

TRIPLE-S MANAGEMENT CORP

Form 10-Q

May 14, 2007

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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, 2007**

**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 May 4, 2007 |
|--------------------------------|----------------------------|
| Common Stock, \$1.00 par value | 26,709,000                 |

**Triple-S Management Corporation**  
**FORM 10-Q**  
For the Quarter Ended March 31, 2007  
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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)*

|  | <b>(Unaudited)<br/>March 31,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|--|---|------------------------------|
| <b>ASSETS</b>  |   |                              |
| Investments and cash:  |   |                              |
| Securities held for trading, at fair value:                      |   |                              |
| Equity securities  | <b>\$ 79,589</b>                          | 83,447                       |
| Securities available for sale, at fair value:                    |   |                              |
| Fixed maturities   | <b>706,888</b>                            | 702,566                      |
| Equity securities  | <b>61,217</b>                             | 61,686                       |
| Securities held to maturity, at amortized cost:                  |   |                              |
| Fixed maturities   | <b>21,319</b>                             | 21,450                       |
| Policy loans   | <b>5,228</b>                              | 5,194                        |
| Cash and cash equivalents  | <b>80,354</b>                             | 81,320                       |
| <br>Total investments and cash                                   | <br><b>954,595</b>                        | <br>955,663                  |
| Premiums and other receivables, net                              | <b>184,529</b>                            | 165,358                      |
| Deferred policy acquisition costs and value of business acquired | <b>112,812</b>                            | 111,417                      |
| Property and equipment, net                                      | <b>41,346</b>                             | 41,615                       |
| Net deferred tax asset   | <b>9,336</b>                              | 9,292                        |
| Other assets   | <b>59,236</b>                             | 62,164                       |
| <br>Total assets   | <br><b>\$1,361,854</b>                    | <br>1,345,509                |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                       |   |                              |
| Claim liabilities:   |   |                              |
| Claims processed and incomplete                                  | <b>\$ 151,242</b>                         | 147,211                      |
| Unreported losses  | <b>159,812</b>                            | 150,735                      |
| Unpaid loss-adjustment expenses                                  | <b>16,817</b>                             | 16,736                       |
| <br>Total claim liabilities                                      | <br><b>327,871</b>                        | <br>314,682                  |
| Liability for future policy benefits                             | <b>183,568</b>                            | 180,420                      |
| Unearned premiums  | <b>110,377</b>                            | 113,582                      |
| Policyholder deposits  | <b>45,355</b>                             | 45,425                       |
| Liability to Federal Employees Health Benefits Program           | <b>13,619</b>                             | 13,563                       |
| Accounts payable and accrued liabilities                         | <b>107,105</b>                            | 110,609                      |
| Borrowings   | <b>182,677</b>                            | 183,087                      |
| Income tax payable   | <b>10,672</b>                             | 9,242                        |

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|  |                    |           |
|--|--------------------|-----------|
| Liability for pension benefits             | <b>34,437</b>      | 32,300    |
| Total liabilities                          | <b>1,015,681</b>   | 1,002,910 |
| Stockholders' equity:                      |                    |           |
| Common stock                               | <b>9</b>           | 356       |
| Additional paid-in capital                 | <b>150,755</b>     | 150,408   |
| Retained earnings                          | <b>213,323</b>     | 211,266   |
| Accumulated other comprehensive loss       | <b>(17,914)</b>    | (19,431)  |
| Total stockholders' equity                 | <b>346,173</b>     | 342,599   |
| Total liabilities and stockholders' equity | <b>\$1,361,854</b> | 1,345,509 |

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, 2007 and 2006

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

|   | <b>Three months ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2007</b>               | <b>2006</b> |
| <b>REVENUES:</b>  |                           |             |
| Premiums earned, net  | <b>\$348,465</b>          | 380,531     |
| Administrative service fees                                 | <b>3,509</b>              | 3,429       |
| Net investment income                                       | <b>11,121</b>             | 10,050      |
| <br>  |                           |             |
| Total operating revenues                                    | <b>363,095</b>            | 394,010     |
| Net realized investment gains                               | <b>1,196</b>              | 528         |
| Net unrealized investment gain (loss) on trading securities | <b>(1,925)</b>            | 2,556       |
| Other income, net   | <b>209</b>                | 1,199       |
| <br>  |                           |             |
| Total revenues  | <b>362,575</b>            | 398,293     |
| <br><b>BENEFITS AND EXPENSES:</b>                           |                           |             |
| Claims incurred   | <b>297,318</b>            | 324,707     |
| Operating expenses  | <b>56,137</b>             | 57,730      |
| <br>  |                           |             |
| Total operating costs                                       | <b>353,455</b>            | 382,437     |
| <br>  |                           |             |
| Interest expense  | <b>3,952</b>              | 3,798       |
| <br>  |                           |             |
| Total benefits and expenses                                 | <b>357,407</b>            | 386,235     |
| <br>  |                           |             |
| Income before taxes   | <b>5,168</b>              | 12,058      |
| <br><b>INCOME TAX EXPENSE (BENEFIT):</b>                    |                           |             |
| Current   | <b>1,060</b>              | 2,636       |
| Deferred  | <b>(397)</b>              | 41          |
| <br>  |                           |             |
| Total income taxes  | <b>663</b>                | 2,677       |
| <br>  |                           |             |
| Net income  | <b>\$ 4,505</b>           | 9,381       |
| <br>  |                           |             |
| Basic net income per share                                  | <b>\$ 505</b>             | 1,053       |

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, 2007 and 2006*(Dollar amounts in thousands, except per share data)*

|  | <b>2007</b>      | <b>2006</b> |
|--|------------------|-------------|
| <b>BALANCE AT JANUARY 1</b>  | <b>\$342,599</b> | 308,703     |
| Dividends  | <b>(2,448)</b>   | (6,231)     |
| Comprehensive income (loss):   |                  |             |
| Net income   | <b>4,505</b>     | 9,381       |
| Net unrealized change in fair value of available for sale securities | <b>1,582</b>     | (6,644)     |
| Net change in fair value of cash flow hedges                         | <b>(65)</b>      | 92          |
| Total comprehensive income   | <b>6,022</b>     | 2,829       |
| <b>BALANCE AT MARCH 31</b>   | <b>\$346,173</b> | 305,301     |

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, 2007 and 2006

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

|   | <b>Three months ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2007</b>               | <b>2006</b> |
| Net income  | \$ 4,505                  | 9,381       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |             |
| Depreciation and amortization   | 1,716                     | 1,442       |
| Net amortization of investments   | 190                       | 63          |
| Provision for doubtful receivables  | 1,463                     | 451         |
| Deferred tax (benefit) expense  | (397)                     | 41          |
| Net gain on sale of securities  | (1,196)                   | (528)       |
| Net unrealized (gain) loss of trading securities                                  | 1,925                     | (2,556)     |
| Proceeds from trading securities sold:  |                           |             |
| Equity securities   | 9,842                     | 5,866       |
| Acquisition of securities in trading portfolio:                                   |                           |             |
| Equity securities   | (6,024)                   | (5,762)     |
| (Increase) decrease in assets:  |                           |             |
| Premiums receivable   | (19,161)                  | (23,969)    |
| Agent balances  | 4,809                     | (94)        |
| Accrued interest receivable   | (1,124)                   | 349         |
| Other receivables   | (4,522)                   | 1,782       |
| Funds withheld reinsurance receivable   |                           | 118,635     |
| Reinsurance recoverable on paid losses  | (589)                     | (348)       |
| Deferred policy acquisition costs and value of business acquired                  | (1,395)                   | (698)       |
| Prepaid income tax  |                           | 2,555       |
| Other assets  | 2,821                     | 762         |
| Increase (decrease) in liabilities:   |                           |             |
| Claims processed and incomplete   | 4,031                     | 2,661       |
| Unreported losses   | 9,077                     | 16,475      |
| Unpaid loss-adjustment expenses   | 81                        | 457         |
| Liability for future policy benefits  | 3,148                     | 2,059       |
| Liability for future policy benefits related to funds withheld reinsurance        |                           | (118,635)   |
| Unearned premiums   | (3,205)                   | 585         |
| Policyholder deposits   | 428                       | 416         |
| Liability to FEHBP  | 56                        | 3,741       |
| Accounts payable and accrued liabilities  | (4,320)                   | (11,216)    |
| Income tax payable  | 1,430                     |             |
| Net cash provided by operating activities   | \$ 3,589                  | 3,915       |

(Continued)





**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES**

*Consolidated Statements of Cash Flows (Unaudited)*  
For the three months ended March 31, 2007 and 2006  
*(Dollar amounts in thousands, except per share data)*

|   | <b>Three months ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2007</b>                             | <b>2006</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>              |   |             |
| Proceeds from investments sold or matured:                |   |             |
| Securities available for sale:                            |   |             |
| Fixed maturities sold                                     | \$ 59,497                               | 4,838       |
| Fixed maturities matured                                  | 5,178                                   | 14,569      |
| Equity securities   |   | 360         |
| Fixed maturity securities held to maturity                | 209                                     | 122         |
| Acquisition of investments:                               |   |             |
| Securities available for sale:                            |   |             |
| Fixed maturities  | (66,243)                                | (21,844)    |
| Equity securities   | (499)                                   |             |
| Acquisition of business, net of \$10,403 of cash acquired |   | (27,793)    |
| Net disbursements for policy loans                        | (34)                                    | (109)       |
| Capital expenditures                                      | (1,447)                                 | (3,780)     |
| Proceeds from sale of property and equipment              |   | 3           |
| Net cash used in investing activities                     | (3,339)                                 | (33,634)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>              |   |             |
| Change in outstanding checks in excess of bank balances   | 2,140                                   | 2,569       |
| Repayments of short-term borrowings                       |   | (8,652)     |
| Proceeds from short-term borrowings                       |   | 6,912       |
| Repayments of long-term borrowings                        | (410)                                   | (273)       |
| Proceeds from long-term borrowings                        |   | 35,000      |
| Dividends paid  | (2,448)                                 | (6,231)     |
| Proceeds from policyholder deposits                       | 1,440                                   | 2,255       |
| Surrenders of policyholder deposits                       | (1,938)                                 | (1,930)     |
| Net cash (used in) provided by financing activities       | (1,216)                                 | 29,650      |
| Net decrease in cash and cash equivalents                 | (966)                                   | (69)        |
| Cash and cash equivalents at beginning of the period      | 81,320                                  | 48,978      |
| Cash and cash equivalents at end of the period            | \$ 80,354                               | 48,909      |

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, 2007

*(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) are unaudited, except for the balance sheet information as of December 31, 2006, 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 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, 2006.

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, 2007 are not necessarily indicative of the results for the full year.

Certain amounts in the 2006 consolidated financial statements were reclassified to conform to the 2007 presentation.

**(2) Recent Accounting Standards**

There were no new accounting pronouncements issued during the first three months of 2007 that have not been disclosed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006.

The Corporation adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48) on January 1, 2007. See note 9 for details.

**(3) Segment Information**

The operations of the Corporation are conducted principally through three business segments: Managed Care, Life and Accident and Health Insurance (the Life Insurance segment), 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 ended March 31, 2007 and 2006:

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

March 31, 2007

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

(Unaudited)

|  | <b>Three months ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2007</b>               | <b>2006</b> |
| <b>Operating revenues:</b>                     |                           |             |
| <b>Managed Care:</b>                           |                           |             |
| Premiums earned, net                           | <b>\$304,831</b>          | 338,603     |
| Administrative service fees                    | <b>3,509</b>              | 3,429       |
| Intersegment premiums /service fees            | <b>1,627</b>              | 1,398       |
| Net investment income                          | <b>4,829</b>              | 4,556       |
| <br>   |                           |             |
| Total managed care                             | <b>314,796</b>            | 347,986     |
| <b>Life Insurance:</b>                         |                           |             |
| Premiums earned, net                           | <b>22,380</b>             | 20,030      |
| Intersegment premiums                          | <b>82</b>                 | 78          |
| Net investment income                          | <b>3,620</b>              | 3,010       |
| <br>   |                           |             |
| Total life                                     | <b>26,082</b>             | 23,118      |
| <b>Property and Casualty Insurance:</b>        |                           |             |
| Premiums earned, net                           | <b>21,254</b>             | 21,898      |
| Intersegment premiums                          | <b>154</b>                | 129         |
| Net investment income                          | <b>2,552</b>              | 2,364       |
| <br>   |                           |             |
| Total property and casualty                    | <b>23,960</b>             | 24,391      |
| Other segments intersegment service revenues * | <b>11,040</b>             | 13,268      |
| <br>   |                           |             |
| Total business segments                        | <b>375,878</b>            | 408,763     |
| TSM operating revenues from external sources   | <b>120</b>                | 120         |
| Elimination of intersegment premiums           | <b>(1,863)</b>            | (1,605)     |
| Elimination of intersegment service fees       | <b>(11,040)</b>           | (13,268)    |
| <br>   |                           |             |
| Consolidated operating revenues                | <b>\$363,095</b>          | 394,010     |

\* 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, 2007

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

(Unaudited)

|   | <b>Three months ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2007</b>               | <b>2006</b> |
| <b>Operating income:</b>                                      |                           |             |
| Managed care  | <b>\$ 4,100</b>           | 5,606       |
| Life insurance  | <b>2,975</b>              | 2,073       |
| Property and casualty insurance                               | <b>1,393</b>              | 2,436       |
| Other segments *  | <b>138</b>                | 284         |
| <br>  |                           |             |
| Total business segments                                       | <b>8,606</b>              | 10,399      |
| TSM operating revenues from external sources                  | <b>120</b>                | 120         |
| TSM unallocated operating expenses                            | <b>(1,826)</b>            | (1,316)     |
| Elimination of TSM intersegment charges                       | <b>2,740</b>              | 2,370       |
| <br>  |                           |             |
| Consolidated operating income                                 | <b>9,640</b>              | 11,573      |
| Consolidated net realized investment gains                    | <b>1,196</b>              | 528         |
| Consolidated net unrealized gain (loss) on trading securities | <b>(1,925)</b>            | 2,556       |
| Consolidated interest expense                                 | <b>(3,952)</b>            | (3,798)     |
| Consolidated other income, net                                | <b>209</b>                | 1,199       |
| <br>  |                           |             |
| Consolidated income before taxes                              | <b>\$ 5,168</b>           | 12,058      |
| <br>  |                           |             |
| <b>Depreciation expense:</b>                                  |                           |             |
| Managed care  | <b>\$ 896</b>             | 917         |
| Life insurance  | <b>179</b>                | 135         |
| Property and casualty insurance                               | <b>360</b>                | 107         |
| <br>  |                           |             |
| Total business segments                                       | <b>1,435</b>              | 1,159       |
| TSM depreciation expense                                      | <b>281</b>                | 283         |
| <br>  |                           |             |
| Consolidated depreciation expense                             | <b>\$ 1,716</b>           | 1,442       |

\* 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, 2007

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

(Unaudited)

|   | <b>March 31,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---|---------------------------|------------------------------|
| <b>Assets:</b>  |                           |                              |
| Managed care  | \$ 608,340                | 600,948                      |
| Life insurance  | 411,747                   | 407,994                      |
| Property and casualty insurance   | 324,442                   | 326,894                      |
| Other segments *  | 8,085                     | 7,807                        |
| <br>  |                           |                              |
| Total business segments   | <b>1,352,614</b>          | 1,343,643                    |
| Unallocated amounts related to TSM:   |                           |                              |
| Cash, cash equivalents, and investments                                     | 11,687                    | 11,879                       |
| Property and equipment, net   | 23,511                    | 23,792                       |
| Other assets  | 2,353                     | 4,096                        |
|   | <b>37,551</b>             | 39,767                       |
| Elimination entries-intersegment receivables and others                     | <b>(28,311)</b>           | (37,901)                     |
| <br>  |                           |                              |
| Consolidated total assets   | <b>\$1,361,854</b>        | 1,345,509                    |
| <br>  |                           |                              |
| <b>Significant noncash items:</b>   |                           |                              |
| Net change in unrealized gain on securities available for sale:             |                           |                              |
| Managed care  | \$ 496                    | (1,560)                      |
| Life insurance  | 380                       | (1,457)                      |
| Property and casualty insurance   | 672                       | (183)                        |
| <br>  |                           |                              |
| Total business segments   | <b>1,548</b>              | (3,200)                      |
| Amount related to TSM   | <b>34</b>                 | (12)                         |
| <br>  |                           |                              |
| Consolidated net change in unrealized gain on securities available for sale | <b>\$ 1,582</b>           | (3,212)                      |

\* 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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*(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, 2007 and December 31, 2006, were as follows:

|                                | <b>March 31, 2007</b>     |                                       |  |                                     |
|--------------------------------|---------------------------|---------------------------------------|--|-------------------------------------|
|                                | <b>Amortized<br/>cost</b> | <b>Gross<br/>unrealized<br/>gains</b> | <b>Gross<br/>unrealized<br/>losses</b> | <b>Estimated<br/>fair<br/>value</b> |
| Trading securities:            |                           |                                       |  |                                     |
| Equity securities              | \$ 64,997                 | 15,693                                | (1,101)                                | 79,589                              |
| Securities available for sale: |                           |                                       |  |                                     |
| Fixed maturities               | 715,487                   | 895                                   | (9,494)                                | 706,888                             |
| Equity securities              | 50,631                    | 12,403                                | (1,817)                                | 61,217                              |
|                                | <b>766,118</b>            | <b>13,298</b>                         | <b>(11,311)</b>                        | <b>768,105</b>                      |
| Securities held to maturity:   |                           |                                       |  |                                     |
| Fixed maturities               | 21,319                    | 386                                   | (648)                                  | 21,057                              |
|                                | <b>\$852,434</b>          | <b>29,377</b>                         | <b>(13,060)</b>                        | <b>868,751</b>                      |
|                                |                           |                                       |  |                                     |
|                                | <b>December 31, 2006</b>  |                                       |  |                                     |
|                                | <b>Amortized<br/>cost</b> | <b>Gross<br/>unrealized<br/>gains</b> | <b>Gross<br/>unrealized<br/>losses</b> | <b>Estimated<br/>fair<br/>value</b> |
| Trading securities:            |                           |                                       |  |                                     |
| Equity securities              | \$ 66,930                 | 17,436                                | (919)                                  | 83,447                              |
| Securities available for sale: |                           |                                       |  |                                     |
| Fixed maturities               | 714,113                   | 590                                   | (12,137)                               | 702,566                             |
| Equity securities              | 50,132                    | 13,112                                | (1,558)                                | 61,686                              |
|                                | <b>764,245</b>            | <b>13,702</b>                         | <b>(13,695)</b>                        | <b>764,252</b>                      |
| Securities held to maturity:   |                           |                                       |  |                                     |
| Fixed maturities               | 21,450                    | 370                                   | (816)                                  | 21,004                              |

**\$852,625                      31,508                      (15,430)                      868,703**

Investment in securities at March 31, 2007 are mostly comprised of U.S. Treasury securities, obligations of government sponsored enterprises and obligations of U.S. government instrumentalities (58.9%), mortgage backed and collateralized mortgage obligations that are U.S. agency-backed (8.4%) and obligations of the government of Puerto Rico and its instrumentalities (5.5%). The remaining 27.2% of the investment portfolio is comprised of equity securities and mutual funds.

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, and the Corporation's intent and ability to retain the investment to allow for recovery in fair value, among other factors. This process is not exact and further requires consideration of risks such as credit and interest rate risks. Consequently, if an investment's cost exceeds its 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. The impairment is charged

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to operations and a new cost basis for the security is established. No other-than-temporary impairment was recognized during the three months ended March 31, 2007. During the three months ended March 31, 2006 the Corporation recognized an other-than-temporary impairment amounting to \$388 on one of its equity securities classified as available for sale.

**(5) Premiums and Other Receivables**

Premiums and other receivables as of March 31, 2007 and December 31, 2006 were as follows:

|  | <b>March 31,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|--|---------------------------|------------------------------|
| Premium                                  | <b>\$ 67,314</b>          | 53,377                       |
| Self-funded group receivables            | <b>27,761</b>             | 24,854                       |
| FEHBP                                    | <b>11,504</b>             | 9,187                        |
| Agents balances                          | <b>24,004</b>             | 28,813                       |
| Accrued interest                         | <b>8,910</b>              | 7,786                        |
| Reinsurance recoverable on paid losses   | <b>41,474</b>             | 40,885                       |
| Other                                    | <b>23,255</b>             | 18,686                       |
|  | <b>204,222</b>            | 183,588                      |
| Less allowance for doubtful receivables: |                           |                              |
| Premiums                                 | <b>14,119</b>             | 12,128                       |
| Other                                    | <b>5,574</b>              | 6,102                        |
|  | <b>19,693</b>             | 18,230                       |
| Total premiums and other receivables     | <b>\$ 184,529</b>         | 165,358                      |

**(6) Claim Liabilities**

The activity in the total claim liabilities for the three months ended March 31, 2007 and 2006 is as follows:

|   | <b>Three months ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2007</b>                             | <b>2006</b> |
| Claim liabilities at beginning of period      | <b>\$ 314,682</b>                       | 297,563     |
| Reinsurance recoverable on claim liabilities  | <b>(32,066)</b>                         | (28,720)    |
| Net claim liabilities at beginning of period  | <b>282,616</b>                          | 268,843     |
| Claim liabilities acquired from GA Life       |   | 8,771       |
| Incurred claims and loss-adjustment expenses: |   |             |
| Current period insured events                 | <b>309,565</b>                          | 316,804     |

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|  |                  |         |
|--|------------------|---------|
| Prior period insured events                      | <b>(16,191)</b>  | 4,460   |
| Total  | <b>293,374</b>   | 321,264 |
| Payments of losses and loss-adjustment expenses: |                  |         |
| Current period insured events                    | <b>144,814</b>   | 167,711 |
| Prior period insured events                      | <b>135,636</b>   | 133,859 |
| Total  | <b>280,450</b>   | 301,570 |
| Net claim liabilities at end of period           | <b>295,540</b>   | 297,308 |
| Reinsurance recoverable on claim liabilities     | <b>32,331</b>    | 29,031  |
| Claim liabilities at end of period               | <b>\$327,871</b> | 326,339 |

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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 three months ended March 31, 2007 is due primarily to better than expected utilization trends. The amount in the incurred claims and loss-adjustment expenses for prior period insured events for the three months ended March 31, 2006 is due to a higher than expected cost per service and utilization trends.

**(7) Capital Stock**

As of March 31, 2007, subsequent to an amendment to its Articles of Incorporation effective February 2007, the Corporation was authorized to issue 100,000,000 shares of common stock with a par value of \$1.00 per share. As of December 31, 2006, the Corporation was authorized to issue 12,500 shares of common stock with a par value of \$40.00 per share. Total shares issued and outstanding as of March 31, 2007 and December 31, 2006 were 8,913 and 8,911, respectively.

**(8) Comprehensive Income**

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

|                             | Unrealized<br>gain (loss)<br>on<br>securities | Liability for<br>pension<br>benefits | Cash<br>flow<br>hedges | Accumulated<br>other<br>comprehensive<br>income |
|-----------------------------|---|--------------------------------------|------------------------|---|
| <b>BALANCE AT JANUARY 1</b> | \$ 5  | (19,742)                             | 306                    | (19,431)  |
| Net current period change   | 1,582   |                                      | (65)                   | 1,517   |
| <b>BALANCE AT MARCH 31</b>  | <b>\$ 1,587</b>                               | <b>(19,742)</b>                      | <b>241</b>             | <b>(17,914)</b>                                 |

**(9) 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 January 1, 2007, tax years 2003 through 2006 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 the 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 carryforwards. 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.

In June 2006, FASB issued FIN 48, which among other things, provides guidance to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing a minimum recognition threshold which income tax positions must achieve before being recognized in the financial statements. In addition, FIN 48 requires expanded

annual disclosures, including a rollforward of the beginning and ending aggregate unrecognized taxes as well as specific detail related to tax uncertainties for which it is reasonably possible the amount of unrecognized taxes will significantly increase or decrease within twelve months.



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(Unaudited)

The Corporation adopted FIN 48 on January 1, 2007; no adjustment was required upon the adoption of this accounting pronouncement.

**(10) Pension Plan**

The components of net periodic benefit cost for the three months ended March 31, 2007 and 2006 were as follows:

|  | <b>Three months ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2007</b>                             | <b>2006</b> |
| Components of net periodic benefit cost: |   |             |
| Service cost                             | <b>\$ 1,356</b>                         | 1,370       |
| Interest cost                            | <b>1,294</b>                            | 1,175       |
| Expected return on assets                | <b>(1,128)</b>                          | (991)       |
| Prior service cost                       | <b>14</b>                               | 12          |
| Actuarial loss                           | <b>514</b>                              | 602         |
| Net periodic benefit cost                | <b>\$ 2,050</b>                         | 2,168       |

*Employer contributions*

The Corporation disclosed in its audited consolidated financial statements for the year ended December 31, 2006 that it expected to contribute \$5,000 to its pension program in 2007. As of March 31, 2007, no contributions have been made. The Corporation currently anticipates contributing \$5,000 to fund its pension program in 2007.

**(11) Net Income Available to Stockholders and Net Income per Share**

The Corporation presents only basic earnings per share, which consists of the net income that is available to common stockholders divided by the weighted-average number of common shares outstanding for the period.

The following table sets forth the computation of basic net income per share for the three months ended March 31, 2007 and 2006:

|   | <b>Three months ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2007</b>                             | <b>2006</b> |
| Numerator for basic earnings per share:       |   |             |
| Net income available to stockholders          | <b>\$4,505</b>                          | 9,381       |
| Denominator for basic earnings per share:     |   |             |
| Weighted average of outstanding common shares | <b>8,912</b>                            | 8,906       |
| Basic net income per share                    | <b>\$ 505</b>                           | 1,053       |

**(12) Subsequent Events**

On April 24, 2007, the Corporation's Board of Directors authorized a 3,000-for-one stock split to be effected in the form of a dividend. This stock split is effective on May 1, 2007 to all stockholders of record at the close of business on

April 24, 2007. The total number of authorized shares and par value were unchanged by this action. The par value of the additional shares resulting from the stock split will be

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

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reclassified from additional paid in capital to common stock. All references to the number of shares and per share amounts in this consolidated financial statements are presented on a pre-split basis.

The Corporation's historical earnings per share on a pro forma basis, assuming the stock split had occurred on January 1, 2006.

|  | <b>Three months ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2007</b>                             | <b>2006</b> |
| Numerator for basic earnings per share:  |   |             |
| Net income available to stockholders   | \$ 4,505                                | 9,381       |
| Denominator for basic earnings per share:  |   |             |
| Weighted average of outstanding common shares giving effect to 3,000-for-one stock split | 26,735,000                              | 26,719,000  |
| Basic net income per share giving effect to 3,000-for-one stock split                    | \$ 0.17                                 | 0.35        |

**(13) Contingencies**

Various litigation claims and assessments against the Corporation have arisen in the ordinary course of business, including but not limited to, its activities as an insurer and employer. Furthermore, the Commissioner of Insurance, as well other Federal and Puerto Rico government authorities, regularly make inquiries and conduct audits concerning our compliance with applicable insurance and other laws and regulations. Management believes, based on the opinion of legal counsel, that the aggregate liabilities, if any, arising from such claims, assessments, audits and lawsuits would 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 our 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 have incurred a loss related to one or more of the pending lawsuits or investigations disclosed above, 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.

*Sánchez Litigation*

On September 4, 2003, José Sánchez and others filed a putative class action complaint against the Corporation, present and former directors of the board of directors of the Corporation and Triple-S, Inc. (TSI), and others, in the United States District Court for the District of Puerto Rico, alleging violations under the Racketeer Influenced and Corrupt Organizations Act (RICO). Among other allegations, the suit alleges a scheme to defraud the plaintiffs by acquiring control of our managed care subsidiary through illegally capitalizing our managed care subsidiary and later converting it to a for profit corporation and depriving the stockholders of their ownership rights. The plaintiffs base their allegations on the alleged decisions of TSI's board of directors and shareholders, purportedly made in 1979, to operate with certain restrictions in order to turn our managed care subsidiary into a charitable corporation. On May 4, 2006, the Court issued an Opinion and Order awarding summary judgment in favor of all the defendants, thereby dismissing the case. Plaintiffs filed a notice of appeal before the United States Court of Appeals for the First Circuit. The parties argued the case before the First Circuit on February 6, 2007, which took the case under advisement and is

expected to issue a judgment within approximately 90 days of such date.

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***Notes to Consolidated Financial Statements***

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

(Unaudited)

*Jordán et al Litigation*

On April 24, 2002, Octavio Jordán, Agripino Lugo, Ramón Vidal, and others filed a suit against the Corporation, TSI and others in the Court of First Instance for San Juan, Superior Section, alleging, among other things, violations by the defendants of provisions of the Puerto Rico Insurance Code, antitrust violations, unfair business practices and damages in the amount of \$12.0 million. They also requested that we sell shares to them. The Corporation's position is that many of the allegations brought by the plaintiffs in this complaint have been resolved in favor of the Corporation and TSI in previous cases brought by the same plaintiffs in the United States District Court for the District of Puerto Rico and in the local courts. The defendants, including the Corporation and TSI, answered the complaint, filed a counterclaim and filed several motions to dismiss.

On May 9, 2005, the plaintiffs amended the complaint to allege causes of action similar to those dismissed in the Sánchez case. Defendants moved to dismiss all claims in the amended complaint. Plaintiffs opposed the motions to dismiss and defendants filed corresponding replies. In 2006, the Court held several hearings concerning these dispositive motions and stayed all discovery until the motions were resolved.

On January 19, 2007, the Court denied a motion by the plaintiffs to dismiss the defendants' counterclaim for malicious prosecution and abuse of process. The Court ordered plaintiffs to answer the counterclaim by February 20, 2007.

Although they filed after the required date, plaintiffs have filed an answer to the counterclaim.

On February 7, 2007, the Court dismissed all of the charitable trust, RICO and violation of due process claims, which affects all of the plaintiffs. Other counts of the complaint, torts, breach of contract and violation of the Puerto Rico corporations' law claims were dismissed only against the certain of the physician plaintiffs. The Court allowed the count based on antitrust, and in reconsideration allowed the charitable trust and RICO claims. The Corporation appealed to the Puerto Rico Court of Appeals the denial of the motion to dismiss as to the antitrust allegations and the Court's decision to reconsider the claims previously dismissed.

*Thomas Litigation*

On May 22, 2003, a putative class action suit was filed by Kenneth A. Thomas, M.D. and Michael Kutell, M.D., on behalf of themselves and all others similarly situated and the Connecticut State Medical Society against the Blue Cross and Blue Shield Association (BCBSA) and substantially all of the other Blue plans in the United States, including TSI. The case is pending before the U.S. District Court for the Southern District of Florida, Miami District. The individual plaintiffs bring this action on behalf of themselves and a class of similarly situated physicians seeking redress for alleged illegal acts of the defendants, which they allege have resulted in a loss of their property and a detriment to their business, and for declaratory and injunctive relief to end those practices and prevent further losses. Plaintiffs alleged 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.

The class action complaint alleges that the health care plans are the agents of BCBSA licensed entities, and as such have committed the acts alleged above and acted within the scope of their agency, with the consent, permission, authorization and knowledge of the others, and in furtherance of both their interest and the interests of other defendants.

Management believes that TSI was brought to this litigation for the sole reason of being associated with the BCBSA. However, on June 18, 2004 the plaintiffs moved to amend the complaint to include the Colegio de Médicos y Cirujanos de Puerto Rico (a compulsory association grouping all physicians in Puerto Rico), Marissel Velázquez, MD, President of the Colegio de Médicos y Cirujanos de Puerto Rico, and Andrés Meléndez, MD, as plaintiffs against TSI. Later Marissel Velázquez, MD voluntarily dismissed her complaint against TSI.

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TSI, along with the other defendants, moved to dismiss the complaint on multiple grounds, including but not limited to arbitration and applicability of the McCarran Ferguson Act.

The parties were ordered to engage in mediation. Twenty four plans have been actively participating in the mediation efforts. The mediation resulted in the creation of a Settlement Agreement that was filed with the Court on April 27, 2007.

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**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 our financial condition and results of operations for the three months ended March 31, 2007. 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, 2006.

**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, with over 45 years of experience in the managed care industry. We offer a broad portfolio of managed care and related products in the commercial, Reform, Medicare Advantage and Part D stand-alone prescription drug plan (PDP) markets. The Reform is a Puerto Rico government-funded managed care program for the medically indigent population, similar to the Medicaid program in the U.S. We have the exclusive right to use the Blue Shield name and mark throughout Puerto Rico, serve approximately one million members across all regions of Puerto Rico and hold a leading market position covering approximately 25% of the population. For the three months ended March 31, 2007, our managed care segment represented approximately 87.7% of our total consolidated premiums earned, net and approximately 41.8% of our operating income. We also have significant positions in the life insurance and property and casualty insurance markets. Our life insurance segment has a market share of approximately 25% (in terms of premiums written) as of December 31, 2005. Our property and casualty segment has a market share of approximately 8.5% (in terms of direct premiums) as of December 31, 2006.

We participate in the managed care market through our subsidiary, Triple-S, Inc. (TSI). Our managed care subsidiary is a Blue Cross and Blue Shield Association (BCBSA) licensee, which provides us with exclusive use of the Blue Shield brand in Puerto Rico. We offer products to the commercial, Reform, Medicare Advantage and PDP market sectors, including corporate accounts, U.S. federal government employees, local government employees, individual accounts and Medicare Supplement.

We participate in the life insurance market through our subsidiary, Great American Life Assurance Company of Puerto Rico (GA Life) (which resulted from the merger of our former subsidiary Seguros de Vida Triple-S, Inc. (SVTS) into GA Life) and in the property and casualty insurance market through our subsidiary, Seguros Triple-S, Inc. (STS), which represented approximately 6.5% and 6.1%, respectively, of our consolidated premiums earned, net for the three months ended March 31, 2007 and 30.6% and 14.3%, respectively, of our operating income for that period.

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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 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. The following table shows premiums earned, net and net fee revenue and operating income for each segment, as well as the intersegment premiums earned, service revenues and other intersegment transactions, which are eliminated in the consolidated results:

| <i>(Dollar amounts in millions)</i> | <b>Three months ended<br/>March 31,</b> |             |
|-------------------------------------|---|-------------|
|                                     | <b>2007</b>                             | <b>2006</b> |
| <b>Premiums earned, net</b>         |   |             |
| Managed care                        | <b>\$305.6</b>                          | 339.3       |
| Life insurance                      | <b>22.5</b>                             | 20.1        |
| Property and casualty insurance     | <b>21.4</b>                             | 22.0        |
| Intersegment premiums earned        | <b>(1.0)</b>                            | (0.9)       |
| Consolidated premiums earned, net   | <b>\$348.5</b>                          | 380.5       |

| <i>(Dollar amounts in millions)</i>      | <b>Three months ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2007</b>                             | <b>2006</b> |
| <b>Administrative service fees</b>       |   |             |
| Managed care                             | <b>\$ 4.4</b>                           | 4.1         |
| Intersegment administrative service fees | <b>(0.9)</b>                            | (0.7)       |
| Consolidated administrative service fees | <b>\$ 3.5</b>                           | 3.4         |

| <i>(Dollar amounts in millions)</i>          | <b>Three months ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2007</b>                             | <b>2006</b> |
| <b>Operating income</b>                      |   |             |
| Managed care                                 | <b>\$4.1</b>                            | 5.6         |
| Life insurance                               | <b>3.0</b>                              | 2.1         |
| Property and casualty insurance              | <b>1.4</b>                              | 2.5         |
| Other segments and intersegment eliminations | <b>1.2</b>                              | 1.4         |
| Consolidated operating income                | <b>\$9.7</b>                            | 11.6        |

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 the 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

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ratio is operating expenses divided by premiums earned, net and administrative service fees, multiplied by 100.

**Recent Developments***Puerto Rico's Economy*

The Government of the Commonwealth of Puerto Rico recently announced a possible shortfall of funds to complete the fiscal year ending June 30, 2007 with a balanced budget, as required by law. Certain measures proposed by the governor to resolve the budgetary shortfall for fiscal year 2007 are currently being evaluated by the Puerto Rico legislature.

**Recent Accounting Standards**

There were no new accounting pronouncements issued during the first three months of 2007 that have not been disclosed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006.

We adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48) on January 1, 2007. See details in note 9 to the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

**Managed Care Membership**

|  | <b>As of March 31,</b> |             |
|--|------------------------|-------------|
|  | <b>2007</b>            | <b>2006</b> |
| <b>Managed care enrollment:</b>                        |                        |             |
| Commercial <sup>1</sup>                                | <b>579,887</b>         | 604,341     |
| Reform <sup>2</sup>                                    | <b>353,460</b>         | 595,400     |
| Medicare Advantage                                     | <b>30,709</b>          | 18,221      |
| Part D Stand-Alone Prescription Drug Plan              | <b>11,648</b>          | 16,730      |
| <b>Total</b>   | <b>975,704</b>         | 1,234,692   |
| <b>Managed care enrollment by funding arrangement:</b> |                        |             |
| Fully-insured  | <b>814,092</b>         | 1,081,274   |
| Self-insured   | <b>161,612</b>         | 153,418     |
| <b>Total</b>   | <b>975,704</b>         | 1,234,692   |

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

employees.

- (2) Enrollment as of March 31, 2006 includes 207,420 members of the Metro-North region. The contract for this region was not renewed effective November 1, 2006.

**Table of Contents****Consolidated Operating Results**

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. On January 31, 2006 we completed the acquisition of GA Life. The results of operations of GA Life are included in this table for the period following the effective date of this acquisition.

| <i>(Dollar amounts in millions)</i>                     | <b>Three months ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2007</b>               | <b>2006</b> |
| <b>Revenues:</b>  |                           |             |
| <b>Premiums earned, net</b>                             | <b>\$348.5</b>            | 380.5       |
| <b>Administrative service fees</b>                      | <b>3.5</b>                | 3.4         |
| <b>Net investment income</b>                            | <b>11.1</b>               | 10.1        |
| <b>Total operating revenues</b>                         | <b>363.1</b>              | 394.0       |
| <b>Net realized investment gains</b>                    | <b>1.2</b>                | 0.5         |
| <b>Net unrealized (loss) gain on trading securities</b> | <b>(1.9)</b>              | 2.6         |
| <b>Other income, net</b>                                | <b>0.2</b>                | 1.2         |
| <b>Total revenues</b>                                   | <b>362.6</b>              | 398.3       |
| <b>Benefits and expenses:</b>                           |                           |             |
| <b>Claims incurred</b>                                  | <b>297.3</b>              | 324.7       |
| <b>Operating expenses</b>                               | <b>56.1</b>               | 57.7        |
| <b>Total operating expenses</b>                         | <b>353.4</b>              | 382.4       |
| <b>Interest expense</b>                                 | <b>4.0</b>                | 3.8         |
| <b>Total benefits and expenses</b>                      | <b>357.4</b>              | 386.2       |
| <b>Income before taxes</b>                              | <b>5.2</b>                | 12.1        |
| <b>Income tax expense</b>                               | <b>0.7</b>                | 2.7         |
| <b>Net income</b>                                       | <b>\$ 4.5</b>             | 9.4         |

**Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006***Operating revenues*

Consolidated premiums earned, net and administrative service fees decreased by \$31.9 million, or 8.3%, to \$352.0 million during the three months ended March 31, 2007 compared to the three months ended March 31, 2006. The decrease was primarily due to a decrease in the premiums earned, net in our managed care segment, principally due to the decreased volume of the Reform sector after the loss of the Metro-North region, offset in part by the growth of our Medicare Advantage business.

Consolidated net investment income increased by \$1.0 million, or 9.9%, to \$11.1 million during the three months ended March 31, 2007. This increase is primarily the result of the acquisition of GA Life effective January 31, 2006; net investment income earned by GA Life during the month of January 2006 amounted to \$1.0 million, which are not included in our consolidated financial statements.

*Net realized investment gains*

Consolidated net realized investment gains increased by \$0.7 million, or 140.0%, to \$1.2 million during the three months ended March 31, 2007. This increase is primarily the result of higher sales in 2007 of investments in a gain position, particularly in trading securities, in order to keep the portfolio within established tactical allocation limits.

*Net unrealized (loss) gain on trading securities and other income, net*

The combined balance of our consolidated net unrealized loss on trading securities and other income, net decreased by \$5.5 million, to a loss of \$1.7 million during the three months ended March 31, 2007. This

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decrease is principally attributed to unrealized equity securities losses in our trading portfolios. The unrealized loss in 2007 is the result of fluctuations in the market particularly at the end of the quarter.

*Claims Incurred*

Consolidated claims incurred during the three months ended March 31, 2007 decreased by \$27.4 million, or 8.4%, to \$297.3 million when compared to the claims incurred during the three months ended March 31, 2006. This decrease is principally due to decreased claims in the managed care segment as a result of the decreased volume of business of the Reform sector due to the loss of the Metro-North region, net of increased enrollment in the Medicare Advantage sector. The consolidated loss ratio remained unchanged at 85.3%.

*Operating Expenses*

Consolidated operating expenses during the three months ended March 31, 2007 decreased by \$1.6 million, or 2.8%, to \$56.1 million as compared to the operating expenses during the 2006 period. This decrease is primarily attributed to the decrease in the operating expenses for the Reform business resulting from reduction in volume of the Reform business after the loss of the Metro-North region. The consolidated operating expense ratio increased by 0.9 percentage points during the 2007 period mainly due to fixed expenses not affected by a reduction in volume.

*Income tax expense*

The consolidated effective tax rate decreased by 8.8 percentage points, from 22.3% in 2006 to 13.5% in 2007, primarily due to a lower taxable income in 2007 from our managed care segment, which has a higher effective tax rate than our other segments, and due to fluctuations in the temporary differences in our property and casualty segment.

**Table of Contents****Managed Care Operating Results**

|   | <b>Three months ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>March 31,</b>          |                  |
| <i>(Dollar amounts in thousands)</i>    | <b>2007</b>               | <b>2006</b>      |
| <b>Medical operating revenues:</b>      |                           |                  |
| <b>Medical premiums earned, net:</b>    |                           |                  |
| Commercial                              | \$ 180.3                  | 180.4            |
| Reform                                  | 71.8                      | 127.5            |
| Medicare Advantage                      | 51.0                      | 28.7             |
| PDP                                     | 2.5                       | 2.7              |
| <b>Medical premiums earned, net</b>     | <b>305.6</b>              | <b>339.3</b>     |
| <b>Administrative service fees</b>      | <b>4.4</b>                | <b>4.1</b>       |
| <b>Net investment income</b>            | <b>4.8</b>                | <b>4.6</b>       |
| <b>Total medical operating revenues</b> | <b>314.8</b>              | <b>348.0</b>     |
| <b>Medical operating costs:</b>         |                           |                  |
| <b>Medical claims incurred</b>          | <b>275.5</b>              | <b>304.7</b>     |
| <b>Medical operating expenses</b>       | <b>35.2</b>               | <b>37.7</b>      |
| <b>Total medical operating costs</b>    | <b>310.7</b>              | <b>342.4</b>     |
| <b>Medical operating income</b>         | <b>\$ 4.1</b>             | <b>5.6</b>       |
| <b>Additional data:</b>                 |                           |                  |
| <b>Member months enrollment:</b>        |                           |                  |
| Commercial:                             |                           |                  |
| Fully-insured                           | 1,253,743                 | 1,367,100        |
| Self-funded                             | 479,323                   | 455,909          |
| <b>Total commercial member months</b>   | <b>1,733,066</b>          | <b>1,823,009</b> |
| Reform                                  | 1,064,846                 | 1,810,361        |
| Medicare Advantage                      | 93,249                    | 49,442           |
| PDP                                     | 35,381                    | 31,622           |
| <b>Total member months</b>              | <b>2,926,542</b>          | <b>3,714,434</b> |
| <b>Medical loss ratio</b>               | <b>90.2%</b>              | <b>89.8%</b>     |
| <b>Operating expense ratio</b>          | <b>11.4%</b>              | <b>11.0%</b>     |

**Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006***Medical Operating Revenues*

Medical premiums earned for the three months ended March 31, 2007 decreased by \$33.7 million, or 9.9%, to \$305.6 million when compared to the medical premiums earned during the three months ended March 31, 2006, principally as a result of the following:

Medical premiums earned in the Reform business decreased by \$55.7 million, or 43.7%, to \$71.8 million during the 2007 period. This fluctuation is due to a decrease in member months enrollment in the Reform business by 745,515, or 41.2%, mainly as the result of the loss of the Metro-North region effective November 1, 2006. In addition, this business experienced a shift in membership since dual eligibles have transferred to Medicare Advantage policies offered by us and our competitors, and a tightening of membership restrictions by the Puerto Rico government. The effect of this decrease in membership was mitigated by an increase in premium rates, effective July 1, 2006, of approximately 2.0%.

Medical premiums generated by the Commercial sector decreased by \$0.1 million, or 0.1%, to \$180.3 million during the 2007 period. This is due to a decrease in fully-insured member months of 113,357, or 8.3%, primarily as a result of the loss of several fully-insured accounts due to



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aggressive marketing and pricing by our competitors as well as qualified enrollees transferring to our, or our competitors' Medicare Advantage policies, offset in part by an average increase in premium rates of approximately 8.9%.

Medical premiums generated by the Medicare Advantage business increased during the three months ended March 31, 2007 by \$22.3 million, or 77.7%, primarily due to an increase in member months enrollment of 43,807, or 88.6%, offset in part by the effect of adjustments amounting to \$4.8 million related to the recording of a reserve to provide for the retroactive cancellation of contracts by the Centers for Medicare and Medicaid Services (CMS) and to actuarial risk factors and cost sharing adjustments. We expect that Medicare Advantage enrollment will continue to experience significant growth, but at a substantially slower pace than in prior periods.

Administrative service fees increased by \$0.3 million, or 7.3%, to \$4.4 million during the 2007 period due to an increase in member months enrollment of self-funded arrangements of 23,414, or 5.1% and to a shift of several self-funded groups to arrangements where the administrative service fee is based on contracts instead of claims paid.

*Medical Claims Incurred*

Medical claims incurred during the three months ended March 31, 2007 decreased by \$29.2 million, or 9.6%, to \$275.5 million when compared to the three months ended March 31, 2006. The decrease in medical claims incurred is mostly related to the medical claims incurred of the Reform business, which decreased by \$50.1 million due to the decreased enrollment of the Reform business, offset by an increase of \$18.4 million in the medical claims incurred of the Medicare Advantage and PDP businesses due to an increase in members. The medical loss ratio increased by 0.4 percentage points during the 2007 period, to 90.2%, primarily driven by an increase in the prescription drug cost trends in the Commercial business, mitigated by lower utilization trends in the Reform business. Also, in 2007, due to the loss of the Metro-North region, the Commercial business has a higher weight in the mix of volume of the segment. In this quarter Commercial business has a higher loss ratio than the other businesses in this segment.

*Medical Operating Expenses*

Medical operating expenses for the three months ended March 31, 2007 decreased by \$2.5 million, or 6.6%, to \$35.2 million when compared to the three months ended March 31, 2006. This decrease is primarily attributed to the decrease in the direct costs of the Reform business due to its reduction in volume. The segment's operating expense ratio increased by 0.4 percentage points during the 2007 period.

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

On January 31, 2006 we completed the acquisition of GA Life. The results of operations of GA Life are included in this table for the period following the effective date of the acquisition.

| <i>(Dollar amounts in thousands)</i>       | <b>Three months ended<br/>March 31,</b> |              |
|--|---|--------------|
|  | <b>2007</b>                             | <b>2006</b>  |
| <b>Operating revenues:</b>                 |   |              |
| <b>Premiums earned, net:</b>               |   |              |
| Premiums earned                            | \$24.5                                  | 17.8         |
| Premiums earned ceded                      | (2.1)                                   | (2.2)        |
| Assumed premiums earned                    |   | 4.4          |
| Net premiums earned                        | 22.4                                    | 20.0         |
| Commission income on reinsurance           | 0.1                                     | 0.1          |
| <b>Premiums earned, net</b>                | <b>22.5</b>                             | <b>20.1</b>  |
| <b>Net investment income</b>               | <b>3.6</b>                              | <b>3.0</b>   |
| <b>Total operating revenues</b>            | <b>26.1</b>                             | <b>23.1</b>  |
| <b>Operating costs:</b>                    |   |              |
| <b>Policy benefits and claims incurred</b> | <b>11.6</b>                             | <b>9.6</b>   |
| <b>Underwriting and other expenses</b>     | <b>11.5</b>                             | <b>11.4</b>  |
| <b>Total operating costs</b>               | <b>23.1</b>                             | <b>21.0</b>  |
| <b>Operating income</b>                    | <b>\$ 3.0</b>                           | <b>2.1</b>   |
| <b>Additional data:</b>                    |   |              |
| <b>Loss ratio</b>                          | <b>51.6%</b>                            | <b>47.8%</b> |
| <b>Operating expense ratio</b>             | <b>51.1%</b>                            | <b>56.7%</b> |

**Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006***Operating revenues*

Premiums earned for the segment increased by \$6.7 million, or 37.6%, to \$24.5 million during the three months ended March 31, 2007 as compared to the three months ended March 31, 2006, principally reflecting the acquisition of GA Life effective January 31, 2006. Premiums earned by GA Life during the month of January 2006 were \$6.6 million, which are not reflected in our consolidated financial statements. Eliminating the effect of GA Life's premiums for the month of January 2006, the premiums earned of the segment presented a \$0.1 million increase that is primarily the result of an increase in the life business attributed to an increase in sales of individual life and cancer and other dreaded diseases policies, offset in part by a decrease in premiums generated from the group disability business.

On December 22, 2005, we entered into a coinsurance funds withheld agreement with GA Life pursuant to which our former subsidiary SVTS assumed 69% of all the business written by GA Life (prior to its acquisition by us) as of and after the effective date of the agreement. We acquired GA Life effective January 31, 2006, and our results reflect premiums assumed under this agreement of \$4.4 million, which represents our share of premiums for the month of January 2006. The effects of the reinsurance transactions corresponding to this agreement were eliminated for consolidated financial statement purposes for the period following January 31, 2006.

*Policy Benefits and Claims Incurred*

Policy benefits and claims incurred during the three months ended March 31, 2007 increased by \$2.0 million, or 20.8%, to \$11.6 million in the 2007 period when compared to the 2006 period, principally reflecting the acquisition of GA Life effective January 31, 2006. Policy benefits and claims incurred by GA Life during the month of January 2006, net of the effect of the coinsurance agreement, were \$1.0 million. Eliminating the effect of GA Life's policy benefits and claims incurred for the month of January 2006, this segment presented an increase of \$1.0 million that is primarily the result of an increase of \$0.6 million in policy reserves due to the natural growth of actuarial reserves with respect to aging policies and to an increase in the loss ratio of the cancer and other dreaded diseases business due to the

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maturity of this business, which this segment began subscribing during 2004. Both factors were principally responsible for the increase in the loss ratio by 3.8 percentage points, from 47.8% in 2006 to 51.6% in 2007.

*Underwriting and Other Expenses*

Underwriting and other expenses for the segment increased by \$0.1 million, or 0.9%, during the three months ended March 31, 2007. Excluding the underwriting and other expenses of \$3.5 million incurred by GA Life during the month of January 2006, the underwriting and other expenses of the segment present a decrease of \$3.4 million. This decrease in underwriting and other expenses includes \$1.8 million relating to our share of commissions and other operating expenses for the month of January 2006 under the coinsurance agreement with GA Life. The remaining decrease in these expenses is mostly related to the savings achieved in underwriting and other expenses as a result of the merger of GA Life and SVTS during 2006.

**Property and Casualty Insurance Operating Results**

|  | <b>Three months ended<br/>March 31,</b> |              |
|--|---|--------------|
| <i>(Dollar amounts in thousands)</i>   | <b>2007</b>                             | <b>2006</b>  |
| <b>Operating revenues:</b>             |   |              |
| <b>Premiums earned, net:</b>           |   |              |
| Premiums written                       | \$ 35.2                                 | 34.7         |
| Premiums ceded                         | (15.4)                                  | (13.7)       |
| Change in unearned premiums            | 1.6                                     | 1.0          |
| <b>Premiums earned, net</b>            | <b>21.4</b>                             | <b>22.0</b>  |
| <b>Net investment income</b>           | <b>2.6</b>                              | <b>2.4</b>   |
| <b>Total operating revenues</b>        | <b>24.0</b>                             | <b>24.4</b>  |
| <b>Operating costs:</b>                |   |              |
| <b>Claims incurred</b>                 | <b>10.2</b>                             | <b>10.3</b>  |
| <b>Underwriting and other expenses</b> | <b>12.4</b>                             | <b>11.6</b>  |
| <b>Total operating costs</b>           | <b>22.6</b>                             | <b>21.9</b>  |
| <b>Operating income</b>                | <b>\$ 1.4</b>                           | <b>2.5</b>   |
| <b>Additional data:</b>                |   |              |
| <b>Loss ratio</b>                      | <b>47.7%</b>                            | <b>46.8%</b> |
| <b>Operating expense ratio</b>         | <b>57.9%</b>                            | <b>52.7%</b> |
| <b>Combined ratio</b>                  | <b>105.6%</b>                           | <b>99.5%</b> |

**Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006***Operating Revenues*

Total premiums written during the three months ended March 31, 2007 increased by \$0.5 million, or 1.4%, to \$35.2 million, principally as a result of an increase in the auto liability line of business.

Premiums ceded to reinsurers increased by \$1.7 million, or 12.4%, to \$15.4 million during 2007 primarily as a result of an increase in the cost of non-proportional treaties. The ratio of premiums ceded to premiums written increased by 4.3 percentage points, from 39.5% in 2006 to 43.8% in 2007. The fluctuation in this ratio is primarily due to an increase in the premiums ceded for non-proportional treaties, which were 26.7% and 23.4% of direct premiums written in 2007 and 2006, respectively. The cost of non-proportional treaties is negotiated for the whole year based on

expected annual premium volumes. This cost is distributed throughout the year on a straight-line basis and its relation to direct premiums written varies depending on actual writings in that quarter versus expected amounts.

**Table of Contents***Claims Incurred*

Claims incurred during the three months ended March 31, 2007 decreased by \$0.1 million, or 1.0%, to \$10.2 million. The loss ratio increased by 0.9 percentage points during this period, to 47.7%, primarily as a result of the effect in premiums earned, net of the increase in premiums ceded to reinsurers explained in the preceding paragraph.

*Underwriting and Other Expenses*

Underwriting and other operating expenses for the three months ended March 31, 2007 increased by \$0.8 million, or 6.9%, to \$12.4 million. The operating expense ratio increased by 5.2 percentage points during the same period, to 57.9% in 2007. This increase is primarily due to increases in depreciation expense, including the depreciation and amortization expense related to the segment's investment in technology, and the fact that the segment is still incurring costs related to the transition to its new IT systems.

**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 thousands)</i>             | <b>Three months ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2007</b>                             | <b>2006</b> |
| <b>Sources of cash:</b>                          |   |             |
| Cash provided by operating activities            | <b>\$ 3.6</b>                           | 3.9         |
| Proceeds from long-term borrowings               |   | 35.0        |
| Proceeds from short-term borrowings              |   | 6.9         |
| Proceeds from policyholder deposits              | <b>1.4</b>                              | 2.3         |
| Other  | <b>2.1</b>                              | 2.6         |
| <b>Total sources of cash</b>                     | <b>7.1</b>                              | 50.7        |
| <b>Uses of cash:</b>                             |   |             |
| Net purchases of investment securities           | <b>(1.9)</b>                            | (2.0)       |
| Acquisition of GA Life, net of cash acquired     |   | (27.8)      |
| Capital expenditures                             | <b>(1.4)</b>                            | (3.8)       |
| Dividends  | <b>(2.4)</b>                            | (6.2)       |
| Payments of long-term borrowings                 | <b>(0.4)</b>                            | (0.3)       |
| Net payments of short-term borrowings            |   | (8.7)       |
| Net surrenders of policyholder deposits          | <b>(1.9)</b>                            | (1.9)       |
| Other  |   | (0.1)       |
| <b>Total uses of cash</b>                        | <b>(8.0)</b>                            | (50.8)      |
| <b>Net decrease in cash and cash equivalents</b> | <b>\$(0.9)</b>                          | (0.1)       |

Cash flows from operating activities decreased by \$0.3 million, or 7.7%, to \$3.6 million for the three months ended March 31, 2007, principally due to a reduction in premiums collected of \$29.2 million and claims paid of \$23.8 million that is mainly attributed to the loss of the Metro-North region by our Managed Care segment. This decrease is offset in part by an increase of \$3.7 million in net proceeds received from trading securities and an increase of \$1.2 million in the expense reimbursement from Medicare.

Proceeds from long-term borrowings amounted to \$35.0 million during 2006 as a result of the issuance and sale of our 6.7% senior unsecured notes during the first quarter of 2006. These proceeds were used for the acquisition of GA Life. On January 31, 2006, we acquired GA Life at a cost of \$27.8 million, net of \$10.4 million of cash acquired.



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Capital expenditures decreased by \$2.4 million as the result of the completion several capital projects during the last quarter of the year 2006. The renovation of a building adjacent to our corporate headquarters was completed during the last quarter of 2006; also our property and casualty insurance segment substantially completed the implementation of its new insurance application during the third quarter of 2006.

In March 2007, we declared and paid dividends to our stockholders amounting to \$2.4 million.

*Financing and Financing Capacity*

We have several short-term facilities available to meet our liquidity needs. These short-term facilities are mostly in the form of arrangements to sell securities under repurchase agreements. As of March 31, 2007, we had \$53.0 million of available credit under these facilities. There were no outstanding short-term borrowings under these facilities as of March 31, 2007 and December 31, 2006.

As of March 31, 2007, 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 6.30% notes, the 6.60% notes and the 6.70% notes contain certain covenants. At March 31, 2007, we and our managed care subsidiary, as applicable, are in compliance with these covenants.

In addition, we are a party to two secured term loans with a commercial bank, FirstBank Puerto Rico. These secured loans bear interest at a rate equal to the London Interbank Offered Rate (LIBOR) plus a margin specified at the time of the agreement. As of March 31, 2007, the two secured loans had outstanding balances of \$27.2 million and \$10.5 million, respectively, and average annual interest rates of 6.3% and 6.7%, respectively. The first secured loan requires monthly principal repayment of \$0.1 million. The second secured loan requires repayment of principal amounts of not less than \$0.3 million and integral multiples of \$0.1 million in excess thereof and must be repaid by August 1, 2007.

These secured loans are 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. These secured loans contain certain 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 March 31, 2007, we are in compliance with these covenants. Failure to meet these covenants may trigger the accelerated payment of the secured loans outstanding balances.

We have an interest rate swap agreement, which changes the variable rate of one of our credit agreements and fixes the rate at 4.72%. We continually monitor existing and alternative financing sources to support our capital and liquidity needs.

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, 2006.

**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, 2006. A discussion of our market risk is incorporated by



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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, 2006.

**Item 4. Controls and Procedures**

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2007. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2007. There were no significant changes in the 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.

**Part II Other Information**

**Item 1. Legal Proceedings**

For a description of legal proceedings, see note 11 to the unaudited consolidated financial statements included in this quarterly report on Form 10-Q.

**Item IA. Risk Factors**

No material change has occurred from risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

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

The Annual Shareholders Meeting of the Corporation was held on April 29, 2007. A quorum was obtained with 5,106 shares represented in person or by proxy, which represented approximately 57.3% of all votes eligible to be cast at the meeting. At the meeting, seven directors, Ms. Carmen Ana Culpeper, Mr. Manuel Figueroa-Collazo, Mr. Miguel Nazario-Franco Mr. Juan E. Rodríguez-Díaz, Mr. Antonio Faría-Soto, Mr. Jaime Morgan-Stubbe and Dr. Roberto Muñoz-Zayas, were elected for three year terms. Messrs. Faría-Soto, Morgan-Stubbe, and Dr. Muñoz-Zayas were elected to serve on the Board of Directors of the Corporation for the first time at the annual meeting.

At the Annual Meeting, stockholders also approved an amendment to Article TENTH A of our Amended and Restated Articles of Incorporation, modifying existing restrictions on the size of our Board of Directors. In addition, stockholders voted on, but did not approve, an amendment to Articled TENTH C of our Amended and Restated Articles of Incorporation, which provided for the elimination of existing limits on the term that a person can serve as director of the Corporation, and a stockholder proposal to amend our Amended and Restated Bylaws with respect to certain rights of stockholder heirs. The result of the voting for each of these matters is set forth below:

**Table of Contents***Election of Directors*

| <b>Nominees for Three-year Term</b> | <b>Votes<br/>For</b> | <b>Votes<br/>Withheld</b> |
|-------------------------------------|----------------------|---------------------------|
| Carmen Ana Culpeper                 | 5,313                | 204                       |
| Antonio Faría-Soto                  | 5,296                | 221                       |
| Manuel Figueroa-Collazo             | 5,270                | 247                       |
| Jaime Morgan-Stubbe                 | 5,187                | 330                       |
| Roberto Muñoz-Zayas                 | 5,266                | 251                       |
| Miguel Nazario-Franco               | 5,251                | 266                       |
| Juan E. Rodríguez-Díaz              | 5,287                | 230                       |

*Amendment to Article TENTH A of the Corporation s Amended and Restated Articles of Incorporation*

|                   |       |
|-------------------|-------|
| For:              | 4,557 |
| Against:          | 944   |
| Abstained:        | 38    |
| Broker Non-Votes: | 0     |

*Amendment to Article TENTH C of the Corporation s Amended and Restated Articles of Incorporation*

|                   |       |
|-------------------|-------|
| For:              | 4,035 |
| Against:          | 1,458 |
| Abstained:        | 63    |
| Broker Non-Votes: | 0     |

*Stockholder proposal to amend the Corporation s Amended and Restated Bylaws with respect to certain rights of stockholders heirs*

|                   |       |
|-------------------|-------|
| For:              | 1,452 |
| Against:          | 3,846 |
| Abstained:        | 224   |
| Broker Non-Votes: | 0     |

A copy of Article TENTH A of the Corporation s Amended and Restated Articles of Incorporation, as amended, is attached as Exhibit 3.(i) to this Quarterly Report on Form 10-Q.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits***Exhibits Description*

- |      |  |
|------|--|
| 3(i) | Amendment to Triple-S Management Corporation s Amended and Restated Articles of Incorporation.   |
| 10.1 | Blue Shield License and other Agreements with Blue Cross Blue Shield Association.  |
| 11   | Statement re computation of per share earnings; an exhibit describing the computation of the earnings per share for the three months ended March 31, 2007 and 2006 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 |

**Table of Contents**

*Exhibits Description*

Report on Form 10-Q.

- 12 Statements re computation of ratios; an exhibit describing the computation of the loss ratio, expense ratio and combined ratio for the three months ended March 31, 2007 and 2006 has been omitted as the detail necessary to determine the computation of the loss ratio, operating expense ratio and combined ratio 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.

**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: May 14, 2007

By: /s/

Ramón M. Ruiz-Comas, CPA  
*President and  
Chief Executive Officer*

Date: May 14, 2007

By: /s/

Juan J. Román, CPA  
*Vice President of Finance  
and Chief Financial Officer*

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