

TRIPLE-S MANAGEMENT CORP

Form 10-Q

August 04, 2010

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

(Mark One)

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

**For the quarterly period ended June 30, 2010**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**COMMISSION FILE NUMBER: 001-33865**

**Triple-S Management Corporation**

**Puerto Rico**

(State or other jurisdiction of incorporation or organization)

**66-0555678**

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

**1441 F.D. Roosevelt Avenue**

**San Juan, Puerto Rico**

(Address of principal executive offices)

**00920**

(Zip code)

**(787) 749-4949**

(Registrant's telephone number, including area code)

**Not applicable**

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

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes  No

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

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

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**Triple-S Management Corporation**  
**FORM 10-Q**  
For the Quarter Ended June 30, 2010  
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**Table of Contents****Part I Financial Information****Item 1. Financial Statements****Triple-S Management Corporation***Consolidated Balance Sheets (Unaudited)**(Dollar amounts in thousands, except per share data)*

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

**Liabilities and Stockholders Equity**

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

Stockholders equity:

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

See accompanying notes to unaudited consolidated financial statements.

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

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

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

See accompanying notes to unaudited consolidated financial statements.

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

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

See accompanying notes to unaudited consolidated financial statements.

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

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

(Continued)

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

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

See accompanying notes to unaudited consolidated financial statements.



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**Triple-S Management Corporation**

*Notes to Consolidated Financial Statements*

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

(Unaudited)

**(1) Basis of Presentation**

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

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

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

**(2) Recent Accounting Standards**

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

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

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

(Unaudited)

**(3) Segment Information**

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

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

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

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

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

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
<b>Operating income:</b>				
Managed care	\$ 18,467	16,207	\$ 31,115	21,982
Life insurance	4,688	3,912	8,526	6,946
Property and casualty insurance	1,971	2,802	1,069	4,149
Other segments *	311	235	498	362
Total business segments	25,437	23,156	41,208	33,439
TSM operating revenues from external sources	488	618	1,008	1,212
TSM unallocated operating expenses	(2,211)	(2,166)	(4,424)	(4,470)
Elimination of TSM intersegment charges	2,326	2,269	4,647	4,803
Consolidated operating income	26,040	23,877	42,439	34,984
Consolidated net realized investment gains (losses)	1,433	(1,625)	54	(3,352)
Consolidated net unrealized gain (loss) on trading securities				