

TRIPLE-S MANAGEMENT CORP

Form 10-Q

May 09, 2008

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**United States
Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2008

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: 0-49762

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (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

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

Title of each class	Outstanding at April 25, 2008
Common Stock Class A, \$1.00 par value	16,042,809
Common Stock Class B, \$1.00 par value	16,266,554

Triple-S Management Corporation
FORM 10-Q
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Table of Contents**Part I Financial Information****Item 1. Financial Statements****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Consolidated Balance Sheets**(Dollar amounts in thousands, except per share data)*

	(Unaudited) March 31, 2008	December 31, 2007
ASSETS		
Investments and cash:		
Equity securities held for trading, at fair value	\$ 46,312	67,158
Securities available for sale, at fair value:		
Fixed maturities	933,212	823,629
Equity securities	82,825	71,050
Securities held to maturity, at amortized cost:		
Fixed maturities	26,052	43,691
Policy loans	5,105	5,481
Cash and cash equivalents	62,184	240,153
 Total investments and cash	 1,155,690	 1,251,162
Premiums and other receivables, net	211,314	202,268
Deferred policy acquisition costs and value of business acquired	118,987	117,239
Property and equipment, net	43,162	43,415
Net deferred tax asset	5,578	6,783
Other assets	32,017	38,675
 Total assets	 \$1,566,748	 1,659,542
LIABILITIES AND STOCKHOLDERS EQUITY		
Claim liabilities:		
Claims processed and incomplete	\$ 170,024	186,065
Unreported losses	173,754	149,996
Unpaid loss-adjustment expenses	19,189	17,769
 Total claim liabilities	 362,967	 353,830
Liability for future policy benefits	197,099	194,131
Unearned premiums	103,416	132,599
Policyholder deposits	47,354	45,959
Liability to Federal Employees Health Benefits Program (FEHBP)	18,035	21,338
Accounts payable and accrued liabilities	136,682	228,980
Short-term borrowings	9,825	
Long-term borrowings	170,537	170,946
Liability for pension benefits	26,849	29,221

Total liabilities	1,072,764	1,177,004
Stockholders' equity:		
Common stock Class A	16,043	16,043
Common stock Class B	16,266	16,266
Additional paid-in capital	189,673	188,935
Retained earnings	268,524	267,336
Accumulated other comprehensive income (loss)	3,478	(6,042)
Total stockholders' equity	493,984	482,538
Total liabilities and stockholders' equity	\$1,566,748	1,659,542

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 ended March 31, 2008 and 2007

(Dollar amounts in thousands, except per share data)

	Three months ended	
	March 31,	
	2008	2007
REVENUES:		
Premiums earned, net	\$404,399	348,465
Administrative service fees	3,713	3,509
Net investment income	13,432	11,121
Total operating revenues	421,544	363,095
Net realized investment gains	609	1,196
Net unrealized investment loss on trading securities	(6,250)	(1,925)
Other income (expense), net	(1,521)	209
Total revenues	414,382	362,575
BENEFITS AND EXPENSES:		
Claims incurred	350,207	297,318
Operating expenses	60,031	56,137
Total operating costs	410,238	353,455
Interest expense	3,673	3,952
Total benefits and expenses	413,911	357,407
Income before taxes	471	5,168
INCOME TAX EXPENSE (BENEFIT):		
Current	(184)	1,060
Deferred	(547)	(397)
Total income taxes	(731)	663
Net income	\$ 1,202	4,505
Basic net income per share	\$ 0.04	0.17
Diluted net income per share	\$ 0.04	0.17

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Consolidated Statements of Stockholders' Equity and
Comprehensive Income (Unaudited)*For the three months
ended March 31, 2008 and 2007*(Dollar amounts in thousands, except per share data)*

	2008	2007
BALANCE AT JANUARY 1	\$482,538	342,599
Dividends		(2,448)
Share-based compensation	738	
Other	(14)	
Comprehensive income (loss):		
Net income	1,202	4,505
Net unrealized change in fair value of available for sale securities	9,350	1,582
Defined benefit pension plan:		
Actuarial loss, net	296	
Prior service credit, net	(70)	
Net change in fair value of cash flow hedges	(56)	(65)
Total comprehensive income	10,722	6,022
BALANCE AT MARCH 31	\$493,984	346,173

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 three months ended March 31, 2008 and 2007

(Dollar amounts in thousands, except per share data)

	Three months ended March 31,	
	2008	2007
Net income	\$ 1,202	4,505
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,800	1,716
Net amortization of investments	192	190
Provision for doubtful receivables	205	1,463
Deferred tax benefit	(547)	(397)
Net gain on sale of securities	(609)	(1,196)
Net unrealized loss of trading securities	6,250	1,925
Share-based compensation	738	
Proceeds from trading securities sold:		
Equity securities	20,476	9,842
Acquisition of securities in trading portfolio:		
Equity securities	(5,687)	(6,024)
(Increase) decrease in assets:		
Premiums receivable	(14,749)	(19,161)
Agents balances	6,386	4,809
Accrued interest receivable	(1,855)	(1,124)
Other receivables	(3,589)	(4,522)
Reinsurance recoverable on paid losses	4,599	(589)
Deferred policy acquisition costs and value of business acquired	(1,748)	(1,395)
Prepaid income tax	191	
Other assets	6,374	2,821
Increase (decrease) in liabilities:		
Claims processed and incomplete	(16,041)	4,031
Unreported losses	23,758	9,077
Unpaid loss-adjustment expenses	1,420	81
Liability for future policy benefits	2,968	3,148
Unearned premiums	(29,183)	(3,205)
Policyholder deposits	457	428
Liability to FEHBP	(3,303)	56
Accounts payable and accrued liabilities	(117,815)	(4,320)
Income tax payable		1,430
Net cash (used in) provided by operating activities	\$(118,110)	3,589

(Continued)

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

For the three months ended March 31, 2008 and 2007

(Dollar amounts in thousands, except per share data)

	Three months ended	
	March 31,	
	2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	\$ 67,267	59,497
Fixed maturities matured	48,133	5,178
Fixed maturity securities held to maturity	22,863	209
Acquisition of investments:		
Securities available for sale:		
Fixed maturities	(205,474)	(66,243)
Equity securities	(12,143)	(499)
Fixed maturity securities held to maturity	(5,120)	
Net disbursements for policy loans	376	(34)
Net capital expenditures	(1,547)	(1,447)
Net cash used in investing activities	(85,645)	(3,339)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in outstanding checks in excess of bank balances	15,446	2,140
Repayments of short-term borrowings	(45,661)	
Proceeds from short-term borrowings	55,486	
Repayments of long-term borrowings	(409)	(410)
Dividends paid		(2,448)
Proceeds from policyholder deposits	2,611	1,440
Surrenders of policyholder deposits	(1,673)	(1,938)
Other	(14)	
Net cash provided by (used in) financing activities	25,786	(1,216)
Net decrease in cash and cash equivalents	(177,969)	(966)
Cash and cash equivalents at beginning of the period	240,153	81,320
Cash and cash equivalents at end of the period	\$ 62,184	80,354

See accompanying notes to unaudited consolidated financial statements.

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2008

(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 (the Corporation or TSM) are unaudited, except for the balance sheet information as of December 31, 2007, which is derived from the Corporation's audited consolidated financial statements, pursuant to the rules and regulations of the United States Securities and Exchange Commission. 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, 2007.

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 ended March 31, 2008 are not necessarily indicative of the results for the full year.

(2) Recent Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard (FAS) No. 157, *Fair Value Measurements*. FAS 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. FAS 157 does not require any new fair value measurements. We adopted FAS 157 on January 1, 2008. This adoption did not have an impact on our financial position or results of operations. See Note 7, Fair Value Measurements, to our unaudited consolidated financial statements for the three months ended March 31, 2008 included in this Quarterly Report on Form 10-Q for discussion of the impact of adoption of FAS 157.

In February 2007, the FASB issued FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. FAS 159 allows entities to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis under the fair value option. We adopted FAS 159 on January 1, 2008. The Corporation has 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. Accordingly, the adoption of FAS 159 did not have an impact on our financial position or operating results.

In March 2008, the FASB issued FAS 161, *Disclosures about Derivative Instruments and Hedging Activities*. FAS 161 requires companies with derivative instruments to disclose information about how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS 133, *Accounting for Derivative Instruments and Hedging Activities*, and how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows. This statement expands the current disclosure framework in FAS 133. FAS 161 is effective prospectively for periods beginning on or after November 15, 2008. We do not expect the adoption of FAS 161 to have a material impact on our consolidated financial statements. There were no other new accounting pronouncements issued during the first three months of 2008 that had a material impact on our financial position, operating results or 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.

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

March 31, 2008

(Dollar amounts in thousands, except per share data)

(Unaudited)

The following tables summarize the operations by major operating segment for the three months ended March 31, 2008 and 2007:

	Three months ended March 31,	
	2008	2007
Operating revenues:		
Managed Care:		
Premiums earned, net	\$359,111	304,831
Administrative service fees	3,713	3,509
Intersegment premiums /service fees	1,650	1,627
Net investment income	5,602	4,829
Total managed care	370,076	314,796
Life Insurance:		
Premiums earned, net	22,129	22,380
Intersegment premiums	92	82
Net investment income	3,934	3,620
Total life insurance	26,155	26,082
Property and Casualty Insurance:		
Premiums earned, net	23,159	21,254
Intersegment premiums	154	154
Net investment income	2,964	2,552
Total property and casualty insurance	26,277	23,960
Other segments intersegment service revenues *	11,068	11,040
Total business segments	433,576	375,878
TSM operating revenues from external sources	932	120
Elimination of intersegment premiums	(1,896)	(1,863)
Elimination of intersegment service fees	(11,068)	(11,040)
Consolidated operating revenues	\$421,544	363,095

* 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*

March 31, 2008

(Dollar amounts in thousands, except per share data)

(Unaudited)

	Three months ended	
	March 31,	
	2008	2007
Operating income:		
Managed care	\$ 5,332	4,100
Life insurance	2,505	2,975
Property and casualty insurance	2,097	1,393
Other segments *	109	138
Total business segments	10,043	8,606
TSM operating revenues from external sources	932	120
TSM unallocated operating expenses	(2,140)	(1,826)
Elimination of TSM intersegment charges	2,471	2,740
Consolidated operating income	11,306	9,640
Consolidated net realized investment gains	609	1,196
Consolidated net unrealized loss on trading securities	(6,250)	(1,925)
Consolidated interest expense	(3,673)	(3,952)
Consolidated other income (expense), net	(1,521)	209
Consolidated income before taxes	\$ 471	5,168
Depreciation expense:		
Managed care	\$ 984	896
Life insurance	182	179
Property and casualty insurance	372	360
Total business segments	1,538	1,435
TSM depreciation expense	262	281
Consolidated depreciation expense	\$ 1,800	1,716

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

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

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March 31, 2008

(Dollar amounts in thousands, except per share data)

(Unaudited)

	March 31, 2008	December 31, 2007
Assets:		
Managed care	\$ 666,216	762,422
Life insurance	445,493	430,807
Property and casualty insurance	367,947	375,415
Other segments *	11,012	11,255
Total business segments	1,490,668	1,579,899
Unallocated amounts related to TSM:		
Cash, cash equivalents, and investments	83,812	82,980
Property and equipment, net	22,260	22,523
Other assets	3,387	2,280
	109,459	107,783
Elimination entries-intersegment receivables and others	(33,379)	(28,140)
Consolidated total assets	\$ 1,566,748	1,659,542
Significant noncash items:		
Net change in unrealized gain on securities available for sale:		
Managed care	\$ 4,167	2,928
Life insurance	3,104	3,253
Property and casualty insurance	1,598	3,085
Total business segments	8,869	9,266
Amount related to TSM	481	283
Consolidated net change in unrealized gain on securities available for sale	\$ 9,350	9,549
Net change in liability for pension benefits:		
Managed care	\$ 151	2,838
Life	2	35
Property and casualty	19	275
Other segments*	48	844
Total business segments	220	3,992
Amount related to TSM	6	98
Consolidated net change in liability for pension benefits	\$ 226	4,090

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

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March 31, 2008

(Dollar amounts in thousands, except per share data)

(Unaudited)

(4) Investment in Securities

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 March 31, 2008 and December 31, 2007, were as follows:

	March 31, 2008			
	Amortized	Gross	Gross	Estimated fair
	cost	unrealized	unrealized	value
		gains	losses	value
			value	
Trading securities:				
Equity securities	\$ 40,161	8,862	(2,711)	46,312
Securities available for sale:				
Fixed maturities	914,746	24,680	(6,214)	933,212
Equity securities	78,890	7,506	(3,571)	82,825
	993,636	32,186	(9,785)	1,016,037
Securities held to maturity:				
Fixed maturities	26,052	772	(12)	26,812
	\$1,059,849			