region, which began on November 2008 on an ASO basis and added approximately 190,000 members to our enrollment and new members in our Commercial business principally as the result of the aforementioned acquisition of LCA.

Consolidated net investment income decreased by \$2.9 million, or 6.9%, to \$38.9 million during the nine months ended September 30, 2009. This decrease is attributed to a lower yields in investment acquired during the period.

*Net Realized Investment Losses*

Consolidated net realized investment losses of \$1.2 million during the nine months ended September 30, 2009 are the result of other-than-temporary impairments related to fixed income and equity securities amounting to \$5.9 million.

The other-than-temporary impairments were offset in part by \$4.7 million of net realized gains from the sale of fixed income and equity securities.

*Net Unrealized Gains on Trading Securities and Other Income, Net*

The combined balance of our consolidated net unrealized gain on trading securities and other income, net increased by \$20.6 million, to \$8.5 million during the nine months ended September 30, 2009. This increase is attributable to an increase in the fair value of our trading securities portfolio and in the derivative component of our investment in structured notes linked to the Euro Stoxx 50 and Nikkei 225 stock indexes; both fluctuations are due to general market fluctuations. The unrealized gain experienced on our trading portfolio represents a combined increase of 22.6% in the market value of the portfolio, which compares favorably with the changes experienced by the comparable indexes; the Standard and Poor's 500 Index increased by 17.0% and the Russell 1000 Growth increased by 25.4%. The change in the fair value of the derivative component of these structured notes is included within other income (expense), net.

*Claims Incurred*

Consolidated claims incurred during the nine months ended September 30, 2009 increased by \$136.0 million, or 12.7%, to \$1,206.6 million when compared to the claims incurred during the nine months ended September 30, 2008. This increase is principally due to increased claims in the managed care segment as a result of higher enrollment and MLR. The consolidated loss ratio increased by 1.2 percentage points to 86.4%, primarily due to higher utilization trends in the managed care segment and the effect of reserve developments, offset by the risk score premium adjustment in the Medicare business.

*Operating Expenses*

**Table of Contents**

Consolidated operating expenses during the nine months ended September 30, 2009 increased by \$23.1 million, or 12.5%, to \$208.1 million as compared to the operating expenses during the nine months ended September 30, 2008. This increase is primarily attributed to a higher volume of business, particularly in our managed care segment as a result of the Metro-North region which began in November 2008, the acquisition of LCA and the increased volume in the Medicare and Commercial businesses. In addition, a contingency expense accrual of approximately \$7.5 million was recorded during the 2009 period, partially offset by the effect in this period of \$3.6 million related to the settlement of an insurance recovery of legal expenses. The consolidated operating expense ratio did not change during 2009.

*Income tax expense*

Consolidated income tax expense during the nine months ended September 30, 2009 increased by \$0.4 million to \$7.0 million as compared to the income tax expense during the nine months ended September 30, 2008. The effective tax rate decreased by 7.7 percentage points to 14.7% primarily due to the use of tax credits during the 2009 period; the increase in weight in exempt income as compared to taxable income; and increase in the taxable income of the Life segment which is taxed at a lower rate.

**Managed Care Operating Results**

<i>(Dollar amounts in millions)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Operating revenues:</b>				
<b>Medical premiums earned, net:</b>				
Commercial	\$ 217.3	184.4	\$ 600.3	546.1
Reform	89.4	90.4	257.7	252.3
Medicare	122.7	113.1	394.0	323.6
<b>Medical premiums earned, net</b>	<b>429.4</b>	<b>387.9</b>	<b>1,252.0</b>	<b>1,122.0</b>
<b>Administrative service fees</b>	<b>10.5</b>	<b>5.2</b>	<b>32.0</b>	<b>14.5</b>
<b>Net investment income</b>	<b>5.4</b>	<b>5.9</b>	<b>15.9</b>	<b>17.6</b>
<b>Total operating revenues</b>	<b>445.3</b>	<b>399.0</b>	<b>1,299.9</b>	<b>1,154.1</b>
<b>Medical operating costs:</b>				
<b>Medical claims incurred</b>	<b>387.7</b>	<b>343.8</b>	<b>1,131.8</b>	<b>1,002.8</b>
<b>Medical operating expenses</b>	<b>47.5</b>	<b>40.1</b>	<b>136.0</b>	<b>116.9</b>
<b>Total medical operating costs</b>	<b>435.2</b>	<b>383.9</b>	<b>1,267.8</b>	<b>1,119.7</b>
<b>Medical operating income</b>	<b>\$ 10.1</b>	<b>15.1</b>	<b>\$ 32.1</b>	<b>34.4</b>
<b>Additional data:</b>				
<b>Member months enrollment:</b>				
<b>Commercial:</b>				
<b>Fully-insured</b>	<b>1,441,028</b>	<b>1,234,011</b>	<b>3,977,778</b>	<b>3,698,285</b>
<b>Self-funded</b>	<b>812,780</b>	<b>527,145</b>	<b>1,954,997</b>	<b>1,522,524</b>
<b>Total Commercial member months</b>	<b>2,253,808</b>	<b>1,761,156</b>	<b>5,932,775</b>	<b>5,220,809</b>
<b>Reform:</b>				
<b>Fully-insured</b>	<b>1,011,294</b>	<b>1,024,093</b>	<b>2,997,800</b>	<b>3,089,384</b>

<b>Self-funded</b>	<b>590,117</b>		<b>1,723,568</b>	
<b>Total Reform member months</b>	<b>1,601,411</b>	1,024,093	<b>4,721,368</b>	3,089,384
<b>Medicare</b>				
<b>Medicare Advantage</b>	<b>179,878</b>	189,518	<b>565,439</b>	530,395
<b>Stand-alone PDP</b>	<b>29,330</b>	31,894	<b>88,301</b>	97,374
<b>Total Medicare member months</b>	<b>209,208</b>	221,412	<b>653,740</b>	627,769
<b>Total member months</b>	<b>4,064,427</b>	3,006,661	<b>11,307,883</b>	8,937,962
<b>Medical loss ratio</b>	<b>90.3%</b>	88.6%	<b>90.4%</b>	89.4%
<b>Operating expense ratio</b>	<b>10.8%</b>	10.2%	<b>10.6%</b>	10.3%

**Table of Contents*****Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008******Medical Operating Revenues***

Medical premiums earned for the three months ended September 30, 2009 increased by \$41.5 million, or 10.7%, to \$429.4 million when compared to the medical premiums earned during the three months ended September 30, 2008. This increase is principally the result of the following:

Medical premiums generated by the Commercial business increased by \$32.9 million, or 17.8%, to \$217.3 million during the three months ended September 30, 2009. This fluctuation is primarily the result of an increase in member months enrollment of 207,017, or 16.8%, and an increase in average premium rates per member of approximately 1.5%. Increase in member months was attributed to new members acquired from LCA effective July 1, 2009, which amount to 115,648 member months, or 55.9% of the increase in member months enrollment experienced during this quarter and to new groups acquired during the period.

Medical premiums generated by the Medicare business increased during the three months ended September 30, 2009 by \$9.6 million, or 8.5%, to \$122.7 million, primarily due to a higher average premium rates, particularly in our dual eligible product. Even though premium rates increased, overall member months enrollment decreased by 12,204 or 5.5% when compared with the same period during prior year. The fluctuation in member months enrollment is the result of a decrease of 9,640, or 5.1%, in the membership of our Medicare Advantage products and a decrease of 2,564 thousand, or 8.0%, in the membership of our PDP product.

Medical premiums earned in the Reform business decreased by \$1.0 million, or 1.1%, to \$89.4 million during the three months ended September 30, 2009. This fluctuation is due to lower member months enrollment in the Reform s fully-insured membership by 12,799, or 1.2% and a premium adjustment of approximately \$2.9 million to provide for unresolved reconciling items with the Government of Puerto Rico.

Administrative service fees increased by \$5.3 million, to \$10.5 million during the 2009 period, mainly due to an increase in self-funded member months enrollment of 875,752. Such increase is mainly the result of the contract obtained to administer the Reform s Metro-North region, which began as an ASO contract on November 1, 2008, as well as new commercial ASO contracts that were effective January 1, 2009. In addition, the contracts acquired from LCA effective July 1, 2009 included several ASO groups. Total member months enrollment for the Metro-North region and LCA during the three months ended September 30, 2009 totaled 590,117 and 255,494, respectively.

***Medical Claims Incurred***

Medical claims incurred during the three months ended September 30, 2009 increased by \$43.9 million, or 12.8%, to \$387.7 million when compared to the three months ended September 30, 2008. The medical loss ratio ( MLR ) of the segment increased 1.7 percentage points during the 2009 period, to 90.3%. These fluctuations are primarily attributed to the effect of the following:

The medical claims incurred of the Commercial business increased by \$28.2 million during the 2009 period and its MLR decreased by 0.8 percentage points during the three months ended September 30, 2009. This fluctuation relates primarily to the increase in member months enrollment of 207,017, or 16.8%. The 2008 reported MLR is higher due to the fact that it does not consider the favorable reserve development of the September 30, 2008 reserves. Excluding the effect of prior period reserve developments in the 2009 and 2008 period, the MLR increased by 0.8 percentage points. This variance in MLR is due to a higher than expected claims experience in local government employees policy, mainly due to an increase in the utilization of pharmacy and in-patient benefits and of the significant increase in the utilization related to the AH1N1 flu, which increased our claims incurred by approximately \$2.1 million, or 100 basis points during the quarter.

The medical claims incurred of the Medicare business increased by \$13.2 million or 13.6% during the 2009 period and its MLR was 90.5%, 4.1 percentage points higher than the MLR for same period of the prior year. Both increases are primarily due to the fact that the claims incurred and MLR from last year do not consider the effect of an unfavorable reserve development of the September 2008 reserves. Excluding the effect of prior period reserve developments in the 2009 and 2008 periods, the 2009 MLR decreased by 3.0



**Table of Contents**

percentage points. This decrease is mostly due to the effect of lower medical cost as a result of improvement in utilization trends and premium rate increases effective January 1, 2009.

The medical claims incurred of the Reform business increased by \$2.5 million and its MLR increased by 3.8 percentage points during the three months ended September 30, 2009. The higher MLR is primarily due to the fact that last year premiums rates were increased effective July 2008 and that no increases were granted in 2009 quarter. Thus, this quarter presents the effect of the trends in cost and utilization but no premium increases.

*Medical Operating Expenses*

Medical operating expenses for the three months ended September 30, 2009 increased by \$7.4 million, or 18.5%, to \$47.5 million when compared to the three months ended September 30, 2008. This increase is mainly attributable to the higher volume of business of the segment associated to its increased enrollment, as well as additional expenses resulting from the acquisition of LCA's membership. The segment's operating expense ratio increased by 0.6 percentage points, from 10.2% in 2008 to 10.8% in 2009 due to incremental cost for LCA and Metro-North administration as an ASO contracts.

***Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008****Medical Operating Revenues*

Medical premiums earned for the nine months ended September 30, 2009 increased by \$130.0 million, or 11.6%, to \$1,252.0 million when compared to the medical premiums earned during the nine months ended September 30, 2008.

This increase is principally the result of the following:

Medical premiums generated by the Medicare business increased during the nine months ended September 30, 2009 by \$70.4 million, or 21.8%, to \$394.0 million, primarily due to an increase in member months enrollment of 25,971 or 4.1%, and higher average premium rates of approximately 11%. The fluctuation in member months is the net result of an increase of 25,044, or 4.6%, in the membership of our Medicare Advantage products and a decrease of 9,073, or 9.3%, in the membership of our PDP product. In addition, the nine months ended September 30, 2009 include the net effect of approximate \$8.7 million in adjustments related to CMS final risk score adjustment for 2008. The nine months ended September 30, 2008 include the net effect of approximately \$1.4 million related to CMS final risk score adjustments for 2007.

Medical premiums generated by the Commercial business increased by \$54.2 million, or 9.9%, to \$600.3 million during the nine months ended September 30, 2009. This fluctuation is primarily the result of an increase in member months enrollment of 279,493, or 7.6% and increase in average premium rates per member of approximately 2.8%. Increase in member months was mainly attributed to new members acquired from LCA effective July 1, 2009, which amount to 115,648 member months, or 41.4% of the increase in member months enrollment experienced during this period and to new groups acquired during the period.

Medical premiums earned in the Reform business increased by \$5.4 million, or 2.1%, to \$257.7 million during the nine months ended September 30, 2009. This fluctuation is due to an increase in premium rates, effective July 1, 2008, of approximately 10%, offset in part by a lower member months enrollment in the Reform's fully-insured membership by 91,584, or 3.0% and a premium adjustment of approximately \$8.4 million to provide for unresolved reconciling items with the Government of Puerto Rico.

Administrative service fees increased by \$17.5 million, to \$32.0 million during the 2009 period, mainly due to an increase in self-funded member months enrollment of 2,156,041. Such increase is mainly the result of the contract obtained to administer the Reform's Metro-North region, which began as an ASO contract on November 1, 2008, new ASO Commercial contracts effective January 1, 2009, as well as the ASO members from the contracts acquired from LCA. Total member months enrollment for the Metro-North region and LCA for the nine months ended September 30, 2009 totaled 1,723,568 and 255,494, respectively.



**Table of Contents***Medical Claims Incurred*

Medical claims incurred during the nine months ended September 30, 2009 increased by \$129.0 million, or 12.9%, to \$1,131.8 million, when compared to the nine months ended September 30, 2008. The MLR of the segment increased by 1.0 percentage points during the 2009 period, to 90.4%. These fluctuations are primarily attributed to the effect of the following:

The medical claims incurred of the Commercial business increased by \$69.6 million during the 2009 period and its MLR increased by 3.7 percentage points during the nine months ended September 30, 2009. The increase in claims was partially attributed to the increase in members. The increase in the MLR is primarily due to the effect of prior period reserve developments in the 2009 and 2008 periods and higher utilization trends. Excluding the effect of prior period reserve developments, the MLR increased by 2.3 percentage points. This variance in MLR is due to a higher than expected claims experience in the local government employees policy, mainly in the utilization of pharmacy and in-patient benefits and the effect of the AH1N1 flu of approximately \$2.5 million, or 40 basis points.

The medical claims incurred of the Medicare business increased by \$59.0 million during the 2009 period primarily due to the higher member months enrollment of this business. The MLR for the nine months ended September 30, 2009 was 90.1%, a reduction of 1.4 percentage points compared to same period in 2008. This reduction in MLR is attributed to the effect of risk score premium adjustments recorded during this period, as well as premium rate increases and lower utilization trends. Excluding the effect of prior period reserve developments in the 2009 and 2008 period, as well as premium adjustments, the MLR decreased by 3.3 percentage points. This decrease is mostly due to the effect of lower medical cost as a result of improvement in utilization trends and premium rate increases effective January 1, 2009.

The medical claims incurred of the Reform business increased by \$0.4 million and its MLR decreased by 1.7 percentage points during the nine months ended September 30, 2009. The lower MLR is primarily due to reserve development in the 2009 and 2008 periods and the effect of the premium adjustment to provide for unresolved reconciling items. In addition, in 2008 we recognized a retroactive adjustment reducing capitation rates. Excluding the effect of these items in the 2009 and 2008 period the MLR of this business remained in line with 2008 period.

*Medical Operating Expenses*

Medical operating expenses for the nine months ended September 30, 2009 increased by \$19.1 million, or 16.3%, to \$136.0 million when compared to the nine months ended September 30, 2008. This increase is mainly due to the higher volume of business of the segment associated to the higher member months enrollment as well as the operating costs related to the administration of the Metro-North region and the acquisition and administration of the LCA customers. In addition, a contingency expense accrual of approximately \$7.5 million was recorded during the 2009 period, partially offset by the effect in this period of \$3.6 million related to the settlement of an insurance recovery of legal expenses. The segment's operating expenses ratio increased by 0.3 percentage points, from 10.3% in 2008 to 10.6% in 2009.

**Table of Contents****Life Insurance Operating Results**

<i>(Dollar amounts in millions)</i>	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Operating revenues:</b>				
<b>Premiums earned, net:</b>				
Premiums earned	\$ 26.2	25.2	\$ 79.1	74.0
Premiums earned ceded	(1.5)	(1.8)	(4.6)	(5.6)
Net premiums earned	24.7	23.4	74.5	68.4
Commission income on reinsurance		0.1		0.2
<b>Premiums earned, net</b>	<b>24.7</b>	<b>23.5</b>	<b>74.5</b>	<b>68.6</b>
<b>Net investment income</b>	<b>4.1</b>	<b>4.2</b>	<b>12.5</b>	<b>12.1</b>
<b>Total operating revenues</b>	<b>28.8</b>	<b>27.7</b>	<b>87.0</b>	<b>80.7</b>
<b>Operating costs:</b>				
<b>Policy benefits and claims incurred</b>				
<b>Underwriting and other expenses</b>	<b>12.2</b>	12.0	<b>37.9</b>	35.2
	<b>12.6</b>	12.7	<b>38.2</b>	36.8
<b>Total operating costs</b>	<b>24.8</b>	24.7	<b>76.1</b>	72.0
<b>Operating income</b>	<b>\$ 4.0</b>	3.0	<b>\$ 10.9</b>	8.7
<b>Additional data:</b>				
<b>Loss ratio</b>	<b>49.4%</b>	51.1%	<b>50.9%</b>	51.3%
<b>Operating expense ratio</b>	<b>51.0%</b>	54.0%	<b>51.3%</b>	53.6%

**Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008***Operating Revenues*

Premiums earned, net for the segment increased by \$1.2 million, or 5.1%, to \$24.7 million during the three months ended September 30, 2009 as compared to the three months ended September 30, 2008, primarily as the result of higher sales in the Cancer and individual life lines of business during the period.

*Policy Benefits and Claims Incurred*

Policy benefits and claims incurred during the three months ended September 30, 2009 increased by \$0.2 million, or 1.7%, to \$12.2 million during the three months ended September 30, 2009. This fluctuation is primarily the result of increase in claims incurred in the individual life benefits, mostly offset by a lower claims experience in the cancer line of business. The segment's loss ratio decreased by 1.7 percentage points, from 51.1% during the three months ended September 30, 2008 to 49.4% during the same period of 2009 mostly as the result of a lower loss ratio in the cancer line of business.

*Underwriting and Other Expenses*

Underwriting and other expenses for the segment decreased by \$0.1 million, or 0.8%, to \$12.6 million during the three months ended September 30, 2009 as compared with the three months ended September 30, 2008; the segment's operating expense ratio decreased by 3.0 percentage points, to 51.0% during the 2009 period.

**Nine Months Ended September 30, 2009 Compared to nine Months Ended September 30, 2008***Operating Revenues*

Premiums earned, net for the segment increased by \$5.9 million, or 8.6%, to \$74.5 million during the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008, primarily as the result of higher sales in the cancer and individual lines of business during the period.

**Table of Contents***Policy Benefits and Claims Incurred*

Policy benefits and claims incurred during the nine months ended September 30, 2009 increased by \$2.7 million, or 7.7%, to \$37.9 million during the nine months ended September 30, 2009. This fluctuation is primarily the result of an increase in volume, the amount of claims incurred and an increase in the change of the liability for future policy benefits. The increase in claims incurred is the result of higher claims in the individual life and cancer lines of business attributed to the higher volume of these businesses, offset in part by a lower volume and claims experience in the group life line of business. The segment's loss ratio decreased by 0.4 percentage points, from 51.3% during the nine months ended September 30, 2008 to 50.9% during the same period of 2009.

*Underwriting and Other Expenses*

Underwriting and other expenses for the segment increased by \$1.4 million, or 3.8%, to \$38.2 million during the nine months ended September 30, 2009 primarily the result of the higher commission expense resulting from the growth experienced in the cancer and individual lines of business. The segment's operating expense ratio decreased by 2.3 percentage points, to 51.3% during the 2009 period.

**Property and Casualty Insurance Operating Results**

<i>(Dollar amounts in millions)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Operating revenues:</b>				
<b>Premiums earned, net:</b>				
Premiums written	\$ 40.1	39.5	110.8	115.6
Premiums ceded	(15.5)	(17.8)	(45.0)	(51.7)
Change in unearned premiums	(0.2)	1.2	7.2	5.4
<b>Premiums earned, net</b>	<b>24.4</b>	<b>22.9</b>	<b>73.0</b>	<b>69.3</b>
<b>Net investment income</b>	<b>3.0</b>	<b>2.9</b>	<b>8.8</b>	<b>8.9</b>
<b>Total operating revenues</b>	<b>27.4</b>	<b>25.8</b>	<b>81.8</b>	<b>78.2</b>
<b>Operating costs:</b>				
<b>Claims incurred</b>	<b>13.7</b>	<b>9.8</b>	<b>36.9</b>	<b>32.5</b>
<b>Underwriting and other expenses</b>	<b>13.5</b>	<b>13.1</b>	<b>40.5</b>	<b>38.4</b>
<b>Total operating costs</b>	<b>27.2</b>	<b>22.9</b>	<b>77.4</b>	<b>70.9</b>
<b>Operating income</b>	<b>\$ 0.2</b>	<b>2.9</b>	<b>4.4</b>	<b>7.3</b>
<b>Additional data:</b>				
<b>Loss ratio</b>	<b>56.1%</b>	<b>42.8%</b>	<b>50.5%</b>	<b>46.9%</b>
<b>Operating expense ratio</b>	<b>55.3%</b>	<b>57.2%</b>	<b>55.5%</b>	<b>55.4%</b>
<b>Combined ratio</b>	<b>111.4%</b>	<b>100.0%</b>	<b>106.0%</b>	<b>102.3%</b>

*Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008**Operating Revenues*

Total premiums written during the three months ended September 30, 2009 increased by \$0.6 million, or 1.5%, to \$40.1 million. The commercial business continues under soft market conditions, thus reducing premiums and increasing competition for renewals and new business. Also, the lower activity in the mortgage and construction sector due to the economic slowdown has affected the volume for dwelling and construction related insurance.

Premiums ceded to reinsurers during the three months ended September 30, 2009 decreased by approximately \$2.3 million, or 12.9% to \$15.5 million during the third quarter of 2009. The ratio of premiums ceded to premiums written decreased by 6.4 percentage points, from 45.1% in 2008 to 38.7% in 2009. This fluctuation primarily results from the reduction of reinsurance cessions in quota share contracts for commercial and personal property insurance risks of 5.0% and 7.2%, respectively.

**Table of Contents**

The change in unearned premiums presented a decrease of \$1.4 million, to \$(0.2) million during the three months ended September 30, 2009, primarily as the result of the higher volume of premiums written in the current quarter.

*Claims Incurred*

Claims incurred during the three months ended September 30, 2009 increased by \$3.9 million, or 39.8%, to \$13.7 million. The increase is primarily attributed higher incurred losses for commercial multi-peril and personal auto insurance; offset by decreases in general liability and medical malpractice incurred losses. The loss ratio increased by 13.3 percentage points, to 56.1% during the three months ended September 30, 2009, primarily in the commercial multi-peril and personal auto lines of business due to a higher amount of reported claims; offset in part by decreases in general liability and medical malpractice losses.

*Underwriting and Other Expenses*

Underwriting and other operating expenses for the three months ended September 30, 2009 increased by \$0.4 million, or 3.1%, to \$13.5 million. This fluctuation is primarily due to an increase in net commission expense attributed to the receipt of lower reinsurance commissions compared to the same quarter in the prior year after changes in the quota share reinsurance contracts. The operating expense ratio decreased by 1.9 percentage points during the same period, to 55.3% in 2009 as the result of the above and to the higher volume of business of the segment.

***Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008****Operating Revenues*

Total premiums written during the nine months ended September 30, 2009 decreased by \$4.8 million, or 4.2%, to \$110.8 million. This fluctuation is primarily due to a decrease in premiums written in the commercial auto, dwelling and property mono-line, commercial auto and all other line of business insurance policies of approximately \$8.2 million, offset in part by increases in the general liability and personal auto lines of business. The commercial business continues under soft market conditions, thus reducing premiums and increasing competition for renewals and new business. Also, lower activity in auto, mortgage loan originations and construction due to the economic slowdown has affected the volume in the market.

Premiums ceded to reinsurers during the nine months ended September 30, 2009 decreased by approximately \$6.7 million, or 13.0%, to \$45.0 million during the third quarter of 2009. The ratio of premiums ceded to premiums written decreased by 4.1 percentage points, from 44.7% in 2008 to 40.6% in 2009. This fluctuation was the result of the effect of a portfolio transfer to us and from the reduction of reinsurance cessions in quota shares contracts for commercial and personal property insurance risks of 5.0% and 7.2%, respectively. Decrease is offset in part by the increase in non-proportional insurance treaties in 2009 in relation to the level of premiums written. The cost of non-proportional treaties is negotiated for the whole year based on expected premium volume. The cost is distributed throughout the year on a straight-line basis and its relation to direct premiums written varies depending on actual writings in each quarter versus expected results.

The change in unearned premiums presented an increase of \$1.8 million, to \$7.2 million during the nine months ended September 30, 2009, primarily as the result of the lower volume of premiums written.

*Claims Incurred*

Claims incurred during the nine months ended September 30, 2009 increased by \$4.4 million, or 13.5%, to \$36.9 million. This increase is primarily seen in incurred losses for commercial multi-peril, dwelling and property mono-line, and personal auto; offset by decreases in the commercial auto and general liability incurred losses. The loss ratio increased by 3.6 percentage points, to 50.5% during the nine months ended September 30, 2009, primarily due to an unfavorable loss experience in the commercial multi-peril, dwelling and property mono-line, and personal auto insurance.

*Underwriting and Other Expenses*

Underwriting and other operating expenses for the nine months ended September 30, 2009 increased by \$2.1 million, or 5.5%, to \$40.5 million. This increase is primarily due to an increase in net commissions due to the effect of (a) the direct commissions paid presented a decrease of \$1.6 million due to the lower volume of premiums written

**Table of Contents**

(b) the reinsurance commissions received decreased by \$2.7 million due to the lower cessions in the commercial and personal lines quota share contracts. Also, the net change of deferred acquisition costs increased by \$0.9 million. The operating expense ratio increased by 0.1 percentage points during the same period, to 55.5% in 2009.

**Liquidity and Capital Resources***Cash Flows*

A summary of our major sources and uses of cash for the periods indicated is presented in the following table:

<i>(Dollar amounts in millions)</i>	<b>Nine months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Sources of cash:</b>		
Net proceeds from short-term borrowings	\$	31.8
Proceeds from policyholder deposits	<b>3.7</b>	7.1
Cash provided by operating activities	<b>66.7</b>	
Other		18.1
<b>Total sources of cash</b>	<b>70.4</b>	57.0
<b>Uses of cash:</b>		
Cash used in operating activities		(19.9)
Net purchases of investment securities	<b>(6.8)</b>	(214.7)
Capital expenditures	<b>(14.7)</b>	(12.1)
Repurchase and retirement of common stock	<b>(22.0)</b>	
Payments of long-term borrowings	<b>(1.2)</b>	(1.2)
Surrenders of policyholder deposits	<b>(4.9)</b>	(5.8)
Other	<b>(12.2)</b>	
<b>Total uses of cash</b>	<b>(61.8)</b>	(253.7)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 8.6</b>	(196.7)

Cash flows from operating activities increased by \$86.6 million for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008, principally due to the effect of increase in premiums collections by \$207.3 million, offset in part by increases claims paid and cash paid to suppliers and employees amounting of \$89.4 million and \$32.0 million, respectively. The increase in premiums collected is the result of a higher member months enrollment, mainly in the Medicare and Commercial businesses, particularly after the acquisition by TSS of LCA's membership. Also, the amount of premiums collected last year would have been higher when considering the \$22.8 million of managed care premiums collected in December 2007 but corresponding to January 2008. The fluctuation in claims paid is primarily the result of the higher volume and increased utilization trends in our managed care segment, particularly in the Medicare and Commercial businesses.

Net acquisition of investment securities decreased by \$207.6 million during the nine months ended September 30, 2009, principally as the result the effect of purchases of investments with trade date in December 2007 and a settlement date in January 2008, amounting to \$117.5 million and cash used in financing activities.

The decrease in the other sources (uses) of cash of \$30.3 million is attributed to changes in the amount of outstanding checks over bank balances in the 2009 period.

In 2008 the proceeds from short-term borrowings exceeded payments of short-term borrowings by \$31.8 million. Short-term borrowings are used to address timing differences between cash receipts and disbursements from operations as well as to take advantage of some investment opportunities.

Capital expenditures increased by \$2.6 million as a result of the capitalization of costs related to the new systems initiative in our managed care segment.

The net proceeds from policyholder deposits decreased by \$3.4 million during the nine months ended September 30, 2009 primarily due to the lower deposits received during the period.



## **Table of Contents**

On December 8, 2008 we announced the immediate commencement of a \$40.0 million share repurchase program. We paid approximately \$22.0 million under the stock repurchase program during the nine months ended September 30, 2009.

### *Financing and Financing Capacity*

We have several short-term facilities available to address timing differences between cash receipts and disbursements. These short-term facilities are mostly in the form of arrangements to sell securities under repurchase agreements. As of September 30, 2009, we had \$70.0 million of available credit under these facilities. There were no outstanding short-term borrowings under these facilities as of September 30, 2009.

As of September 30, 2009, we had the following senior unsecured notes payable:

On January 31, 2006, we issued and sold \$35.0 million of our 6.7% senior unsecured notes payable due January 2021 (the 6.7% notes).

On December 21, 2005, we issued and sold \$60.0 million of our 6.6% senior unsecured notes due December 2020 (the 6.6% notes).

On September 30, 2004, we issued and sold \$50.0 million of its 6.3% senior unsecured notes due September 2019 (the 6.3% notes).

The 6.3% notes, the 6.6% notes and the 6.7% notes contain certain covenants. At September 30, 2009, we and our managed care subsidiary, as applicable, are in compliance with these covenants.

In addition, we are a party to a secured term loan with a commercial bank, FirstBank Puerto Rico. This secured loan bears interest at a rate equal to the London Interbank Offered Rate (LIBOR) plus 100 basis points and requires monthly principal repayments of \$0.1 million. As of September 30, 2009, this secured loan had an outstanding balance of \$23.1 million and average annual interest rate of 1.77%.

This secured loan is guaranteed by a first lien on our land, buildings and substantially all leasehold improvements, as collateral for the term of the agreements under a continuing general security agreement. This secured loan contains certain non-financial covenants which are customary for this type of facility, including, but not limited to, restrictions on the granting of certain liens, limitations on acquisitions and limitations on changes in control. As of September 30, 2009 we are in compliance with these covenants. Failure to meet these covenants may trigger the accelerated payment of the secured loan's outstanding balance.

We anticipate that we will have sufficient liquidity to support our currently expected needs.

Further details regarding the senior unsecured notes and the credit agreements are incorporated by reference to

Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2008.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to certain market risks that are inherent in our financial instruments, which arise from transactions entered into in the normal course of business. We have exposure to market risk mostly in our investment activities. For purposes of this disclosure, market risk is defined as the risk of loss resulting from changes in interest rates and equity prices. No material changes have occurred in our exposure to financial market risks since December 31, 2008. A discussion of our market risk is incorporated by reference to Item 7A. Quantitative and Qualitative Disclosures about Market Risk of our Annual Report on Form 10-K for the year ended December 31, 2008.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

In connection with the preparation of this Quarterly Report on Form 10-Q, management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined under Exchange Act Rule 13a-15(e)). Disclosure controls and procedures are designed to ensure that information required to be disclosed in

## **Table of Contents**

reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility that judgments in decision-making can be faulty, and breakdowns as a result of simple errors or mistake. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of September 30, 2009, which is the end of the period covered by this Quarterly Report on Form 10-Q our disclosure controls and procedures were effective.

There were no significant changes in our disclosure controls and procedures, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed the evaluation referred to above.

### **Remediation of Material Weakness**

As of December 31, 2008, we did not maintain effective controls that would allow us to ensure that other-than-temporary impairments (OTTI) on available for sale investment securities were recorded in accordance with GAAP. Specifically, our policies and procedures were not designed effectively to identify a complete population of available for sale investments that should have been analyzed for OTTI. Also, our monitoring controls failed to consider factors that indicate a decline in the value of available for sale investments is other than temporary in accordance with GAAP. These control deficiencies in combination, constitute a material weakness that resulted in material errors in net realized investment losses in our preliminary 2008 annual consolidated financial statements which were corrected prior to issuance of the Corporation's audited consolidated financial statements.

As of September 30, 2009 we have implemented additional control procedures necessary to remediate this material weakness. In particular we have implemented the following control procedures:

Improved the governance process over the Corporation's investment activities, by including OTTI analysis on the quarterly agenda of our Investment Committee and by reporting the results of the OTTI analysis to our Audit Committee.

Amended and expanded the criteria for the selection of impaired investment positions for OTTI evaluation increasing the scope of our evaluation.

Prepared more robust supporting documentation for the OTTI analysis, including related reports used when evaluating those impaired investments selected in accordance with our selection criteria, addressing the reasons for the decline in value, period for which the decline has been observed, an estimate of the anticipated recovery period and its related probability of recoverability, credit ratings for the issue and issuer (when available) and any changes thereto.

Implemented a procedure designed to effectively disseminate the most recent authoritative accounting pronouncements related to OTTI to ensure that employees involved in the OTTI evaluation process receive the information on a timely basis.

We believe that the implementation of the additional control procedures described above remediated the material weakness disclosed in our Annual Report on Form 10-K as of December 31, 2008. We tested the effectiveness of the additional control procedures and found them to be effective.

### **Changes in Internal Controls Over Financial Reporting**

Except for the control procedures described above, which were implemented to remediate the material weakness included in our Annual Report on Form 10-K as of December 31, 2008, no changes in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) occurred during the fiscal quarter ended

**Table of Contents**

September 30, 2009 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Part II Other Information****Item 1. Legal Proceedings**

For a description of legal proceedings, see note 14 to the unaudited consolidated financial statements included in this quarterly report on Form 10-Q.

**Item 1A. Risk Factors**

For a description of risk factors, see Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2008, as updated in Item 1A of Part II of the Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Purchases of Equity Securities by the Issuer**

The following table presents information related to our repurchases of common stock for the period indicated:

	Total Number of Shares Purchased as Part of	Average Price Paid per Share	Publicly Announced Programs <sup>1</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
<i>(Dollar amounts in millions, except per share data)</i>				
July 1, 2009 to July 31, 2009				\$ 3.9
August 1, 2009 to August 31, 2009				3.9
September 1, 2009 to September 30, 2009				3.9

<sup>1</sup> In October 2008, the Board of Directors authorized a \$40.0 million share repurchase program, which commenced on December 8, 2008.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Submissions of Matters to a Vote of Security Holders**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Table of Contents**

**Item 6. Exhibits**

<i>Exhibits</i>	<i>Description</i>
10.1	Blue Cross License Agreement by and between Blue Cross Blue Shield Association and the Company, including revisions, if any, adopted by the Member Plans through the March 19, 2009 meeting (incorporated herein by reference to Exhibit 10.1 to TSM's Current Report on Form 8-K dated July 1, 2009 (File No. 001-33865)).
10.2	Blue Cross Controlled Affiliate License Agreement by and among Blue Cross Blue Shield Association, Triple-S Salud, Inc. and the Company, including revisions, if any, adopted by the Member Plans through the March 19, 2009 meeting (incorporated herein by reference to Exhibit 10.2 to TSM's Current Report on Form 8-K dated July 1, 2009 (File No. 001-33865)).
10.3	Extension to the agreement between the Puerto Rico Health Insurance Administration and Triple-S Salud, Inc. for the provision of health insurance coverage to eligible population in the North and South-West regions (incorporated herein by reference to Exhibit 10.3 to TSM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 001-33865)).
10.4*	Extension to the agreement between the Puerto Rico Health Insurance Administration and Triple-S Salud, Inc. for the provision of <u>the wraparound coverage for the Government health insurance dual-eligible population.</u>
11	Statement re computation of per share earnings; an exhibit describing the computation of the earnings per share for the three months and six months ended September 30, 2009 and 2008 has been omitted as the detail necessary to determine the computation of earnings per share can be clearly determined from the material contained in Part I of this Quarterly Report on Form 10-Q.
31.1*	Certification of the President and Chief Executive Officer required by Rule 13a-14(a)/15d-14(a).
31.2*	Certification of the Vice President of Finance and Chief Financial Officer required by Rule 13a-14(a)/15d-14(a).
32.1*	Certification of the President and Chief Executive Officer required pursuant to 18 U.S.C Section 1350.
32.2*	Certification of the Vice President of Finance and Chief Financial Officer required pursuant to 18 U.S.C Section 1350.

All other exhibits for which provision is made in the applicable accounting regulation of the United States Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

\* Filed herein.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the United States Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Triple-S Management Corporation**  
Registrant

Date: November 3, 2009

By: /s/ Ramón M. Ruiz-Comas  
Ramón M. Ruiz-Comas, CPA  
*President and  
Chief Executive Officer*

Date: November 3, 2009

By: /s/ Juan J. Román  
Juan J. Román, CPA  
*Vice President of Finance  
and Chief Financial Officer*