

TRIPLE-S MANAGEMENT CORP

Form 10-Q

May 12, 2006

**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 March 31, 2006**

**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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 March 31, 2006**

Common Stock, \$40.00 par value

8,911

**Table of Contents**

**Triple-S Management Corporation**  
**FORM 10-Q**  
 For the Quarter Ended March 31, 2006  
 Table of Contents

		<b>PAGE</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>		
<u>Item 1.</u>	<u>Financial Statements</u>	
	<u>Consolidated Balance Sheets as of March 31, 2006 and December 31, 2005</u>	3
	<u>Consolidated Statements of Operations for the three months ended March 31, 2006 and 2005</u>	4
	<u>Consolidated Statements of Stockholders' Equity and Comprehensive Income for the three months ended March 31, 2006 and 2005</u>	5
	<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2006 and 2005</u>	6
	<u>Notes to Consolidated Financial Statements</u>	7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	38
<u>Item 4.</u>	<u>Controls and Procedures</u>	38
<b><u>PART II OTHER INFORMATION</u></b>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	38
<u>Item 1A</u>	<u>Risk Factors</u>	42
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	42
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	42
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	42
<u>Item 5.</u>	<u>Other Information</u>	43
<u>Item 6.</u>	<u>Exhibits</u>	43
<b><u>SIGNATURES</u></b>		44
<u>EX-10.1 PURCHASE AGREEMENT DATED 1-23-06</u>		
<u>EX-31.1 SECTION 302 CERTIFICATION OF CEO</u>		
<u>EX-31.2 SECTION 302 CERTIFICATION OF CFO</u>		
<u>EX-32.1 SECTION 906 CERTIFICATION OF CEO</u>		
<u>EX-32.2 SECTION 906 CERTIFICATION OF CFO</u>		

**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)*

	<b>(Unaudited) March 31, 2006</b>	<b>December 31, 2005</b>
<b>ASSETS</b>		
Investments and cash:		
Securities held for trading, at fair value:		
Equity securities	\$ 81,550	78,215
Securities available for sale, at fair value:		
Fixed maturities	715,337	515,174
Equity securities	53,331	51,810
Securities held to maturity, at amortized cost:		
Fixed maturities	21,083	21,129
Policy loans	4,888	
Cash and cash equivalents	48,909	48,978
Total investments and cash	<b>925,098</b>	715,306
Premiums and other receivables, net	154,711	244,038
Deferred policy acquisition costs and value of business acquired	104,239	81,568
Property and equipment, net	38,544	34,709
Net deferred tax asset	498	2,151
Other assets	57,073	59,690
Total assets	<b>\$1,280,163</b>	1,137,462
 <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Claim liabilities:		
Claims processed and incomplete	\$ 147,069	139,694
Unreported losses	163,868	143,224
Unpaid loss-adjustment expenses	15,402	14,645
Total claim liabilities	<b>326,339</b>	297,563
Future policy benefits	168,457	
Future policy benefits reserve related to funds withheld reinsurance		118,635
Unearned premiums	98,588	95,703
Policyholder deposits	54,384	41,738

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Liability to Federal Employees Health Benefits Program	<b>8,097</b>	4,356
Accounts payable and accrued liabilities	<b>119,547</b>	106,468
Short-term borrowings		1,740
Long-term borrowings	<b>185,317</b>	150,590
Additional minimum pension liability	<b>14,133</b>	11,966
Total liabilities	<b>974,862</b>	828,759
Stockholders' equity:		
Common stock, \$40 par value. Authorized 12,500 shares; issued and outstanding 8,911 at March 31, 2006 and 8,904 at December 31, 2005	<b>356</b>	356
Additional paid-in capital	<b>150,408</b>	150,408
Retained earnings	<b>166,114</b>	162,964
Accumulated other comprehensive loss	<b>(11,577)</b>	(5,025)
Total stockholders' equity	<b>305,301</b>	308,703
Total liabilities and stockholders' equity	<b>\$1,280,163</b>	1,137,462

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, 2006 and 2005

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

	<b>Three months ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>REVENUE:</b>		
Premiums earned, net	<b>\$382,104</b>	333,389
Amounts attributable to self-funded arrangements	<b>50,806</b>	51,915
Less amounts attributable to claims under self-funded arrangements	<b>(47,377)</b>	(48,540)
	<b>385,533</b>	336,764
Net investment income	<b>10,050</b>	7,064
Net realized investment gains	<b>528</b>	3,314
Net unrealized investment gain (loss) on trading securities	<b>2,556</b>	(5,793)
Other income, net	<b>1,199</b>	632
Total revenue	<b>399,866</b>	341,981
<b>BENEFITS AND EXPENSES:</b>		
Claims incurred	<b>326,684</b>	302,923
Operating expenses, net of reimbursement for services	<b>57,730</b>	43,766
Interest expense	<b>3,394</b>	1,788
Total benefits and expenses	<b>387,808</b>	348,477
Income (loss) before taxes	<b>12,058</b>	(6,496)
<b>INCOME TAX EXPENSE (BENEFIT):</b>		
Current	<b>2,636</b>	1,221
Deferred	<b>41</b>	(2,510)
Total income taxes	<b>2,677</b>	(1,289)
Net income (loss)	<b>\$ 9,381</b>	(5,207)
Basic net income (loss) per share	<b>\$ 1,053</b>	(585)

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, 2006 and 2005*(Dollar amounts in thousands, except per share data)*

	<b>2006</b>	<b>2005</b>
<b>BALANCE AT JANUARY 1</b>	<b>\$ 308,703</b>	301,433
Dividends	<b>(6,231)</b>	
Comprehensive income (loss):		
Net income (loss)	<b>9,381</b>	(5,207)
Net unrealized change in investment securities	<b>(6,644)</b>	(12,488)
Net change in fair value of cash flow hedges	<b>92</b>	337
Total comprehensive income (loss)	<b>2,829</b>	(17,358)
<b>BALANCE AT MARCH 31</b>	<b>\$ 305,301</b>	284,075

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, 2006 and 2005

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Premiums collected	\$ 366,287	323,459
Cash paid to suppliers and employees	(65,552)	(44,943)
Claims, losses and benefits paid	(305,380)	(276,277)
Interest received	10,462	6,359
Proceeds from trading securities sold or matured:		
Fixed maturities sold		31,946
Equity securities	5,866	5,027
Acquisitions of investments in trading portfolio:		
Fixed maturities		(14,463)
Equity securities	(5,762)	(5,116)
Interest paid	(3,161)	(1,509)
Expense reimbursement from Medicare	1,155	3,003
Net cash provided by operating activities	<b>3,915</b>	27,486
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	4,838	5,038
Fixed maturities matured	14,569	206
Equity securities	360	2,677
Securities held to maturity:		
Fixed maturities matured	122	290
Acquisitions of investments:		
Securities available for sale:		
Fixed maturities	(21,844)	(17,919)
Equity securities		(2,821)
Securities held to maturity:		
Fixed maturities		(993)
Acquisition of business, net of \$10,403 of cash acquired	(27,793)	
Net disbursements for policy loans	(109)	
Capital expenditures	(3,780)	(1,338)
Proceeds from sale of property and equipment	3	2
Net cash used in investing activities	<b>(33,634)</b>	(14,858)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Change in outstanding checks in excess of bank balances	<b>2,569</b>	8,700
Payments of short-term borrowings	<b>(8,652)</b>	(17,125)
Proceeds from short-term borrowings	<b>6,912</b>	17,125
Payments of long-term borrowings	<b>(273)</b>	(273)
Proceeds from long-term borrowings	<b>35,000</b>	
Dividends	<b>(6,231)</b>	
Proceeds from policyholder deposits	<b>2,255</b>	3,164
Surrenders of policyholder deposits	<b>(1,930)</b>	(1,166)
Net cash provided by financing activities	<b>29,650</b>	10,425
Net (decrease) increase in cash and cash equivalents	<b>(69)</b>	23,053
Cash and cash equivalents at beginning of the period	<b>48,978</b>	35,115
Cash and cash equivalents at end of the period	<b>\$ 48,909</b>	58,168

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents**

**TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES**

*Notes to Consolidated Financial Statements*

March 31, 2006

*(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 (TSM) and its subsidiaries (the Corporation) are unaudited, except for the balance sheet information as of December 31, 2005, 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 accounting principles generally accepted in the United States of America 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, 2005.

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, 2006 are not necessarily indicative of the results for the full year.

The Corporation has several significant accounting policies that are disclosed in note 2 of the notes to the audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2005. These significant accounting policies have not changed from those previously disclosed, except for the addition of the following significant accounting policies related to the liability for future policy benefits and the value of business acquired resulting from the acquisition of Great American Life Assurance Company of Puerto Rico (GA Life):

**Future Policy Benefits**

The liability for future policy benefits has been computed using the level premium method based on estimated future investment yield, mortality, and withdrawal experience. The interest rate assumption is 5.0% for all years in issue. Mortality has been calculated principally on select and ultimate tables in common usage in the industry. Withdrawals have been determined principally on industry tables, modified by the Corporation's experience.

**Value of Business Acquired**

The value assigned to the insurance in-force at the date of the acquisition is amortized using methods similar to those used to amortize the deferred policy acquisition costs as disclosed in the Corporation's Annual Report on Form 10-K as of December 31, 2005.

**(2) Recent Accounting Standards**

SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, an amendment of FASB Statements No. 133 and 140, was issued in February 2006. This statement amends SFAS No. 133, *Accounting for Derivatives and Hedging Activities*, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and allows an entity to remeasure at fair value a hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation from the host, if the holder irrevocably elects to account for the whole instrument on a fair value basis. Subsequent changes in the fair value of the instrument would be recognized in earnings. This statement also clarifies

**Table of Contents**

certain issues included in the amended SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all financial instruments acquired and issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 is not expected to have an impact on the Corporation's financial statements. SFAS No. 156, *Accounting for Servicing of Financial Assets*, an amendment of SFAS No. 140, was issued in March 2006. This statement amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement is effective as of the beginning of the first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 156 is not expected to have an impact on the Corporation's financial statements.

**(3) Segment Information**

The operations of the Corporation are conducted principally through four business segments: Health Insurance Commercial Program, Health Insurance Reform Program, Property and Casualty Insurance and Life and Disability Insurance. On January 31, 2006 the Corporation completed the acquisition of 100% of the common stock of GA Life. The results of operations and financial position of GA Life are included in the Corporation's consolidated financial statements for the period following January 31, 2006. The operations of GA Life are included in the Corporation's Life and Disability Insurance segment along with the operations of Seguros de Vida Triple-S, Inc. (SVTS). Prior to completing the acquisition of GA Life, the operations of SVTS were the only component of the Corporation's Life and Disability Insurance segment. The following tables summarize the operations by major operating segment for the three months ended March 31, 2006 and 2005:

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

March 31, 2006

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

(Unaudited)

**Operating Segments**

	<b>Health Insurance Commercial Program</b>	<b>Health Insurance Reform Program</b>	<b>Property and Casualty Insurance</b>	<b>Life and Disability Insurance</b>	<b>Other *</b>	<b>Total</b>
<b>THREE MONTHS ENDED MARCH 31, 2006</b>						
Premiums earned, net	\$211,107	127,496	21,898	21,603		382,104
Amounts attributable to self-funded arrangements	50,806					50,806
Less: Amounts attributable to claims under self-funded arrangements	(47,377)					(47,377)
Intersegment premiums earned/service revenues	1,398		129	78	13,268	14,873
	215,934	127,496	22,027	21,681	13,268	400,406
Net investment income	3,755	801	2,364	3,010		9,930
Realized gain (loss) on sale of securities	485	33	(32)	42		528
Unrealized gain on trading securities	1,914		552	90		2,556
Other	1,063	(4)	54	69		1,182
Total revenue	\$223,151	128,326	24,965	24,892	13,268	414,602
Net income	\$ 2,116	3,667	2,659	507	7	8,956
Claims incurred	\$190,857	113,882	10,313	11,632		326,684
Operating expenses	\$ 28,401	9,240	11,642	11,390	12,984	73,657
	\$ 760	157	107	135		1,159

Depreciation expense,  
included in operating  
expenses

Interest expense	\$ 1,240	324		1,285		2,849
Income tax expense	\$ 537	1,213	351	78	277	2,456

\* Includes segments which are not required to be reported separately. These segments include the data processing services organization as well as the third-party administrator of health insurance services.

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

March 31, 2006

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

(Unaudited)

**Operating Segments**

	<b>Health Insurance Commercial Program</b>	<b>Health Insurance Reform Program</b>	<b>Property and Casualty Insurance</b>	<b>Life and Disability Insurance</b>	<b>Other *</b>	<b>Total</b>
<b>THREE MONTHS ENDED MARCH 31, 2005</b>						
Premiums earned, net	\$ 184,300	123,140	22,096	3,853		333,389
Amounts attributable to self-funded arrangements	51,915					51,915
Less: Amounts attributable to claims under self-funded arrangements	(48,540)					(48,540)
Intersegment premiums earned/service revenues	1,076				13,638	14,714
	188,751	123,140	22,096	3,853	13,638	351,478
Net investment income	3,413	741	2,105	711		6,970
Realized gain (loss) on sale of securities	2,103	(25)	1,176	60		3,314
Unrealized loss on trading securities	(4,806)		(793)	(194)		(5,793)
Other	188	(5)	338	62		583
Total revenue	\$ 189,649	123,851	24,922	4,492	13,638	356,552
Net income (loss)	\$ (6,803)	(911)	2,658	(414)	69	(5,401)
Claims incurred	\$ 172,829	116,088	11,373	2,633		302,923
Operating expenses	\$ 24,240	8,914	10,341	1,982	13,405	58,882
	\$ 644	181	107	39		971

Depreciation expense,  
included in operating  
expenses

Interest expense	\$ 1,058	204		279		1,541
Income tax expense (benefit)	\$ (1,675)	(444)	550	12	164	(1,393)

\* Includes segments which are not required to be reported separately. These segments include the data processing services organization as well as the third-party administrator of health of health insurance services.



**Table of Contents**

**TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES**

*Notes to Consolidated Financial Statements*

March 31, 2006

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

(Unaudited)