

TRIPLE-S MANAGEMENT CORP

Form 10-Q

August 14, 2007

**Table of Contents**

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

(Mark One)

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

**For the quarterly period ended June 30, 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.

| <b>Title of each class</b>     | <b>Outstanding at June 30, 2007</b> |
|--------------------------------|-------------------------------------|
| Common Stock, \$1.00 par value | 26,709,000                          |

**Triple-S Management Corporation**  
**FORM 10-Q**  
For the Quarter Ended June 30, 2007  
Table of Contents

|   | <b>PAGE</b> |
|---|-------------|
| <b><u>PART I FINANCIAL INFORMATION</u></b>  |             |
| <u>Item 1. Financial Statements</u>   |             |
| <u>Consolidated Balance Sheets as of June 30, 2007 and December 31, 2006</u>  | 3           |
| <u>Consolidated Statements of Earnings for the three months and six months ended June 30, 2007 and 2006</u>                     | 4           |
| <u>Consolidated Statements of Stockholders' Equity and Comprehensive Income for the six months ended June 30, 2007 and 2006</u> | 5           |
| <u>Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and 2006</u>                                    | 6           |
| <u>Notes to Consolidated Financial Statements</u>   | 8           |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                            | 19          |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>   | 31          |
| <u>Item 4. Controls and Procedures</u>  | 31          |
| <b><u>PART II OTHER INFORMATION</u></b>   |             |
| <u>Item 1. Legal Proceedings</u>  | 32          |
| <u>Item 1A Risk Factors</u>   | 32          |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 33          |
| <u>Item 3. Defaults Upon Senior Securities</u>  | 33          |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u>  | 33          |
| <u>Item 5. Other Information</u>  | 33          |
| <u>Item 6. Exhibits</u>   | 34          |
| <b><u>SIGNATURES</u></b>  | 35          |
| <u>EX-10.1 AGREEMENT BETWEEN PUERTO RICO HEALTH INSURANCE ADMINISTRATION AND TRIPLE-S, INC.</u>                                 |             |
| <u>EX-31.1 SECTION 302 CERTIFICATION OF THE CEO</u>   |             |
| <u>EX-31.2 SECTION 302 CERTIFICATION OF THE CFO</u>   |             |
| <u>EX-32.1 SECTION 906 CERTIFICATION OF THE CEO</u>   |             |
| <u>EX-32.2 SECTION 906 CERTIFICATION OF THE CFO</u>   |             |

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

|  | <b>(Unaudited)<br/>June 30,<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>\$ 68,214</b>                         | 83,447                       |
| Securities available for sale, at fair value:                    |  |                              |
| Fixed maturities   | <b>707,871</b>                           | 702,566                      |
| Equity securities  | <b>73,665</b>                            | 61,686                       |
| Securities held to maturity, at amortized cost:                  |  |                              |
| Fixed maturities   | <b>20,313</b>                            | 21,450                       |
| Policy loans   | <b>5,339</b>                             | 5,194                        |
| Cash and cash equivalents  | <b>71,536</b>                            | 81,320                       |
| <b>Total investments and cash</b>                                | <b>946,938</b>                           | 955,663                      |
| Premiums and other receivables, net                              | <b>230,923</b>                           | 165,358                      |
| Deferred policy acquisition costs and value of business acquired | <b>114,448</b>                           | 111,417                      |
| Property and equipment, net                                      | <b>41,658</b>                            | 41,615                       |
| Net deferred tax asset   | <b>10,565</b>                            | 9,292                        |
| Other assets   | <b>66,483</b>                            | 62,164                       |
| <b>Total assets</b>  | <b>\$1,411,015</b>                       | 1,345,509                    |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                       |  |                              |
| Claim liabilities:   |  |                              |
| Claims processed and incomplete                                  | <b>\$ 178,408</b>                        | 147,211                      |
| Unreported losses  | <b>149,921</b>                           | 150,735                      |
| Unpaid loss-adjustment expenses                                  | <b>16,487</b>                            | 16,736                       |
| <b>Total claim liabilities</b>                                   | <b>344,816</b>                           | 314,682                      |
| Liability for future policy benefits                             | <b>187,323</b>                           | 180,420                      |
| Unearned premiums  | <b>114,903</b>                           | 113,582                      |
| Policyholder deposits  | <b>45,100</b>                            | 45,425                       |
| Liability to Federal Employees Health Benefits Program           | <b>12,052</b>                            | 13,563                       |
| Accounts payable and accrued liabilities                         | <b>129,031</b>                           | 110,609                      |
| Borrowings   | <b>182,267</b>                           | 183,087                      |
| Income tax payable   |  | 9,242                        |

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|  |                    |           |
|--|--------------------|-----------|
| Liability for pension benefits             | <b>35,774</b>      | 32,300    |
| Total liabilities                          | <b>1,051,266</b>   | 1,002,910 |
| Stockholders' equity:                      |                    |           |
| Common stock                               | <b>26,709</b>      | 356       |
| Additional paid-in capital                 | <b>124,055</b>     | 150,408   |
| Retained earnings                          | <b>234,128</b>     | 211,266   |
| Accumulated other comprehensive loss       | <b>(25,143)</b>    | (19,431)  |
| Total stockholders' equity                 | <b>359,749</b>     | 342,599   |
| Total liabilities and stockholders' equity | <b>\$1,411,015</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 and six months ended June 30, 2007 and 2006

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

|   | Three months ended<br>June 30, |         | Six months ended<br>June 30, |         |
|---|--------------------------------|---------|------------------------------|---------|
|   | 2007                           | 2006    | 2007                         | 2006    |
| <b>REVENUES:</b>  |                                |         |                              |         |
| Premiums earned, net  | \$377,346                      | 387,637 | \$725,811                    | 768,168 |
| Administrative service fees                                 | 3,617                          | 3,202   | 7,126                        | 6,631   |
| Net investment income                                       | 11,047                         | 10,766  | 22,168                       | 20,816  |
| Total operating revenues                                    | 392,010                        | 401,605 | 755,105                      | 795,615 |
| Net realized investment gains                               | 3,784                          | 433     | 4,980                        | 961     |
| Net unrealized investment gain (loss) on trading securities | 573                            | (2,245) | (1,352)                      | 311     |
| Other income (expense), net                                 | 2,158                          | (1,286) | 2,367                        | (87)    |
| Total revenues  | 398,525                        | 398,507 | 761,100                      | 796,800 |
| <b>BENEFITS AND EXPENSES:</b>                               |                                |         |                              |         |
| Claims incurred   | 308,023                        | 332,209 | 605,341                      | 656,916 |
| Operating expenses  | 59,358                         | 56,932  | 115,495                      | 114,662 |
| Total operating costs                                       | 367,381                        | 389,141 | 720,836                      | 771,578 |
| Interest expense  | 4,058                          | 4,096   | 8,010                        | 7,894   |
| Total benefits and expenses                                 | 371,439                        | 393,237 | 728,846                      | 779,472 |
| Income before taxes   | 27,086                         | 5,270   | 32,254                       | 17,328  |
| <b>INCOME TAX EXPENSE (BENEFIT):</b>                        |                                |         |                              |         |
| Current   | 5,938                          | 779     | 6,998                        | 3,415   |
| Deferred  | 343                            | (128)   | (54)                         | (87)    |
| Total income taxes  | 6,281                          | 651     | 6,944                        | 3,328   |
| Net income  | \$ 20,805                      | 4,619   | \$ 25,310                    | 14,000  |
| Basic net income per share (note 7)                         | \$ 0.78                        | 0.17    | \$ 0.95                      | 0.52    |

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 six months  
ended June 30, 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>25,310</b>    | 14,000      |
| Net unrealized change in fair value of available for sale securities | <b>(6,260)</b>   | (15,621)    |
| Defined benefit pension plan:  |                  |             |
| Actuarial loss, net  | <b>630</b>       |             |
| Prior service cost, net  | <b>17</b>        |             |
| Net change in fair value of cash flow hedges                         | <b>(99)</b>      | 137         |
| Total comprehensive income   | <b>19,598</b>    | (1,484)     |
| <b>BALANCE AT JUNE 30</b>  | <b>\$359,749</b> | 300,988     |

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

For the six months ended June 30, 2007 and 2006

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

|   | <b>Six months ended</b> |             |
|---|-------------------------|-------------|
|   | <b>June 30,</b>         |             |
|   | <b>2007</b>             | <b>2006</b> |
| Net income  | \$ 25,310               | 14,000      |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |             |
| Depreciation and amortization   | 3,395                   | 2,930       |
| Net amortization of investments   | 371                     | 200         |
| Provision for doubtful receivables  | 3,981                   | 775         |
| Deferred tax benefit  | (54)                    | (87)        |
| Net gain on sale of securities  | (4,980)                 | (961)       |
| Net unrealized (gain) loss of trading securities                                  | 1,352                   | (311)       |
| Proceeds from trading securities sold:  |                         |             |
| Equity securities   | 32,399                  | 11,439      |
| Acquisition of securities in trading portfolio:                                   |                         |             |
| Equity securities   | (12,860)                | (11,579)    |
| Loss (gain) on sale of property and equipment                                     | 2                       | (1)         |
| (Increase) decrease in assets:  |                         |             |
| Premiums receivable   | (43,452)                | (37,066)    |
| Agent balances  | (2,464)                 | (58)        |
| Accrued interest receivable   | (741)                   | 712         |
| Other receivables   | (4,303)                 | 121         |
| Reinsurance recoverable on paid losses  | (18,355)                | (1,873)     |
| Deferred policy acquisition costs and value of business acquired                  | (3,031)                 | (2,065)     |
| Prepaid income tax  | (4,663)                 | 2,909       |
| Other assets  | 172                     | 194         |
| Increase (decrease) in liabilities:   |                         |             |
| Claims processed and incomplete   | 31,197                  | 10,334      |
| Unreported losses   | (814)                   | 23,409      |
| Unpaid loss-adjustment expenses   | (249)                   | 1,109       |
| Liability for future policy benefits  | 6,903                   | 5,702       |
| Unearned premiums   | 1,321                   | 3,600       |
| Policyholder deposits   | 864                     | 889         |
| Liability to FEHBP  | (1,511)                 | 134         |
| Accounts payable and accrued liabilities  | 5,844                   | (3,954)     |
| Income tax payable  | (9,242)                 |             |
| Net cash provided by operating activities   | \$ 6,392                | 20,502      |

(Continued)



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

For the six months ended June 30, 2007 and 2006

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

|   | <b>Six months ended</b> |                 |
|---|-------------------------|-----------------|
|   | <b>June 30,</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                                     | \$ 76,904               | 17,337          |
| Fixed maturities matured                                  | 10,852                  | 19,928          |
| Equity securities   | 1,011                   | 362             |
| Fixed maturity securities held to maturity                | 1,285                   | 277             |
| Acquisition of investments:                               |                         |                 |
| Securities available for sale:                            |                         |                 |
| Fixed maturities  | (100,668)               | (39,447)        |
| Equity securities   | (14,507)                | (5,847)         |
| Acquisition of business, net of \$10,403 of cash acquired |                         | (27,793)        |
| Net disbursements for policy loans                        | (145)                   | (350)           |
| Capital expenditures                                      | (3,440)                 | (7,225)         |
| Proceeds from sale of property and equipment              |                         | 2               |
| Net cash used in investing activities                     | <b>(28,708)</b>         | <b>(42,756)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>              |                         |                 |
| Change in outstanding checks in excess of bank balances   | 16,989                  | 2,556           |
| Repayments of short-term borrowings                       | (23,110)                | (106,137)       |
| Proceeds from short-term borrowings                       | 23,110                  | 104,397         |
| Repayments of long-term borrowings                        | (820)                   | (1,683)         |
| Proceeds from long-term borrowings                        |                         | 35,000          |
| Dividends paid  | (2,448)                 | (6,231)         |
| Proceeds from policyholder deposits                       | 2,844                   | 3,531           |
| Surrenders of policyholder deposits                       | (4,033)                 | (4,211)         |
| Net cash provided by financing activities                 | <b>12,532</b>           | <b>27,222</b>   |
| Net (decrease) increase in cash and cash equivalents      | <b>(9,784)</b>          | <b>4,968</b>    |
| Cash and cash equivalents at beginning of the period      | <b>81,320</b>           | <b>48,978</b>   |
| Cash and cash equivalents at end of the period            | <b>\$ 71,536</b>        | <b>53,946</b>   |

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents**

**TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES**

*Notes to Consolidated Financial Statements*

June 30, 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 and six months ended June 30, 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 six 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 and six months ended June 30, 2007 and 2006:

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

June 30, 2007

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

(Unaudited)

|  | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|  | <b>2007</b>               | <b>2006</b> | <b>2007</b>             | <b>2006</b> |
| <b>Operating revenues:</b>                     |                           |             |                         |             |
| <b>Managed Care:</b>                           |                           |             |                         |             |
| Premiums earned, net                           | <b>\$330,712</b>          | 343,181     | <b>\$635,543</b>        | 681,784     |
| Administrative service fees                    | <b>3,617</b>              | 3,202       | <b>7,126</b>            | 6,631       |
| Intersegment premiums /service fees            | <b>1,781</b>              | 1,491       | <b>3,408</b>            | 2,889       |
| Net investment income                          | <b>4,661</b>              | 4,516       | <b>9,490</b>            | 9,072       |
| Total managed care                             | <b>340,771</b>            | 352,390     | <b>655,567</b>          | 700,376     |
| <b>Life Insurance:</b>                         |                           |             |                         |             |
| Premiums earned, net                           | <b>22,483</b>             | 22,468      | <b>44,863</b>           | 42,498      |
| Intersegment premiums                          | <b>90</b>                 | 78          | <b>172</b>              | 156         |
| Net investment income                          | <b>3,739</b>              | 3,822       | <b>7,359</b>            | 6,832       |
| Total life                                     | <b>26,312</b>             | 26,368      | <b>52,394</b>           | 49,486      |
| <b>Property and Casualty Insurance:</b>        |                           |             |                         |             |
| Premiums earned, net                           | <b>24,151</b>             | 21,988      | <b>45,405</b>           | 43,886      |
| Intersegment premiums                          | <b>154</b>                | 155         | <b>308</b>              | 284         |
| Net investment income                          | <b>2,527</b>              | 2,316       | <b>5,079</b>            | 4,680       |
| Total property and casualty                    | <b>26,832</b>             | 24,459      | <b>50,792</b>           | 48,850      |
| Other segments intersegment service revenues * | <b>10,602</b>             | 12,197      | <b>21,642</b>           | 25,465      |
| Total business segments                        | <b>404,517</b>            | 415,414     | <b>780,395</b>          | 824,177     |
| TSM operating revenues from external sources   | <b>120</b>                | 112         | <b>240</b>              | 232         |
| Elimination of intersegment premiums           | <b>(2,025)</b>            | (1,724)     | <b>(3,888)</b>          | (3,329)     |
| Elimination of intersegment service fees       | <b>(10,602)</b>           | (12,197)    | <b>(21,642)</b>         | (25,465)    |
| Consolidated operating revenues                | <b>\$392,010</b>          | 401,605     | <b>\$755,105</b>        | 795,615     |

\* 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*

June 30, 2007

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

(Unaudited)

|   | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|---|---------------------------|-------------|-------------------------|-------------|
|   | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|   | <b>2007</b>               | <b>2006</b> | <b>2007</b>             | <b>2006</b> |
| <b>Operating income:</b>                                      |                           |             |                         |             |
| Managed care  | \$17,797                  | 5,182       | \$21,897                | 10,788      |
| Life insurance  | 2,680                     | 3,907       | 5,655                   | 5,980       |
| Property and casualty insurance                               | 3,593                     | 1,754       | 4,986                   | 4,190       |
| Other segments *  | 140                       | 220         | 278                     | 504         |
| <br>  |                           |             |                         |             |
| Total business segments                                       | 24,210                    | 11,063      | 32,816                  | 21,462      |
| TSM operating revenues from external sources                  | 120                       | 112         | 240                     | 232         |
| TSM unallocated operating expenses                            | (2,447)                   | (1,326)     | (4,273)                 | (2,642)     |
| Elimination of TSM intersegment charges                       | 2,746                     | 2,615       | 5,486                   | 4,985       |
| <br>  |                           |             |                         |             |
| Consolidated operating income                                 | 24,629                    | 12,464      | 34,269                  | 24,037      |
| Consolidated net realized investment gains                    | 3,784                     | 433         | 4,980                   | 961         |
| Consolidated net unrealized gain (loss) on trading securities | 573                       | (2,245)     | (1,352)                 | 311         |
| Consolidated interest expense                                 | (4,058)                   | (4,096)     | (8,010)                 | (7,894)     |
| Consolidated other income, net                                | 2,158                     | (1,286)     | 2,367                   | (87)        |
| <br>  |                           |             |                         |             |
| Consolidated income before taxes                              | \$27,086                  | 5,270       | \$32,254                | 17,328      |
| <br>  |                           |             |                         |             |
| <b>Depreciation expense:</b>                                  |                           |             |                         |             |
| Managed care  | \$ 862                    | 892         | \$ 1,758                | 1,809       |
| Life insurance  | 160                       | 182         | 339                     | 317         |
| Property and casualty insurance                               | 377                       | 132         | 737                     | 239         |
| <br>  |                           |             |                         |             |
| Total business segments                                       | 1,399                     | 1,206       | 2,834                   | 2,365       |
| TSM depreciation expense                                      | 280                       | 282         | 561                     | 565         |
| <br>  |                           |             |                         |             |
| Consolidated depreciation expense                             | \$ 1,679                  | 1,488       | \$ 3,395                | 2,930       |

\* 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*

June 30, 2007

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

(Unaudited)

|   | <b>June 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---|--------------------------|------------------------------|
| <b>Assets:</b>  |                          |                              |
| Managed care  | \$ 633,702               | 600,948                      |
| Life insurance  | 411,514                  | 407,994                      |
| Property and casualty insurance   | 346,500                  | 326,894                      |
| Other segments *  | 8,430                    | 7,807                        |
| <br>  |                          |                              |
| Total business segments   | <b>1,400,146</b>         | 1,343,643                    |
| Unallocated amounts related to TSM:   |                          |                              |
| Cash, cash equivalents, and investments                                     | 12,368                   | 11,879                       |
| Property and equipment, net   | 23,231                   | 23,792                       |
| Other assets  | 2,584                    | 4,096                        |
|   | <b>38,183</b>            | 39,767                       |
| Elimination entries-intersegment receivables and others                     | <b>(27,314)</b>          | (37,901)                     |
| <br>  |                          |                              |
| Consolidated total assets   | <b>\$1,411,015</b>       | 1,345,509                    |
| <br>  |                          |                              |
| <b>Significant noncash items:</b>   |                          |                              |
| Net change in unrealized gain on securities available for sale:             |                          |                              |
| Managed care  | \$ (1,851)               | (1,560)                      |
| Life insurance  | (4,086)                  | (1,457)                      |
| Property and casualty insurance   | (293)                    | (183)                        |
| <br>  |                          |                              |
| Total business segments   | <b>(6,230)</b>           | (3,200)                      |
| Amount related to TSM   | <b>(30)</b>              | (12)                         |
| <br>  |                          |                              |
| Consolidated net change in unrealized gain on securities available for sale | <b>\$ (6,260)</b>        | (3,212)                      |
| <br>  |                          |                              |
| Net change in defined benefit pension plan liability:                       |                          |                              |
| Managed care  | \$ 443                   | 3,795                        |
| Life  | 6                        | 212                          |
| Property and casualty   | 47                       | 197                          |
| Other segments*   | 137                      | 614                          |
| <br>  |                          |                              |
| Total business segments   | <b>633</b>               | 4,818                        |
| Amount related to TSM   | <b>14</b>                | 134                          |
| <br>  |                          |                              |
| Consolidated net change in defined benefit pension plan liability           | <b>\$ 647</b>            | 4,952                        |

- \* 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*

June 30, 2007

*(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 June 30, 2007 and December 31, 2006, were as follows:

|                                | <b>June 30, 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              | \$ 53,049                 | 15,647                                | (482)                                  | 68,214                              |
| Securities available for sale: |                           |                                       |  |                                     |
| Fixed maturities               | 725,808                   | 373                                   | (18,310)                               | 707,871                             |
| Equity securities              | 63,543                    | 12,426                                | (2,304)                                | 73,665                              |
|                                | 789,351                   | 12,799                                | (20,614)                               | 781,536                             |
| Securities held to maturity:   |                           |                                       |  |                                     |
| Fixed maturities               | 20,313                    | 386                                   | (812)                                  | 19,887                              |
|                                | \$ 862,713                | 28,832                                | (21,908)                               | 869,637                             |
|                                |                           |                                       |  |                                     |
|                                | <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                              |
|                                | 764,245                   | 13,702                                | (13,695)                               | 764,252                             |
| Securities held to maturity:   |                           |                                       |  |                                     |
| Fixed maturities               | 21,450                    | 370                                   | (816)                                  | 21,004                              |

|                   |               |                 |                |
|-------------------|---------------|-----------------|----------------|
| <b>\$ 852,625</b> | <b>31,508</b> | <b>(15,430)</b> | <b>868,703</b> |
|-------------------|---------------|-----------------|----------------|

Investment in securities at June 30, 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 (8.0%) and obligations of the government of Puerto Rico and its instrumentalities (5.7%). The remaining 27.4% 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 to operations and a new cost basis for the security is established. During the six months

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

June 30, 2007

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

(Unaudited)

ended June 30, 2007 and 2006 the Corporation recognized other-than-temporary impairments amounting to \$356 and \$388, respectively, on its equity securities classified as available for sale.

**(5) Premiums and Other Receivables**

Premiums and other receivables as of June 30, 2007 and December 31, 2006 were as follows:

|  | <b>June 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|--|--------------------------|------------------------------|
| Premium                                  | <b>\$ 85,819</b>         | 53,377                       |
| Self-funded group receivables            | <b>35,390</b>            | 24,854                       |
| FEHBP                                    | <b>9,661</b>             | 9,187                        |
| Agents balances                          | <b>31,277</b>            | 28,813                       |
| Accrued interest                         | <b>8,527</b>             | 7,786                        |
| Reinsurance recoverable on paid losses   | <b>59,240</b>            | 40,885                       |
| Other                                    | <b>23,220</b>            | 18,686                       |
|  | <b>253,134</b>           | 183,588                      |
| Less allowance for doubtful receivables: |                          |                              |
| Premiums                                 | <b>14,221</b>            | 12,128                       |
| Other                                    | <b>7,990</b>             | 6,102                        |
|  | <b>22,211</b>            | 18,230                       |
| Total premiums and other receivables     | <b>\$230,923</b>         | 165,358                      |

**(6) Claim Liabilities**

The activity in the total claim liabilities for the three months and six months ended June 30, 2007 and 2006 is as follows:

|   | <b>Three months ended<br/>June 30,</b> |             | <b>Six months ended<br/>June 30,</b> |             |
|---|--|-------------|--------------------------------------|-------------|
|   | <b>2007</b>                            | <b>2006</b> | <b>2007</b>                          | <b>2006</b> |
| Claim liabilities at beginning of period      | <b>\$327,871</b>                       | 326,339     | <b>\$314,682</b>                     | 297,563     |
| Reinsurance recoverable on claim liabilities  | <b>(32,331)</b>                        | (29,031)    | <b>(32,066)</b>                      | (28,720)    |
| Net claim liabilities at beginning of period  | <b>295,540</b>                         | 297,308     | <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>310,115</b>                         | 340,953     | <b>619,680</b>                       | 657,757     |
| Prior period insured events                   | <b>(4,747)</b>                         | (10,768)    | <b>(20,938)</b>                      | (6,308)     |

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|  |                  |         |                  |         |
|--|------------------|---------|------------------|---------|
| Total  | <b>305,368</b>   | 330,185 | <b>598,742</b>   | 651,449 |
| Payments of losses and loss-adjustment expenses: |                  |         |                  |         |
| Current period insured events                    | <b>277,892</b>   | 290,834 | <b>422,706</b>   | 458,545 |
| Prior period insured events                      | <b>28,203</b>    | 24,234  | <b>163,839</b>   | 158,093 |
| Total  | <b>306,095</b>   | 315,068 | <b>586,545</b>   | 616,638 |
| Net claim liabilities at end of period           | <b>294,813</b>   | 312,425 | <b>294,813</b>   | 312,425 |
| Reinsurance recoverable on claim liabilities     | <b>50,003</b>    | 29,173  | <b>50,003</b>    | 29,173  |
| Claim liabilities at end of period               | <b>\$344,816</b> | 341,598 | <b>\$344,816</b> | 341,598 |

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

June 30, 2007

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

(Unaudited)

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 amount included in the incurred claims and loss-adjustment expenses for prior period insured events for the three months and six months ended June 30, 2007 and 2006 represents a favorable development of claim liabilities due primarily to better than expected utilization trends.

**(7) Capital Stock**

The Corporation is authorized to issue 100,000,000 shares of common stock with a par value of \$1.00 per share pursuant to an amendment to the Corporation's Article of Incorporation that became effective in February 2007. 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.

On April 24, 2007, the Corporation's Board of Directors (the Board) authorized a 3,000-for-one stock split effected in the form of a dividend of 2,999 shares for every one share outstanding. This stock split was 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 per share were unchanged by this action. The par value of the additional shares resulting from the stock split was 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 after giving retroactive effect to the stock split.

On May 2007, the Corporation cancelled 24,000 director qualifying shares. As of February 2007, Board members are no longer required to hold qualifying shares to participate in the Board of Directors of the Corporation.

**(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   | (6,260)                                       | 647                                  | (99)                   | (5,712)   |
| <b>BALANCE AT JUNE 30</b>   | <b>\$ (6,255)</b>                             | <b>(19,095)</b>                      | <b>207</b>             | <b>(25,143)</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



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

June 30, 2007

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

(Unaudited)

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. 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 and six months ended June 30, 2007 and 2006 were as follows:

|  | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|  | <b>2007</b>               | <b>2006</b> | <b>2007</b>             | <b>2006</b> |
| Components of net periodic benefit cost: |                           |             |                         |             |
| Service cost                             | <b>\$ 1,584</b>           | 1,322       | <b>\$ 2,940</b>         | 2,692       |
| Interest cost                            | <b>1,427</b>              | 1,128       | <b>2,721</b>            | 2,303       |
| Expected return on assets                | <b>(1,233)</b>            | (935)       | <b>(2,361)</b>          | (1,926)     |
| Prior service cost                       | <b>16</b>                 | 12          | <b>30</b>               | 24          |
| Actuarial loss                           | <b>511</b>                | 590         | <b>1,025</b>            | 1,192       |
| Net periodic benefit cost                | <b>\$ 2,305</b>           | 2,117       | <b>\$ 4,355</b>         | 4,285       |

***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 June 30, 2007, no contributions have been made. The Corporation currently anticipates contributing \$5,000 to fund its pension program in 2007.

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

June 30, 2007

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

(Unaudited)

**(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 after giving retroactive effect to the stock split disclosed in note 7:

|  | <b>Three months ended<br/>June 30,</b> |             | <b>Six months ended<br/>June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2007</b>                            | <b>2006</b> | <b>2007</b>                          | <b>2006</b> |
| Numerator for basic earnings per share:  |  |             |                                      |             |
| Net income available to stockholders   | \$ 20,805                              | 4,619       | \$ 25,310                            | 14,000      |
| Denominator for basic earnings per share:  |  |             |                                      |             |
| Weighted average of outstanding common shares giving effect to 3,000-for-one stock split | 26,717,000                             | 26,733,000  | 26,726,000                           | 26,726,000  |
| Basic net income per share giving effect to 3,000-for-one stock split                    | \$ 0.78                                | 0.17        | \$ 0.95                              | 0.52        |

**(12) 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 mentioned pending lawsuits or investigations, but the Corporation is unable to estimate the range of possible loss which may be ultimately realized, either individually or in the aggregate, upon their resolution.

*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). 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. On June 13, 2007 the First District issued its Opinion confirming the summary judgment entered by the District Court. The plaintiffs did not move for any type of post judgment relief before the Court of Appeals. As of July 27, 2007 plaintiffs announced their intention to file a writ of certiorari before

the U.S. Supreme Court, which would be due on September 11, 2007.

*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,

**Table of Contents**

**TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES**

***Notes to Consolidated Financial Statements***

June 30, 2007

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

(Unaudited)

breach of contract with providers, and damages in the amount of \$12.0 million. They also requested that the Corporation 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 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.

On May 30, 2007 the Puerto Rico Court of Appeals granted leave to replead the RICO and antitrust claims only to the physician plaintiffs, consistent with certain requirements set forth in its opinion, to allow the physician plaintiffs the opportunity to cure the deficiencies and flaws the Court found in plaintiffs' allegations. The Court dismissed the RICO and antitrust claims as to the non-physician plaintiffs. Also, the Court of Appeals granted leave to replead a derivative claim capacity on behalf of the Corporation to the lone shareholder plaintiff. The plaintiffs moved for the reconsideration of this judgment. On July 18, 2007 the Court of Appeals denied the plaintiffs' motion for reconsideration, which has granted plaintiffs leave to replead certain matters.

*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.

**Table of Contents**

**TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES**

***Notes to Consolidated Financial Statements***

June 30, 2007

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

(Unaudited)

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. On May 31, 2007 the District Court preliminarily approved the Settlement Agreement. The Corporation has recorded an accrual for the estimated settlement, which is included within the accounts payable and accrued liabilities in the accompanying unaudited consolidated financial statements. A final approval hearing for the Settlement Agreement has been set for November 14, 2007.

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

The Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Quarterly Report on Form 10-Q is intended to update the reader on matters affecting our financial condition and results of operations for the three months and six months ended June 30, 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 and have 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 program 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 six months ended June 30, 2007, our managed care segment represented approximately 87.8% of our total consolidated premiums earned, net and approximately 64.0% of our operating income. We also have strong market positions in the life insurance and property and casualty insurance markets. Our life insurance segment had a market share of approximately 15% (in terms of premiums written) as of December 31, 2006. Our property and casualty segment has a market share of approximately 9% (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 6.2% and 6.3%, respectively, of our consolidated premiums earned, net for the six months ended June 30, 2007 and 16.7% and 14.6%, respectively, of our operating income for that period. Intersegment revenues and expenses are reported on a gross basis in each of the operating segments but eliminated in the consolidated results. Except as otherwise indicated, the numbers for each segment presented in this Quarterly Report on Form 10-Q do not reflect intersegment eliminations. These intersegment revenues and expenses affect the amounts reported on the financial statement line items for each segment, but are eliminated in consolidation and do not change net income.



**Table of Contents**

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

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

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

**Recent Developments***Healthcare Reform Contracts*

The premium rates of the Reform business with the government of the Commonwealth of Puerto Rico were renegotiated effective November 1, 2006 for an eight-month period ended June 30, 2007. As a result of this renegotiation completed in June 2007, the premium rates of the Reform business were increased by approximately 6.7%. Furthermore, the contracts for the North and Southwest regions, currently served by us, were renewed for a one year term ending June 30, 2008, with the applicable premium rates pending to be negotiated. As of the date of this report, premium rates are still under negotiation.

**Recent Accounting Standards**

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

**Managed Care Membership**

|  | <b>As of June 30,</b> |             |
|--|-----------------------|-------------|
|  | <b>2007</b>           | <b>2006</b> |
| <b>Managed care enrollment:</b>                        |                       |             |
| Commercial <sup>1</sup>                                | <b>576,314</b>        | 597,160     |
| Reform <sup>2</sup>                                    | <b>356,737</b>        | 565,758     |
| Medicare Advantage                                     | <b>36,022</b>         | 24,701      |
| Part D Stand-Alone Prescription Drug Plan              | <b>11,448</b>         | 18,351      |
| <b>Total</b>   | <b>980,521</b>        | 1,205,970   |
| <b>Managed care enrollment by funding arrangement:</b> |                       |             |
| Fully-insured  | <b>818,930</b>        | 1,049,064   |
| Self-insured   | <b>161,591</b>        | 156,906     |
| <b>Total</b>   | <b>980,521</b>        | 1,205,970   |

- (1) Commercial membership includes corporate accounts, self-funded employers, individual accounts, Medicare Supplement, Federal government employees and local government employees.
  
- (2) Enrollment as of June 30, 2006 includes 201,172 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 the acquisition.

| <i>(Dollar amounts in millions)</i>                     | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|---|---------------------------|-------------|-------------------------|-------------|
|   | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|   | <b>2007</b>               | <b>2006</b> | <b>2007</b>             | <b>2006</b> |
| <b>Revenues:</b>  |                           |             |                         |             |
| <b>Premiums earned, net</b>                             | <b>\$377.3</b>            | 387.6       | <b>\$725.8</b>          | 768.2       |
| <b>Administrative service fees</b>                      | <b>3.6</b>                | 3.2         | <b>7.1</b>              | 6.6         |
| <b>Net investment income</b>                            | <b>11.0</b>               | 10.8        | <b>22.2</b>             | 20.8        |
| <b>Total operating revenues</b>                         | <b>391.9</b>              | 401.6       | <b>755.1</b>            | 795.6       |
| <b>Net realized investment gains</b>                    | <b>3.8</b>                | 0.4         | <b>5.0</b>              | 1.0         |
| <b>Net unrealized gain (loss) on trading securities</b> | <b>0.6</b>                | (2.2)       | <b>(1.4)</b>            | 0.3         |
| <b>Other income, net</b>                                | <b>2.2</b>                | (1.3)       | <b>2.4</b>              | (0.1)       |
| <b>Total revenues</b>                                   | <b>398.5</b>              | 398.5       | <b>761.1</b>            | 796.8       |
| <b>Benefits and expenses:</b>                           |                           |             |                         |             |
| <b>Claims incurred</b>                                  | <b>308.0</b>              | 332.2       | <b>605.4</b>            | 656.9       |
| <b>Operating expenses</b>                               | <b>59.3</b>               | 56.9        | <b>115.5</b>            | 114.7       |
| <b>Total operating expenses</b>                         | <b>367.3</b>              | 389.1       | <b>720.9</b>            | 771.6       |
| <b>Interest expense</b>                                 | <b>4.1</b>                | 4.1         | <b>8.0</b>              | 7.9         |
| <b>Total benefits and expenses</b>                      | <b>371.4</b>              | 393.2       | <b>728.9</b>            | 779.5       |
| <b>Income before taxes</b>                              | <b>27.1</b>               | 5.3         | <b>32.2</b>             | 17.3        |
| <b>Income tax expense</b>                               | <b>6.3</b>                | 0.7         | <b>6.9</b>              | 3.3         |
| <b>Net income</b>                                       | <b>\$ 20.8</b>            | 4.6         | <b>\$ 25.3</b>          | 14.0        |

**Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006***Operating Revenues*

Consolidated premiums earned, net and administrative service fees decreased by \$9.9 million, or 2.5%, to \$380.9 million during the three months ended June 30, 2007 compared to the three months ended June 30, 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 as well as by the retroactive increase in premium rates of our two existing Reform regions. In June 2007, we finalized the negotiation of premium rates for the eight-month period ended June 30, 2007.

*Net Realized Investment Gains*

Consolidated net realized investment gains increased by \$3.4 million, to \$3.8 million during the three months ended June 30, 2007. This increase is primarily the result of higher sales in the 2007 period of investments, particularly in trading securities, in order to keep the portfolio within our established tactical allocation limits.

*Net Unrealized Gain (Loss) on Trading Securities and Other Income, Net*

The combined balance of our consolidated net unrealized gain on trading securities and other income, net increased by \$6.3 million, to a gain of \$2.8 million during the three months ended June 30, 2007. The unrealized gain in 2007 is the result of fluctuations in the market particularly at the end of the quarter, which affect the net unrealized gain on trading securities as well as the market value of the derivative component of our investment in structured notes linked to foreign stock indexes. The change in the market value of the derivative component of these structured notes is included within the other income, net.

**Table of Contents***Claims Incurred*

Consolidated claims incurred during the three months ended June 30, 2007 decreased by \$24.2 million, or 7.3%, to \$308.0 million when compared to the claims incurred during the three months ended June 30, 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 decreased by 4.1 percentage points to 81.6%, primarily due to the effect of an overall increase in premium rates and a change in the mix of business. During the 2007 period the weight in the mix of business of the managed care segment corresponding to the Reform business decreased as a result of the loss the Metro-North area. The Reform business has a higher loss ratio than other businesses within this segment. On the other hand, the Medicare Advantage business, which has a lower loss ratio than other businesses within the managed care segment, had a higher weight in the mix of business in the 2007 quarter.

*Operating Expenses*

Consolidated operating expenses during the three months ended June 30, 2007 increased by \$2.4 million, or 4.2%, to \$59.3 million as compared to the operating expenses during the 2006 period. This increase is primarily attributed to increases in professional services expense (mainly legal expenses), normal increases in payroll and payroll related expenses as well as higher technology related costs due to the new systems initiative of our managed care subsidiary. This increase is offset in part by the decrease in the operating expenses for the Reform business resulting from reduction in volume of this business. The consolidated operating expense ratio increased by 1.0 percentage points during the 2007 period mainly due to fixed expenses not affected by the reduction in volume.

*Income Tax Expense*

The consolidated effective tax rate increased by 10.0 percentage points, from 13.2% in 2006 to 23.2% in 2007, primarily due to a higher taxable income in 2007 from our managed care segment, which has a higher effective tax rate than our other segments.

***Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006****Operating Revenues*

Consolidated premiums earned, net and administrative service fees decreased by \$41.9 million, or 5.4%, to \$732.9 million during the six months ended June 30, 2007 compared to the six months ended June 30, 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 and the retroactive increase in premium rates of the Reform business. The negotiation for the increase in premium rates of the Reform business was finalized during the 2007 period, for the eight-month period ended June 30, 2007.

Consolidated net investment income increased by \$1.4 million, or 6.7%, to \$22.2 million during the six months ended June 30, 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 \$4.0 million to \$5.0 million during the six months ended June 30, 2007. This increase is primarily the result of higher sales in 2007 of investments, particularly in trading securities, in order to keep the portfolio within our established 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 increased by \$0.8 million, to a gain of \$1.0 million during the six months ended June 30, 2007. This increase is primarily the net result of an increase in the market value of the derivative component of our investment in structured notes linked to foreign stock indexes, offset in part by the unrealized loss on the trading portfolio. This unrealized loss is due to

**Table of Contents**

the sale, as part of our strategic asset allocation, of one equity portfolio which had a net unrealized gain at the time of sale. This sale has the effect of eliminating the unrealized gain that was offsetting unrealized losses in our trading portfolio.

*Claims Incurred*

Consolidated claims incurred during the six months ended June 30, 2007 decreased by \$51.5 million, or 7.8%, to \$605.4 million when compared to the claims incurred during the six months ended June 30, 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 decreased by 2.1 percentage points, to 83.4% in the 2007 period. The lower loss ratio is the result of an overall increase in premium rates and a change in the mix of business. During the six months ended June 30, 2007, the weight in the mix of business of the managed care segment corresponding to the Reform business decreased as a result of the loss the Metro-North area. The Reform business has a higher loss ratio than other businesses within this segment. On the other hand, the Medicare Advantage business, which has a lower loss ratio than other businesses within the managed care segment, has a higher weight in the mix of business in the 2007 period.

*Operating Expenses*

Consolidated operating expenses during the six months ended June 30, 2007 increased by \$0.8 million, or 0.7%, to \$115.5 million as compared to operating expenses during the 2006 period. This increase is primarily attributed to increases in professional services expense (mainly legal expenses), normal increases in payroll and payroll related expenses as well as higher technology related costs due to the new systems initiative of our managed care subsidiary. This increase is offset in part by the decrease in the operating expenses for the Reform business resulting from the reduction in volume of this business. The consolidated operating expense ratio increased by 1.0 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 increased by 2.3 percentage points, from 19.1% in 2006 to 21.4% in 2007, primarily due to a higher taxable income in 2007 from our managed care segment, which has a higher effective tax rate than our other segments.

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

| <i>(Dollar amounts in millions)</i>     | <b>Three months ended</b> |                  | <b>Six months ended</b> |                  |
|---|---------------------------|------------------|-------------------------|------------------|
|   | <b>June 30,</b>           |                  | <b>June 30,</b>         |                  |
|   | <b>2007</b>               | <b>2006</b>      | <b>2007</b>             | <b>2006</b>      |
| <b>Medical operating revenues:</b>      |                           |                  |                         |                  |
| <b>Medical premiums earned, net:</b>    |                           |                  |                         |                  |
| Commercial                              | \$ 180.6                  | 180.1            | \$ 360.8                | 360.5            |
| Reform                                  | 86.6                      | 120.3            | 158.4                   | 247.8            |
| Medicare Advantage                      | 60.9                      | 39.5             | 111.9                   | 68.2             |
| PDP                                     | 3.4                       | 4.0              | 5.9                     | 6.7              |
| <b>Medical premiums earned, net</b>     | <b>331.5</b>              | <b>343.9</b>     | <b>637.0</b>            | <b>683.2</b>     |
| <b>Administrative service fees</b>      | <b>4.6</b>                | <b>4.0</b>       | <b>9.0</b>              | <b>8.1</b>       |
| <b>Net investment income</b>            | <b>4.7</b>                | <b>4.5</b>       | <b>9.5</b>              | <b>9.1</b>       |
| <b>Total medical operating revenues</b> | <b>340.8</b>              | <b>352.4</b>     | <b>655.5</b>            | <b>700.4</b>     |
| <b>Medical operating costs:</b>         |                           |                  |                         |                  |
| <b>Medical claims incurred</b>          | <b>285.8</b>              | <b>309.1</b>     | <b>561.3</b>            | <b>613.8</b>     |
| <b>Medical operating expenses</b>       | <b>37.2</b>               | <b>38.1</b>      | <b>72.3</b>             | <b>75.8</b>      |
| <b>Total medical operating costs</b>    | <b>323.0</b>              | <b>347.2</b>     | <b>633.6</b>            | <b>689.6</b>     |
| <b>Medical operating income</b>         | <b>\$ 17.8</b>            | <b>5.2</b>       | <b>\$ 21.9</b>          | <b>10.8</b>      |
| <b>Additional data:</b>                 |                           |                  |                         |                  |
| <b>Member months enrollment:</b>        |                           |                  |                         |                  |
| Commercial:                             |                           |                  |                         |                  |
| Fully-insured                           | 1,247,353                 | 1,323,715        | 2,501,096               | 2,690,815        |
| Self-funded                             | 484,505                   | 462,114          | 963,828                 | 918,023          |
| <b>Total commercial member months</b>   | <b>1,731,858</b>          | <b>1,785,829</b> | <b>3,464,924</b>        | <b>3,608,838</b> |
| Reform                                  | 1,068,684                 | 1,727,943        | 2,133,530               | 3,538,304        |
| Medicare Advantage                      | 101,702                   | 65,360           | 194,951                 | 114,802          |
| PDP                                     | 34,512                    | 48,656           | 69,893                  | 80,278           |
| <b>Total member months</b>              | <b>2,936,756</b>          | <b>3,627,788</b> | <b>5,863,298</b>        | <b>7,342,222</b> |
| <b>Medical loss ratio</b>               | <b>86.2%</b>              | <b>89.9%</b>     | <b>88.1%</b>            | <b>89.8%</b>     |
| <b>Operating expense ratio</b>          | <b>11.1%</b>              | <b>11.0%</b>     | <b>11.2%</b>            | <b>11.0%</b>     |

**Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006***Medical Operating Revenues*

Medical premiums earned for the three months ended June 30, 2007 decreased by \$12.4 million, or 3.6%, to \$331.5 million when compared to the medical premiums earned during the three months ended June 30, 2006, principally as a result of the following:

Medical premiums earned in the Reform business decreased by \$33.7 million, or 28.0%, to \$86.6 million during the 2007 period. This fluctuation is due to a decrease in member months enrollment in the Reform business by 659,259, or 38.2%, mainly as the result of the loss of the Metro-North region effective November 1, 2006. In addition, this business continues to experience a shift in membership as dual eligibles transfer to Medicare Advantage policies offered by us and our competitors, as well as to 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 of approximately 6.7%, which negotiation was finalized during June 2007, for the eight-month period ended June 30, 2007.

Medical premiums generated by the Medicare Advantage business increased during the three months ended June 30, 2007 by \$21.4 million, or 54.2%, primarily due to an increase in member months enrollment of

**Table of Contents**

36,342, or 55.6%, offset in part by a reduction in the average premium per member per month in our product for dual-eligibles (*Selecto/Platino*) as a result of the positive experience of this product in 2006. We expect that Medicare Advantage enrollment will continue to experience growth, but at a slower pace than in prior periods. In addition, the segment recognized a risk sharing adjustment from CMS corresponding to 2006 amounting to approximately \$3.2 million.

Administrative service fees increased by \$0.6 million, or 15.0%, to \$4.6 million during the 2007 period due to an increase in member months enrollment of self-funded arrangements of 22,391, or 4.8% 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 June 30, 2007 decreased by \$23.3 million, or 7.5%, to \$285.8 million when compared to the three months ended June 30, 2006. The decrease in medical claims incurred is mostly related to the medical claims incurred of the Reform business, which decreased by \$34.6 million due to the decreased enrollment of the Reform business, offset by an increase of \$11.6 million in the medical claims incurred of the Medicare Advantage and PDP businesses due to an increase in members. The medical loss ratio decreased by 3.7 percentage points during the 2007 period, to 86.2%, primarily due to the increase in premium rates of the Reform business. Of this decrease, 1.3 percentage points results from the increase in the Reform's premium rates and 2.4 percentage points from premium rate increases in other businesses, the risk sharing adjustment from CMS and a change in the mix of business of the segment. During the 2007 quarter the weight in the mix of business corresponding to the Reform business decreased as a result of the loss of the Metro-North area. The Reform business has a higher medical loss ratio than other businesses within this segment. On the other hand, the Medicare Advantage business, which has a lower medical loss ratio than other businesses, has a higher weight in the mix of business in the 2007 quarter.

*Medical Operating Expenses*

Medical operating expenses for the three months ended June 30, 2007 decreased by \$0.9 million, or 2.4%, to \$37.2 million when compared to the three months ended June 30, 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 0.1 percentage points in the 2007 period.

***Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006****Medical Operating Revenues*

Medical premiums earned for the six months ended June 30, 2007 decreased by \$46.2 million, or 6.8%, to \$637.0 million when compared to the medical premiums earned during the six months ended June 30, 2006, principally as a result of the following:

Medical premiums earned in the Reform business decreased by \$89.4 million, or 36.1%, to \$158.4 million during the 2007 period. This fluctuation is due to a decrease in member months enrollment in the Reform business by 1,404,774, or 39.7%, mainly as the result of the loss of the Metro-North region, the shift in membership of dual eligibles to Medicare Advantage policies offered by us and our competitors, and the 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 November 1, 2006, of approximately 6.7%. The negotiation for the increase in premium rates was finalized during June 2007, for the eight-month period ended June 30, 2007.

Medical premiums generated by the Medicare Advantage business increased during the six months ended June 30, 2007 by \$43.7 million, or 64.1%, primarily due to an increase in member months enrollment of 80,149, or 69.8%, offset in part by a reduction in the average premium per member per month in our product for dual-eligibles (*Selecto/Platino*) as a result of a more positive risk experience than anticipated. We expect that Medicare Advantage enrollment will continue to experience growth, but at a slower pace than in prior periods. In addition, the segment recognized a risk sharing adjustment from CMS corresponding to 2006 amounting to approximately \$3.2 million.





**Additional data:**

|                                |              |       |              |       |
|--------------------------------|--------------|-------|--------------|-------|
| <b>Loss ratio</b>              | <b>51.8%</b> | 51.1% | <b>51.8%</b> | 49.5% |
| <b>Operating expense ratio</b> | <b>52.7%</b> | 48.4% | <b>52.0%</b> | 52.3% |

*Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006*

*Operating Revenues*

**Table of Contents**

Premiums earned for the segment decreased by \$0.2 million, or 0.8%, to \$24.8 million during the three months ended June 30, 2007 as compared to the three months ended June 30, 2006. This decrease was primarily the result of a decrease in the premiums generated by the group disability and life insurance businesses. This decrease was offset in part by an increase in sales of individual life and cancer and other dreaded diseases policies.

*Policy Benefits and Claims Incurred*

Policy benefits and claims incurred during the three months ended June 30, 2007 increased by \$0.2 million, or 1.7%, to \$11.7 million in the 2007 period when compared to the 2006 period. This increase is primarily the result of an increase in group and individual death benefits resulting from a higher amount of death benefits claimed during the 2007 period. This resulted in a 0.7 percentage points increase in the loss ratio, from 51.1% in 2006 to 51.8% in 2007.

*Underwriting and Other Expenses*

Underwriting and other expenses for the segment increased by \$1.0 million, or 9.2%, during the three months ended June 30, 2007 primarily as a result of a higher allocation of corporate operating expenses due to the changes in volume within the group, partially offset by decreases in the amortization of deferred policy acquisition costs and value of business acquired.

***Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006****Operating Revenues*

Premiums earned for the segment increased by \$6.6 million, or 15.4%, to \$49.4 million during the six months ended June 30, 2007 as compared to the six months ended June 30, 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 did not vary by a significant amount. The individual life and cancer and other dreaded diseases businesses presented increases in premiums earned of \$1.2 million and \$0.4 million, respectively, primarily due to higher sales during the period, offset in part by a decrease in premiums generated from the group disability and life insurance businesses of \$0.6 million and \$0.4 million, respectively.

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 six months ended June 30, 2007 increased by \$2.2 million, or 10.4%, to \$23.3 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 \$1.2 million. This increase is primarily driven by an increase in group and individual death benefits resulting from a higher amount of death benefits claimed during the 2007 period and to an increase in the loss ratio of the cancer and other dreaded diseases business due to the maturity of this business, which this segment began subscribing during 2004. Both factors were principally responsible for the increase in the loss ratio by 2.3 percentage points, from 49.5% in 2006 to 51.8% in 2007.

*Underwriting and Other Expenses*

Underwriting and other expenses for the segment increased by \$1.1 million, or 4.9%, during the six months ended June 30, 2007. Considering the effect of 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 decreased \$2.4 million. This decrease in underwriting and other expenses includes \$1.8 million relating to our share of commissions and other

**Table of Contents**

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 partially offset by a higher allocation of corporate operating expenses.

**Property and Casualty Insurance Operating Results**

| <i>(Dollar amounts in millions)</i>    | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|  | <b>2007</b>               | <b>2006</b> | <b>2007</b>             | <b>2006</b> |
| <b>Operating revenues:</b>             |                           |             |                         |             |
| <b>Premiums earned, net:</b>           |                           |             |                         |             |
| Premiums written                       | \$ 43.0                   | 36.4        | 78.2                    | 71.2        |
| Premiums ceded                         | (17.9)                    | (15.6)      | (33.3)                  | (29.4)      |
| Change in unearned premiums            | (0.8)                     | 1.3         | 0.8                     | 2.4         |
| <b>Premiums earned, net</b>            | <b>24.3</b>               | 22.1        | <b>45.7</b>             | 44.2        |
| <b>Net investment income</b>           | <b>2.5</b>                | 2.3         | <b>5.1</b>              | 4.7         |
| <b>Total operating revenues</b>        | <b>26.8</b>               | 24.4        | <b>50.8</b>             | 48.9        |
| <b>Operating costs:</b>                |                           |             |                         |             |
| <b>Claims incurred</b>                 | <b>10.5</b>               | 11.6        | <b>20.7</b>             | 21.9        |
| <b>Underwriting and other expenses</b> | <b>12.7</b>               | 11.1        | <b>25.1</b>             | 22.7        |
| <b>Total operating costs</b>           | <b>23.2</b>               | 22.7        | <b>45.8</b>             | 44.6        |
| <b>Operating income</b>                | <b>\$ 3.6</b>             | 1.7         | <b>5.0</b>              | 4.3         |
| <b>Additional data:</b>                |                           |             |                         |             |
| <b>Loss ratio</b>                      | <b>43.2%</b>              | 52.5%       | <b>45.3%</b>            | 49.5%       |
| <b>Operating expense ratio</b>         | <b>52.3%</b>              | 50.2%       | <b>54.9%</b>            | 51.4%       |
| <b>Combined ratio</b>                  | <b>95.5%</b>              | 102.7%      | <b>100.2%</b>           | 100.9%      |

**Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006***Operating Revenues*

Total premiums written during the three months ended June 30, 2007 increased by \$6.6 million, or 18.1%, to \$43.0 million, principally as a result of an increase in volume in the commercial multi-peril and auto lines of business. Premiums ceded to reinsurers increased by \$2.3 million, or 14.7%, to \$17.9 million during 2007 primarily as a result of the segment's higher volume of business. The ratio of premiums ceded to premiums written decreased by 1.3 percentage points, from 42.9% in 2006 to 41.6% in 2007. The fluctuation in this ratio is primarily due to the high level of writings generated in the 2007 period, which lowered the impact of non-proportional reinsurance in the ratio of premiums ceded to premiums written. 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 each quarter versus expected amounts. The change in unearned premiums for the three months ended June 30, 2007 decreased by \$2.1 million, to \$0.8 million, primarily as the result of the segment's higher volume of business during the period.

*Claims Incurred*

Claims incurred during the three months ended June 30, 2007 decreased by \$1.1 million, or 9.5%, to \$10.5 million. The loss ratio decreased by 9.3 percentage points during this period, to 43.2% as of June 30, 2007. This decrease is

reflected primarily in the commercial multi-peril, general liability and auto liability lines of business. We believe the improvement in the loss ratio is largely the result of the segment's efforts to enhance underwriting as well as improvements in the claims handling process, which have resulted in the accelerated settlement of claims.

*Underwriting and Other Expenses*

Underwriting and other operating expenses for the three months ended June 30, 2007 increased by \$1.6 million, or 14.4%, to \$12.7 million. The operating expense ratio increased by 2.1 percentage points during the same period, to 52.3% in 2007. This increase is primarily due to increases in net commissions and depreciation expense, including

**Table of Contents**

the depreciation and amortization expense related to the segment's investment in technology. In addition, the segment has experienced increases in payroll and payroll related expenses and in the allocation of corporate operating expenses.

***Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006***

***Operating Revenues***

Total premiums written during the six months ended June 30, 2007 increased by \$7.0 million, or 9.8%, to \$78.2 million, principally as a result of an increase in the commercial multi-peril and auto lines of business. Premiums ceded to reinsurers increased by \$3.9 million, or 13.3%, to \$33.3 million during 2007. The ratio of premiums ceded to premiums written increased by 1.3 percentage points, from 41.3% in 2006 to 42.6% in 2007, primarily as the result of higher costs of non-proportional reinsurance treaties and to the increase in the volume of business of the segment in lines of business that have reinsurance.

The decrease in the change in unearned premiums of \$1.6 million, to \$0.8 million, during the six months ended June 30, 2007 is principally the result of the segment's higher volume of business in the 2007 period.

***Claims Incurred***

Claims incurred during the six months ended June 30, 2007 decreased by \$1.2 million, or 5.5%, to \$20.7 million. The loss ratio decreased by 4.2 percentage points during this period, to 45.3%, primarily as a result of a change in the mix of business and the segment's efforts to enhance underwriting and claims handling processes to improve loss experience. These efforts have resulted in improved loss ratios in the commercial multi-peril, auto liability and commercial auto physical damage lines of business.

***Underwriting and Other Expenses***

Underwriting and other operating expenses for the six months ended June 30, 2007 increased by \$2.4 million, or 10.6%, to \$25.1 million. The operating expense ratio increased by 3.5 percentage points during the same period, to 54.9% in 2007. This increase is primarily due to increases in net commission expense, and in payroll and payroll related expenses. Also, the segment experienced an increase in its depreciation expense, including the depreciation and amortization expense related to the segment's investment in technology.

**Table of Contents****Liquidity and Capital Resources***Cash Flows*

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

| <i>(Dollar amounts in millions)</i>                         | <b>Six months ended</b> |                          |
|---|-------------------------|--------------------------|
|   | <b>2007</b>             | <b>June 30,<br/>2006</b> |
| <b>Sources of cash:</b>                                     |                         |                          |
| Cash provided by operating activities                       | \$ 6.4                  | 20.5                     |
| Proceeds from long-term borrowings                          |                         | 35.0                     |
| Proceeds from short-term borrowings                         | 23.1                    | 104.4                    |
| Proceeds from policyholder deposits                         | 2.8                     | 3.5                      |
| Other   | 17.0                    | 2.6                      |
| <b>Total sources of cash</b>                                | <b>49.3</b>             | <b>166.0</b>             |
| <b>Uses of cash:</b>  |                         |                          |
| Net purchases of investment securities                      | (25.1)                  | (7.4)                    |
| Acquisition of GA Life, net of cash acquired                |                         | (27.8)                   |
| Capital expenditures  | (3.5)                   | (7.2)                    |
| Dividends   | (2.4)                   | (6.2)                    |
| Payments of long-term borrowings                            | (0.8)                   | (1.7)                    |
| Net payments of short-term borrowings                       | (23.1)                  | (106.1)                  |
| Net surrenders of policyholder deposits                     | (4.0)                   | (4.2)                    |
| Other   | (0.2)                   | (0.4)                    |
| <b>Total uses of cash</b>                                   | <b>(59.1)</b>           | <b>(161.0)</b>           |
| <b>Net (decrease) increase in cash and cash equivalents</b> | <b>\$ (9.8)</b>         | <b>5.0</b>               |

Cash flows from operating activities decreased by \$14.1 million, or 68.8%, to \$6.4 million for the six months ended June 30, 2007, principally due to a reduction in premiums collected of \$57.4 million, cash paid to suppliers and employees of \$13.3 million and claims paid of \$35.5 million that is mainly attributed to the loss of the Metro-North region by our Managed Care segment. In addition, in the 2007 period there was increase of \$20.4 million in the amount of income taxes paid that is the result of the higher taxable income in 2007 of our managed care subsidiary, which has a higher effective tax rate than the other segments. These decreases are offset in part by an increase of \$19.7 million in net proceeds received from trading securities.

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. The increase in the other sources of cash of \$14.4 million is principally the result of a higher balance in outstanding checks over bank balance in the 2007 period.

On January 31, 2006, we acquired GA Life at a cost of \$27.8 million, net of \$10.4 million of cash acquired.

Capital expenditures decreased by \$3.7 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. In addition, our property and casualty insurance segment acquired new hardware and software as part of its new insurance application during 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 June 30, 2007, we had \$53.0 million

30

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**Table of Contents**

of available credit under these facilities. There were no outstanding short-term borrowings under these facilities as of June 30, 2007 and December 31, 2006.

As of June 30, 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 6.3% notes, the 6.6% notes and the 6.7% notes contain certain covenants. At June 30, 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 June 30, 2007, the two secured loans had outstanding balances of \$26.8 million and \$10.5 million, respectively, and average annual interest rates of 6.4% and 6.7%, respectively. The first secured loan requires monthly principal repayment of \$0.1 million. The second secured loan was repaid on August 1, 2007. This note was repaid from excess funds from operations and from the issuance of an \$8.0 million repurchase agreement, which matures on August 30, 2007 and bears an interest rate of 5.5%.

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 June 30, 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 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 June 30, 2007. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2007. There were no significant changes in our disclosure controls and procedures, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed the evaluation referred to above.

**Table of Contents**

**Part II Other Information**

**Item 1. Legal Proceedings**

For a description of legal proceedings, see note 12 to the unaudited consolidated financial statements included in this quarterly report on Form 10-Q.

**Item IA. Risk Factors**

The following risk factors contain updated information from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

**Certain of our current and former providers may bring materially dilutive claims against us.**

Beginning with our founding in 1959 and until 1994, we encouraged, and at times required, the doctors and dentists that comprised our provider network to acquire our shares. Between approximately 1985 and 1994, our predecessor managed care subsidiary, Seguros de Servicios de Salud de Puerto Rico, Inc. (SSS) generally entered into an agreement with each new physician or dentist who joined our provider network to sell the provider shares of SSS at a future date (each agreement, a share acquisition agreement). These share acquisition agreements were necessary because there were not enough authorized shares of SSS available during this period and afterwards for issuance to all new providers. Each share acquisition agreement committed SSS to sell, and each new provider to purchase, five \$40-par-value shares of SSS at \$40 per share after SSS had increased its authorized share capital in compliance with the Puerto Rico Insurance Code and was in a position to issue new shares. Despite repeated efforts in the 1990s, SSS was not successful in obtaining shareholder approval to increase its share capital, other than in connection with our reorganization in 1999, when SSS was merged into a newly-formed entity, TSI, having authorized capital of 25,000 \$40-par-value shares, or twice the number of authorized shares of SSS. SSS's shareholders and the Commissioner of Insurance did not, however, authorize the issuance of the newly formed entity's shares to providers or any other third party. In addition, subsequent to the reorganization, our shareholders did not approve attempts to increase our share capital in 2002 and 2003.

Notwithstanding the fact that TSI and its predecessor, SSS, were never in a position to issue new shares to providers as contemplated by the share acquisition agreements because shareholder approval for such issuance was never obtained, and the fact that SSS on several occasions in the 1990s offered providers the opportunity to purchase shares of its treasury stock and such offers were accepted by very few providers, providers who entered into share acquisition agreements may claim that the share acquisition agreements entitle them to acquire our or TSI's shares at a subscription price equivalent to that provided for in the share acquisition agreements. SSS entered into share acquisition agreements with approximately 3,000 providers, the substantial majority of whom never came to own shares of SSS. Such share acquisition agreements provide for the purchase and sale of approximately 15,000 shares of SSS. Were TSI or TSM required to issue a significant number of shares in respect of these agreements; the interest of our existing shareholders would be substantially diluted. As of the date of this quarterly report although no judicial claims specifically to enforce any of these agreements have been commenced, the existence of a share acquisition agreement has been alleged in at least one litigation. Additionally, we have received inquiries with respect to over 600 shares under share acquisition agreements. The share numbers set forth in this paragraph reflect the number of SSS shares provided for in the share acquisition agreements. Those agreements do not include anti-dilution protections and we do not believe that the amounts of any claims under the agreements with SSS should be multiple to reflect our 3,000-for-one stock split. We cannot provide assurances, however, that claimants will not successfully seek to increase the size of their claims by reference to the stock split.

We have been advised by Puerto Rico counsel that, on the basis of a reasoned analysis, while the matter is not free from doubt and there are no applicable controlling precedents, we should prevail if litigation of these claims were to be commenced by providers because, among other defenses, the condition precedent to SSS's obligations under the share acquisition agreements never occurred, and any obligation it may, or we may be deemed to, have had under the share acquisition agreements should be understood to have expired prior to our corporate reorganization, which took effect in 1999, although the share acquisition agreements do not expressly provide for any expiration.

We believe that we should prevail in litigation if any judicial claims are commenced with respect to these matters; however, we cannot predict the outcome of any such litigation, including with respect to the magnitude of any claims that may be asserted by any plaintiff, and the interests of our shareholders could be materially diluted to the



**Table of Contents**

extent that claims under the share acquisition agreements are successful. The shares of Class B common stock we are offering with this prospectus include anti-dilution protections designed to offset the dilutive effect attributable to the issuance of shares of Class A common stock in respect of such claims at below market prices on the shares of Class B common stock during a period of up to five or more years from the date that this offering is completed. See Description of Capital Stock.

**Heirs of certain of our former shareholders may bring materially dilutive claims against us.**

For much of our history, we and our predecessor entity have restricted the ownership or transferability of our shares, including by reserving to us or our predecessor a right of first refusal with respect to share transfers and by limiting ownership of such shares to physicians and dentists. In addition, we and our predecessor, consistent with the requirements of our and our predecessor's bylaws, have sought to repurchase shares of deceased shareholders at the amount originally paid for such shares by those shareholders. Nonetheless, we anticipate that some former shareholders' heirs who were not eligible to own or be transferred shares because they were not physicians or dentists at the time of their purported inheritance (non-medical heirs) may claim an entitlement to our shares or to damages with respect to the repurchased shares notwithstanding applicable transfer and ownership restrictions. Our records indicate that there may be as many as approximately 450 non-medical heirs who may claim to have inherited up to 10,500,000 shares, although only one judicial claim in this regard has ever been initiated. As of the date of this quarterly report, we have received inquiries from non-medical heirs with respect to over 600 shares, although no judicial claims have been received.

We believe that we should prevail against any such claims if brought; however, we cannot predict the outcome of any current or future litigation regarding these non-medical heirs. The interests of our existing shareholders could be materially diluted to the extent that any such claims are successful.

**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**

A special shareholders meeting of the Corporation was held on June 24, 2007. Quorum was obtained with 19,098,000 shares represented in person or by proxy, which represented approximately 71.5% of all votes eligible to be cast at the meeting. At the meeting the shareholders approved an amendment to Article FIFTH of the Corporation's Amended and Restated Articles of Incorporation, providing for the creation of two classes of common stock: Class A common stock, which includes certain conversion provisions, and Class B common stock, which includes certain anti-dilution provisions. Upon the filing of a certificate of amendment with the Puerto Rico Department of State, all outstanding shares of common stock will automatically become shares of Class A common stock. The Corporation expects to file the certificate of amendment immediately prior to the consummation of the initial public offering of its Class B common stock. The certificate of amendment will not be filed in the event the Company does not expect to complete the initial public offering of its Class B common stock, and, in that event, the proposed amendments would not become effective. The result of the voting for this matter is set forth below:

*Amendment to Article FIFTH of the Corporation's Amended and Restated Articles of Incorporation*

|                   |            |
|-------------------|------------|
| For:              | 19,449,000 |
| Against:          | 240,000    |
| Abstained:        | 180,000    |
| Broker Non-Votes: | 0          |

**Item 5. Other Information**

Not applicable.

**Table of Contents**

**Item 6. Exhibits**

*Exhibits Description*

- 3(i) Amendment to Triple-S Management Corporation's Amended and Restated Articles of Incorporation, incorporated herein by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (File No. 0-49762).
- 10.1 Agreement between Puerto Rico Health Insurance Administration and Triple-S, Inc. for the provision of health insurance coverage to eligible population in the North and South-West regions.
- 10.2 Blue Shield License and other Agreements with Blue Cross Blue Shield Association, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (File No. 0-49762).
- 11 Statement re computation of per share earnings; an exhibit describing the computation of the earnings per share for the three months and six months ended June 30, 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 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 and six months ended June 30, 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.

**Table of Contents**

**SIGNATURES**

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

**Triple-S Management Corporation**  
Registrant

Date: August 14, 2007

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

Date: August 14, 2007

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