

TRIPLE-S MANAGEMENT CORP

Form 10-Q

May 09, 2008

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

(Mark One)

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

**For the quarterly period ended March 31, 2008**

**OR**

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

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

**COMMISSION FILE NUMBER: 0-49762**

**Triple-S Management Corporation**

(Exact name of registrant as specified in its charter)

**Puerto Rico**

(State or other jurisdiction of incorporation or organization)

**66-0555678**

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

**1441 F.D. Roosevelt Avenue**

**San Juan, Puerto Rico**

(Address of principal executive offices)

**00920**

(Zip code)

**(787) 749-4949**

(Registrant's telephone number, including area code)

**Not applicable**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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

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



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

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

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

See accompanying notes to unaudited consolidated financial statements.

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

For the three months ended March 31, 2008 and 2007

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

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

See accompanying notes to unaudited consolidated financial statements.

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

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

See accompanying notes to unaudited consolidated financial statements.



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

For the three months ended March 31, 2008 and 2007

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

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

(Continued)



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

For the three months ended March 31, 2008 and 2007

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

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

See accompanying notes to unaudited consolidated financial statements.

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**TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES**

*Notes to Consolidated Financial Statements*

March 31, 2008

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

(Unaudited)

**(1) Basis of Presentation**

The accompanying consolidated interim financial statements prepared by Triple-S Management Corporation and its subsidiaries (the Corporation or TSM) are unaudited, except for the balance sheet information as of December 31, 2007, which is derived from the Corporation's audited consolidated financial statements, pursuant to the rules and regulations of the United States Securities and Exchange Commission. The consolidated interim financial statements do not include all of the information and the footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2007.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such consolidated interim financial statements have been included. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results for the full year.

**(2) Recent Accounting Standards**

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

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

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

**(3) Segment Information**

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

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

March 31, 2008

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

(Unaudited)

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

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

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

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

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

March 31, 2008

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

(Unaudited)

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

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

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



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

March 31, 2008

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

(Unaudited)

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

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

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(Unaudited)

**(4) Investment in Securities**

The amortized cost for debt securities and equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for trading, available-for-sale and held-to-maturity securities by major security type and class of security at March 31, 2008 and December 31, 2007, were as follows:

|                                | <b>March 31, 2008</b>     |                                       |  |                                 |
|--------------------------------|---------------------------|---------------------------------------|--|---------------------------------|
|                                | <b>Amortized<br/>cost</b> | <b>Gross<br/>unrealized<br/>gains</b> | <b>Gross<br/>unrealized<br/>losses value</b> | <b>Estimated fair<br/>value</b> |
| Trading securities:            |                           |                                       |  |                                 |
| Equity securities              | \$ 40,161                 | 8,862                                 | (2,711)                                      | 46,312                          |
| Securities available for sale: |                           |                                       |  |                                 |
| Fixed maturities               | 914,746                   | 24,680                                | (6,214)                                      | 933,212                         |
| Equity securities              | 78,890                    | 7,506                                 | (3,571)                                      | 82,825                          |
|                                | <b>993,636</b>            | <b>32,186</b>                         | <b>(9,785)</b>                               | <b>1,016,037</b>                |
| Securities held to maturity:   |                           |                                       |  |                                 |
| Fixed maturities               | 26,052                    | 772                                   | (12)   | 26,812                          |
|                                | <b>\$1,059,849</b>        | <b>41,820</b>                         | <b>(12,508)</b>                              | <b>1,089,161</b>                |
|                                |                           |                                       |  |                                 |
|                                | <b>December 31, 2007</b>  |                                       |  |                                 |
|                                | <b>Amortized<br/>cost</b> | <b>Gross<br/>unrealized<br/>gains</b> | <b>Gross<br/>unrealized<br/>losses</b>       | <b>Estimated fair<br/>value</b> |
| Trading securities:            |                           |                                       |  |                                 |
| Equity securities              | \$ 54,757                 | 15,170                                | (2,769)                                      | 67,158                          |
| Securities available for sale: |                           |                                       |  |                                 |
| Fixed maturities               | 816,536                   | 11,583                                | (4,490)                                      | 823,629                         |
| Equity securities              | 66,747                    | 7,354                                 | (3,051)                                      | 71,050                          |
|                                | <b>883,283</b>            | <b>18,937</b>                         | <b>(7,541)</b>                               | <b>894,679</b>                  |
| Securities held to maturity:   |                           |                                       |  |                                 |
| Fixed maturities               | 43,691                    | 227                                   | (69)   | 43,849                          |
|                                | <b>\$981,731</b>          | <b>34,334</b>                         | <b>(10,379)</b>                              | <b>1,005,686</b>                |

Investment in securities at March 31, 2008 are mostly comprised of U.S. Treasury securities, obligations of government sponsored enterprises and obligations of U.S. government instrumentalities (57.9%), mortgage backed and collateralized mortgage obligations that are U.S. agency-backed (9.6%), obligations of the government of Puerto Rico and its instrumentalities (10.1%) and obligations of U.S. states and municipalities and its instrumentalities (2.2%). The remaining 20.2% of the investment portfolio is comprised of corporate bonds, 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-

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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. No other-than-temporary impairment was recognized during the three months ended March 31, 2008 and March 31, 2007.

**(5) Premiums and Other Receivables**

Premiums and other receivables as of March 31, 2008 and December 31, 2007 were as follows:

|  | <b>March 31,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|--|---------------------------|------------------------------|
| Premium                                  | <b>\$ 71,003</b>          | 54,330                       |
| Self-funded group receivables            | <b>30,111</b>             | 31,344                       |
| FEHBP                                    | <b>9,511</b>              | 10,202                       |
| Agents balances                          | <b>26,488</b>             | 32,874                       |
| Accrued interest                         | <b>10,218</b>             | 8,363                        |
| Reinsurance recoverable                  | <b>54,158</b>             | 58,757                       |
| Other                                    | <b>25,955</b>             | 22,323                       |
|  | <b>227,444</b>            | 218,193                      |
| Less allowance for doubtful receivables: |                           |                              |
| Premiums                                 | <b>11,771</b>             | 11,753                       |
| Other                                    | <b>4,359</b>              | 4,172                        |
|  | <b>16,130</b>             | 15,925                       |
| Total premiums and other receivables     | <b>\$211,314</b>          | 202,268                      |

**(6) Claim Liabilities**

The activity in the total claim liabilities for the three months ended March 31, 2008 and 2007 is as follows:

|   | <b>Three months ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2008</b>                             | <b>2007</b> |
| Claim liabilities at beginning of period      | <b>\$353,830</b>                        | 314,682     |
| Reinsurance recoverable on claim liabilities  | <b>(54,834)</b>                         | (32,066)    |
| Net claim liabilities at beginning of period  | <b>298,996</b>                          | 282,616     |
| Incurred claims and loss-adjustment expenses: |   |             |
| Current period insured events                 | <b>358,324</b>                          | 309,565     |
| Prior period insured events                   | <b>(11,241)</b>                         | (16,191)    |
| Total   | <b>347,083</b>                          | 293,374     |

|  |                  |         |
|--|------------------|---------|
| Payments of losses and loss-adjustment expenses: |                  |         |
| Current period insured events                    | <b>171,599</b>   | 144,814 |
| Prior period insured events                      | <b>160,982</b>   | 135,636 |
| Total  | <b>332,581</b>   | 280,450 |
| Net claim liabilities at end of period           | <b>313,498</b>   | 295,540 |
| Reinsurance recoverable on claim liabilities     | <b>49,469</b>    | 32,331  |
| Claim liabilities at end of period               | <b>\$362,967</b> | 327,871 |

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.

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The credits in the incurred claims and loss-adjustment expenses for prior period insured events for the three months ended March 31, 2008 and 2007 is due primarily to better than expected utilization trends.

The claims incurred disclosed in this table exclude the change in the liability for future policy benefits amounting to \$3,124 and \$3,944 during the three months ended March 31, 2008 and 2007, respectively.

**(7) Fair Value Measurements**

We adopted FAS 157 on January 1, 2008. Beginning on this date, assets recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by FAS 157, are as follows:

**Level Input: Input Definition:**

Level 1 Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following table summarizes fair value measurements by level at March 31, 2008 for assets measured at fair value on a recurring basis:

|   | Level 1  | Level 2 | Level<br>3 | Total     |
|---|----------|---------|------------|-----------|
| Equity securities held for trading:   | \$46,312 |         |            | 46,312    |
| Securities available for sale:  |          |         |            |           |
| Fixed maturity securities   |          | 933,212 |            | 933,212   |
| Equity securities   | 47,522   | 35,303  |            | 82,825    |
| Derivatives (reported within other assets in the consolidated balance sheets) |          | 2,493   |            | 2,493     |
| Total   | \$93,834 | 971,008 |            | 1,064,842 |

**(8) Share-Based Compensation**

No grants of stock options, restricted stock awards or performance awards were given during the three-month period ended March 31, 2008. Share-based compensation expense recorded during the three months ended March 31, 2008 was \$738. No share-based compensation expense was recorded during the three months ended March 31, 2007.

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**(9) Comprehensive Income**

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

|                             | <b>Unrealized<br/>gain (loss)<br/>on<br/>securities</b> | <b>Liability<br/>for<br/>pension<br/>benefits</b> | <b>Cash<br/>flow<br/>hedges</b> | <b>Accumulated<br/>other<br/>comprehensive<br/>income</b> |
|-----------------------------|---|---|---------------------------------|---|
| <b>BALANCE AT JANUARY 1</b> | \$ 9,554  | (15,652)  | 56                              | (6,042)   |
| Net current period change   | 9,350   | 226   | (56)                            | 9,520   |
| <b>BALANCE AT MARCH 31</b>  | \$ 18,904   | (15,426)  |                                 | 3,478   |

**(10) 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 December 31, 2007, tax years 2003 through 2006 for the Corporation and its subsidiaries are subject to examination by Puerto Rico taxing authorities.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of earnings in the period that includes the enactment date. Quarterly income taxes are calculated using the effective tax rate determined based on the income forecasted for the full fiscal year.

**(11) Pension Plan**

The components of net periodic benefit cost for the three months ended March 31, 2008 and 2007 were as follows:

|  | <b>Three months ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2008</b>                             | <b>2007</b> |
| Components of net periodic benefit cost: |   |             |
| Service cost                             | \$ 1,316                                | 1,356       |
| Interest cost                            | 1,422                                   | 1,294       |
| Expected return on assets                | (1,225)                                 | (1,128)     |
| Prior service cost                       | (113)                                   | 14          |
| Actuarial loss                           | 479                                     | 514         |
| Net periodic benefit cost                | \$ 1,879                                | 2,050       |



*Employer contributions*

The Corporation disclosed in its audited consolidated financial statements for the year ended December 31, 2007 that it expected to contribute \$5,000 to its pension program in 2008. As of March 31, 2008, the Corporation

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contributed \$4,000 to the pension program. The Corporation currently anticipates contributing an additional \$1,000 to fund its pension program in 2008.

**(12) Net Income Available to Stockholders and Basic Net Income per Share**

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2008 and 2007:

|  | <b>Three months ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2008</b>                             | <b>2007</b> |
| Numerator for earnings per share:          |   |             |
| Net income available to stockholders       | \$ 1,202                                | 4,505       |
| Denominator for basic earnings per share:  |   |             |
| Weighted average of common shares          | 32,142,809                              | 26,735,000  |
| Effect of dilutive securities              | 52,490                                  |             |
| Denominator for diluted earnings per share | 32,195,299                              | 26,735,000  |
| Basic net income per share                 | \$ 0.04                                 | 0.17        |
| Diluted net income per share               | \$ 0.04                                 | 0.17        |

**(13) Contingencies**

Various litigation claims and assessments against the Corporation have arisen in the ordinary course of business, including but not limited to its activities as an insurer and employer. Furthermore, the Commissioner of Insurance, as well as other Federal and Puerto Rico government authorities, regularly make inquiries and conduct audits concerning the Corporation's 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 incur 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.

Additionally, we may face various potential litigation claims that have not to date been asserted, including claims from persons purporting to have contractual rights to acquire shares of the Corporation on favorable terms or to have inherited such shares notwithstanding applicable transfer and ownership restrictions.

*Jordán et al Litigation*

On April 24, 2002, Octavio Jordán, Agripino Lugo, Ramón Vidal, and others filed a suit against the Corporation, Triple-S, Inc. (TSI) and others (the defendants) 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, breach of contract with providers, and damages in the amount of \$12.0 million. The plaintiffs also asserted that in light of TSI's former tax exempt status, the assets of TSI belong to a charitable trust to be held for the benefit of the people of Puerto Rico (the charitable trust claim). They also requested that the Corporation sell shares to them pursuant to a contract with TSI dated August 16, 1989 regarding the acquisition of shares. The Corporation believes 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

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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 another case closed in favor of the Corporation and to seek damages of approximately \$207.0 million. 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 the charitable trust, RICO and violation of due process claims as to all the plaintiffs. The tort, 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 to proceed, and in reconsideration allowed the charitable trust and RICO claims to proceed. 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 charitable trust claim as to all plaintiffs, denying them the opportunity to replead that claim, and 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. On August 17, 2007, plaintiffs filed a petition for certiorari by the Puerto Rico Supreme Court, which was opposed on August 27, 2007. The plaintiffs' petition for certiorari was denied by the Puerto Rico Supreme Court on November 9, 2007. The plaintiffs have yet to amend their allegations. If they fail to do so, the defendants will move to dismiss the complaint.

*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 Blue Shield Association (BCBSA) and substantially all of the other Blue Cross and Blue Shield plans in the United States, including TSI.

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.

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 by the U.S. District Court for the Southern District of Florida, and twenty four plans, including TSI, were 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. The Corporation recorded an accrual for the estimated settlement, which is included within accounts payable and accrued liabilities in the accompanying unaudited consolidated financial statements. On April 19, 2008, the Court issued the final order approving the settlement.

*Lens Litigation*

On October 23, 2007, Ivonne Houellemont, Ivonne M. Lens and Antonio A. Lens, heirs of Dr. Antonio Lens-Aresti, a former shareholder of TSI, filed a suit against TSI in the Court of First Instance for San Juan, Superior Section.

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The plaintiffs are seeking the return of 16 shares (prior to giving effect to the 3,000-for-one stock split) that were redeemed in 1996, a year after the death of Dr. Lens-Aresti, or compensation in the amount of \$40,000 per share which they allege is a share's present value, alleging that they were fraudulently induced to submit the shares for redemption in 1996. At the time of Dr. Lens-Aresti's death, the bylaws of TSI would not have permitted the plaintiffs to inherit Dr. Lens-Aresti's shares, as those bylaws provided that in the event of a shareholder's death, shares could be redeemed at the price originally paid for them or could be transferred only to an heir who was either a doctor or dentist. The plaintiffs' complaint also states that they purport to represent as a class all heirs of the TSI's former shareholders whose shares were redeemed upon such shareholders' deaths. On October 31, 2007, the Corporation filed a motion to dismiss the claims as barred by the applicable statute of limitations. On December 21, 2007, the plaintiffs filed an opposition to our motion to dismiss, alleging that the two year statute of limitations is not applicable in connection with the redemption of the stock by the Corporation that took place in 1996. On March 3, 2008, the Corporation filed a reply to plaintiffs' opposition to the motion to dismiss. In its reply, the Corporation renews its motion to dismiss and further argued that plaintiffs' argument is wrong because the statute of limitations has expired, pursuant to the two year term provided under the Uniform Security Act of Puerto Rico Civil code for cases of this nature. Management believes that the statute of limitations has expired and expects to prevail in this litigation. Regarding the plaintiffs' attempt to represent a purported class, as of the date of this Quarterly Report on Form 10-Q, no further efforts have been made by the plaintiffs in this case.

*Colón Litigation*

On October 15, 2007, José L. Colón-Dueño, a former holder of one share of TSI predecessor stock, filed suit against TSI and the Commissioner of Insurance in the Court of First Instance for San Juan, Superior Section.

Mr. Colón-Dueño owned one share of TSI predecessor stock that was redeemed in 1999 for its original purchase price pursuant to an order issued by the Commissioner of Insurance requiring the redemption of a total of 1,582 shares that had been previously sold by TSI. TSI appealed this Commissioner of Insurance's order to the Puerto Rico Court of Appeals, which upheld that order by decision dated March 31, 2000. The plaintiff requests that the court direct TSI to return his share of stock and pay damages in excess of \$500,000 and attorney's fees. On January 23, 2008, TSI filed a motion for summary judgment, on the ground that *inter alia* the finding of the Commissioner of Insurance is firm and final and cannot be collaterally attacked in this litigation. Plaintiffs have petitioned the Court to hold the motion in abeyance pending discovery. Discovery is currently in its preliminary stages. TSI believes that this claim is meritless, as the validity of the share repurchase was decided by the Court of Appeals in 2000, and plans to vigorously contest this matter.

*Acevedo Litigation*

On March 27, 2008, the heirs of the estates of physicians Juan Acevedo, Rafael Angel Blanco-Pagán and Francisco Casalduc-Roselló, each a former shareholder of TSI's predecessor, filed a suit against the Corporation and TSI in the Puerto Rico Court of First Instance for Mayagüez, Superior Section. The heirs of each of the estates of Dr. Acevedo, Dr. Blanco-Pagán and Dr. Casalduc-Roselló are seeking the return of a total of 38 shares (prior to giving effect to the 3,000-for-one stock split) of the Corporation, as alleged successor to TSI, the payment of dividends in connection with such shares, and the Corporation's recognition of each heir's status as a shareholder of the Corporation. The number of shares indicated in this disclosure is based solely on information provided in the complaint filed by the plaintiffs and could differ from our corporate records. Each of the estates claims that they were fraudulently induced to tender the shares for redemption. Based on the opinion of counsel, management believes that the statute of limitations has expired and expects to prevail in this litigation, as the redemption took place more than 20 years ago.

*Puerto Rico Center for Municipal Revenue Collection*

On March 1, 2006 and March 3, 2006, respectively, the Puerto Rico Center for Municipal Revenue Collection (CRIM) imposed a real property tax assessment of approximately \$1.3 million and a personal property tax



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assessment of approximately \$4.0 million upon TSI for the fiscal years 1992-1993 through 2002-2003, during which time TSI qualified as a tax-exempt entity under Puerto Rico law pursuant to rulings issued by the Puerto Rico tax authorities. In imposing the tax assessments, CRIM contends that because a for-profit corporation, such as TSI, is not entitled to such an exemption, the rulings recognizing the tax exemption that were issued should be revoked on a retroactive basis and property taxes should be applied to TSI for the period when it was exempt. On March 28, 2006 and March 29, 2006, respectively, TSI challenged the real and personal property tax assessments in the Court of First Instance for San Juan, Superior Section.

On October 29, 2007, the Court entered summary judgment for CRIM affirming the real property tax assessment of approximately \$1.3 million. TSI filed a motion for reconsideration of the Court's summary judgment decision, which was denied. On November 29, 2007 TSI appealed this determination to the Court of Appeals and has requested an argumentative hearing. On January 19, 2008 CRIM filed a brief in opposition to TSI's appeal. On March 3, 2008 TSI filed its response to the brief submitted by CRIM.

On December 5, 2007, the Court entered a summary judgment for CRIM with respect to the personal property assessment that was notified on January 22, 2008. On January 31, 2008, TSI filed a motion for reconsideration, which was denied. TSI appealed this decision on February 21, 2008 with the Court of Appeals, requested an argumentative hearing and also requested a consolidation of both property tax cases.

On April 17, 2008, the Court of Appeals approved the consolidation of both property tax cases. As of the date hereof, the Court of Appeals has not resolved TSI's request for an argumentative hearing.

Management believes that these municipal tax assessments are improper and currently expects to prevail in these litigations.

*Regulatory Actions*

On October 25, 2007, the House of Representatives of the Legislative Assembly (the House) of the Commonwealth of Puerto Rico approved a resolution ordering the House's Committee on Health to investigate TSI, our managed care subsidiary. The resolution states that TSI originally intended to operate as a not-for-profit entity in order to provide low-cost health insurance and improve the health services offered by certain government agencies. The resolution orders the Committee to investigate the effects of TSI's alleged failure to provide low-cost health insurance, among other obligations, and requires the Committee to prepare and submit a report to the House detailing its findings, conclusions and recommendations on or prior to sixty (60) days from the approval of the resolution. The Committee may refer any finding of wrongdoing to the Secretary of Justice of the Commonwealth of Puerto Rico for further investigation. We believe that TSI and its predecessor managed care companies have complied with such obligations in all material respects, but cannot predict the outcome of the proposed investigation and are currently unable to ascertain the impact these matters may have on our business, if any. The Puerto Rico Department of Justice and the Commissioner of Insurance have also launched similar investigations.



**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 ended March 31, 2008. 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, 2007.

**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 over 45 years of experience in the managed care industry. We offer a broad portfolio of managed care and related products in the Commercial, Commonwealth of Puerto Rico Health Reform (the Reform) and Medicare (including Medicare Advantage and the Part D stand-alone prescription drug plan (PDP)) markets. In the Commercial market we offer products to corporate accounts, U.S. federal government employees, local government employees, individual accounts and Medicare Supplement. The Reform is a government of Puerto Rico-funded managed care program for the medically indigent, similar to the Medicaid program in the U.S. We have the exclusive right to use the Blue Shield name and mark throughout Puerto Rico, serve approximately one million members across all regions of Puerto Rico and hold a leading market position covering approximately 25% of the population. For the three months ended March 31, 2008, our managed care segment represented approximately 89.0% of our total consolidated premiums earned, net and approximately 47.8% of our operating income. We also have significant 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 had 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 participate in the life insurance market through our subsidiary, Triple-S Vida, Inc. (TSV) and in the property and casualty insurance market through our subsidiary, Seguros Triple-S, Inc. (STS), which represented approximately 5.5% and 5.8%, respectively, of our consolidated premiums earned, net for the three months ended March 31, 2008 and 23.0% and 18.6%, 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.



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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 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 March 31,</b> |             |
|--|------------------------|-------------|
|  | <b>2008</b>            | <b>2007</b> |
| <b>Managed care enrollment:</b>                        |                        |             |
| Commercial <sup>1</sup>                                | <b>576,209</b>         | 579,887     |
| Reform   | <b>343,534</b>         | 353,460     |
| Medicare Advantage                                     | <b>65,538</b>          | 42,357      |
| <b>Total</b>   | <b>985,281</b>         | 975,704     |
| <b>Managed care enrollment by funding arrangement:</b> |                        |             |
| Fully-insured  | <b>821,764</b>         | 814,092     |
| Self-insured   | <b>163,517</b>         | 161,612     |
| <b>Total</b>   | <b>985,281</b>         | 975,704     |

(1) Commercial membership includes corporate accounts, self-funded employers, individual accounts, Medicare

Supplement,  
U.S. Federal  
government  
employees and  
local  
government  
employees.

**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.

| <i>(Dollar amounts in millions)</i>                         | <b>Three months ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2008</b>                             | <b>2007</b> |
| <b>Revenues:</b>  |   |             |
| <b>Premiums earned, net</b>                                 | <b>\$404.4</b>                          | 348.5       |
| <b>Administrative service fees</b>                          | <b>3.7</b>                              | 3.5         |
| <b>Net investment income</b>                                | <b>13.4</b>                             | 11.1        |
| <b>Total operating revenues</b>                             | <b>421.5</b>                            | 363.1       |
| <b>Net realized investment gains</b>                        | <b>0.6</b>                              | 1.2         |
| <b>Net unrealized investment loss on trading securities</b> | <b>(6.2)</b>                            | (1.9)       |
| <b>Other income (expense), net</b>                          | <b>(1.5)</b>                            | 0.2         |
| <b>Total revenues</b>                                       | <b>414.4</b>                            | 362.6       |
| <b>Benefits and expenses:</b>                               |   |             |
| <b>Claims incurred</b>                                      | <b>350.2</b>                            | 297.3       |
| <b>Operating expenses</b>                                   | <b>60.0</b>                             | 56.1        |
| <b>Total operating expenses</b>                             | <b>410.2</b>                            | 353.4       |
| <b>Interest expense</b>                                     | <b>3.7</b>                              | 4.0         |
| <b>Total benefits and expenses</b>                          | <b>413.9</b>                            | 357.4       |
| <b>Income before taxes</b>                                  | <b>0.5</b>                              | 5.2         |
| <b>Income tax expense (benefit)</b>                         | <b>(0.7)</b>                            | 0.7         |
| <b>Net income</b>   | <b>\$ 1.2</b>                           | 4.5         |

**Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007***Operating Revenues*

Consolidated premiums earned, net and administrative service fees increased by \$56.1 million, or 15.9%, to \$408.1 million during the three months ended March 31, 2008 compared to the three months ended March 31, 2007. The increase was primarily due to an increase in the premiums earned, net in our managed care segment, principally due to an increased volume in the Medicare business and the increases in premium rates of the Reform business during 2007.

Consolidated net investment income increased by \$2.3 million, or 20.7%, to \$13.4 million during the three months ended March 31, 2008. This increase is attributed to a higher yield in 2008 as well as to a higher balance of invested assets.

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

The combined balance of our consolidated net unrealized loss on trading securities and other income (expense), net increased by \$6.0 million, to \$7.7 million during the three months ended March 31, 2008. The increase is principally due to an increase in the unrealized loss on trading securities and a decrease in the fair value of the derivative component of our investment in structured notes linked to the Euro Stoxx 50 and Nikkei 225 stock indexes; both

decreases are due to market fluctuations. The unrealized loss experienced on trading securities represents a decrease of 9.7% in the market value of the portfolio, which is consistent with the decrease experienced in the Standard and Poor's 500 Index of 10.3%. The change in the fair value of the derivative component of these structured notes is included within other income (expense), net.

*Claims Incurred*

Consolidated claims incurred during the three months ended March 31, 2008 increased by \$52.9 million, or 17.8%, to \$350.2 million when compared to the claims incurred during the three months ended March 31, 2007. This increase is principally due to increased claims in the managed care segment as a result of higher enrollment and

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utilization trends. The consolidated loss ratio increased by 1.3 percentage points to 86.6%, primarily due to higher utilization trends in the managed care segment for the period, particularly in the Medicare and Reform businesses.

**Operating Expenses**

Consolidated operating expenses during the three months ended March 31, 2008 increased by \$3.9 million, or 7.0%, to \$60.0 million as compared to the operating expenses during the 2007 period. This increase is primarily attributed to a higher volume of business, particularly in the Medicare business of our managed care segment and an increase in the commission expense of our property and casualty insurance segment. The consolidated operating expense ratio decreased by 1.2 percentage points during the 2008 period mainly due to the aforementioned increase in volume.

**Income Tax Expense (Benefit)**

The decrease in income tax expense (benefit) during the three months ended March 31, 2008 is primarily the result of the lower income before tax during the period.

**Managed Care Operating Results**

| <i>(Dollar amounts in millions)</i>     | <b>Three months ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>March 31,</b>          |                  |
|   | <b>2008</b>               | <b>2007</b>      |
| <b>Medical operating revenues:</b>      |                           |                  |
| <b>Medical premiums earned, net:</b>    |                           |                  |
| Commercial                              | \$ 182.0                  | 180.3            |
| Reform                                  | 81.0                      | 71.8             |
| Medicare                                | 96.9                      | 53.5             |
| <b>Medical premiums earned, net</b>     | <b>359.9</b>              | <b>305.6</b>     |
| <b>Administrative service fees</b>      | <b>4.6</b>                | <b>4.4</b>       |
| <b>Net investment income</b>            | <b>5.6</b>                | <b>4.8</b>       |
| <b>Total medical operating revenues</b> | <b>370.1</b>              | <b>314.8</b>     |
| <b>Medical operating costs:</b>         |                           |                  |
| <b>Medical claims incurred</b>          | <b>327.9</b>              | <b>275.5</b>     |
| <b>Medical operating expenses</b>       | <b>36.9</b>               | <b>35.2</b>      |
| <b>Total medical operating costs</b>    | <b>364.8</b>              | <b>310.7</b>     |
| <b>Medical operating income</b>         | <b>\$ 5.3</b>             | <b>4.1</b>       |
| <b>Additional data:</b>                 |                           |                  |
| <b>Member months enrollment:</b>        |                           |                  |
| Commercial:                             |                           |                  |
| Fully-insured                           | 1,235,489                 | 1,253,743        |
| Self-funded                             | 496,062                   | 479,323          |
| <b>Total commercial member months</b>   | <b>1,731,551</b>          | <b>1,733,066</b> |
| Reform                                  | 1,033,660                 | 1,064,846        |
| Medicare Advantage                      | 190,529                   | 128,630          |
| <b>Total member months</b>              | <b>2,955,740</b>          | <b>2,926,542</b> |

|                                |       |       |
|--------------------------------|-------|-------|
| <b>Medical loss ratio</b>      | 91.1% | 90.2% |
| <b>Operating expense ratio</b> | 10.1% | 11.4% |



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***Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007***

***Medical Operating Revenues***

Medical premiums earned for the three months ended March 31, 2008 increased by \$54.3 million, or 17.8%, to \$359.9 million when compared to the medical premiums earned during the three months ended March 31, 2007, principally as a result of the following:

Medical premiums generated by the Medicare business increased during the three months ended March 31, 2008 by \$43.4 million, or 81.1%, to \$96.9 million, primarily due to an increase in member months enrollment of 61,899, or 48.1% and premium rate increases. The increase in member months is the net result of an increase of 64,542, or 69.2%, in the membership of our Medicare Advantage products and a decrease of 2,643, or 7.5%, in the membership of our PDP product.

Medical premiums earned in the Reform business increased by \$9.2 million, or 12.8%, to \$81.0 million during the 2008 period. This fluctuation is primarily due to the increases in premium rates during 2007, one effective July 1, 2007, of approximately 8.7% and a retroactive increase in rates of approximately 6.7% effective November 1, 2006 negotiated in June 2007; mitigated by a decrease in member months enrollment in the Reform business by 31,186 or 2.9%.

Medical premiums generated by the Commercial business increased by \$1.7 million, or 0.9%, to \$182.0 million during the three months ended March 31, 2008. This fluctuation is primarily the result of an increase in average premium rates in corporate accounts of 4.5%; partially offset by a decrease in member months enrollment of 18,254, or 1.5%.

***Medical Claims Incurred***

Medical claims incurred during the three months ended March 31, 2008 increased by \$52.4 million, or 19.0%, to \$327.9 million when compared to the three months ended March 31, 2007. The increase in medical claims incurred is mainly related to an increase in the medical claims incurred of the Medicare business of \$44.3 millions due to an increase in members and higher medical loss ratio (MLR) as well as to an increase in the claims incurred of the Reform business of \$10.2 million. The MLR of the segment increased 0.9 percentage points during the 2008 period, to 91.1%, primarily attributed to the effect of the following:

The Medicare business has experienced an expected overall increase in utilization trends, but the increase is most noticeable in outpatient visits and ambulatory procedures. We expect the utilization trends of the Medicare business to increase and then to stabilize as the business matures. Also, the higher MLR in the Medicare business is also impacted by the change in mix between dual and non-dual eligible members within the business. The Medicare Advantage member months enrollment during the three months ended March 31, 2008 has a higher concentration of dual eligible members than during the same period of the prior year. In our experience dual eligible members have a higher utilization than non-dual eligible members.

The higher MLR experienced by the Reform business in 2008 is primarily due to the effect of prior period reserve developments and the retroactive premium rate increase received by this business during June 2007. If we exclude the effect of prior period reserve developments in the 2007 and 2008 periods and considering the retroactive premium rate increase in the 2007 period, the MLR actually decreased by 2.2 percentage points during the 2008 period.

During the 2008 period the MLR of the Commercial business decreased by 2.1 percentage points primarily as the result of our termination and re-pricing strategy of less profitable groups and cost containment initiatives.

***Medical Operating Expenses***

Medical operating expenses for the three months ended March 31, 2008 increased by \$1.7 million, or 4.8%, to \$36.9 million when compared to the three months ended March 31, 2007. This increase is primarily attributed to the higher volume of the segment, particularly in the Medicare business. The segment's operating expense ratio decreased by 1.3 percentage points in the 2008 period.



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

| <i>(Dollar amounts in millions)</i>        | <b>Three months ended</b> |              |
|--|---------------------------|--------------|
|  | <b>March 31,</b>          | <b>2007</b>  |
|  | <b>2008</b>               | <b>2007</b>  |
| <b>Operating revenues:</b>                 |                           |              |
| <b>Premiums earned, net:</b>               |                           |              |
| Premiums earned                            | \$ 24.1                   | 24.5         |
| Premiums earned ceded                      | (2.0)                     | (2.1)        |
| Net premiums earned                        | 22.1                      | 22.4         |
| Commission income on reinsurance           | 0.1                       | 0.1          |
| <b>Premiums earned, net</b>                | <b>22.2</b>               | <b>22.5</b>  |
| <b>Net investment income</b>               | <b>3.9</b>                | <b>3.6</b>   |
| <b>Total operating revenues</b>            | <b>26.1</b>               | <b>26.1</b>  |
| <b>Operating costs:</b>                    |                           |              |
| <b>Policy benefits and claims incurred</b> |                           |              |
| <b>Underwriting and other expenses</b>     | <b>12.0</b>               | <b>11.6</b>  |
|  | <b>11.6</b>               | <b>11.5</b>  |
| <b>Total operating costs</b>               | <b>23.6</b>               | <b>23.1</b>  |
| <b>Operating income</b>                    | <b>\$ 2.5</b>             | <b>3.0</b>   |
| <b>Additional data:</b>                    |                           |              |
| <b>Loss ratio</b>                          | <b>54.1%</b>              | <b>51.6%</b> |
| <b>Operating expense ratio</b>             | <b>52.3%</b>              | <b>51.1%</b> |

**Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007***Operating Revenues*

Premiums earned for the segment decreased by \$0.4 million, or 1.6%, to \$24.1 million during the three months ended March 31, 2008 as compared to the three months ended March 31, 2007. This decrease was primarily the result of a decrease in premiums generated by the group disability and life insurance businesses of approximately \$0.7 million and \$0.2 million, respectively. This decrease was offset in part by an increase in sales of individual life and cancer policies of approximately \$0.3 million and \$0.2 million, respectively.

*Policy Benefits and Claims Incurred*

Policy benefits and claims incurred during the three months ended March 31, 2008 increased by \$0.4 million, or 3.4%, to \$12.0 million in the 2008 period when compared to the 2007 period. This increase is primarily the result of higher claims received during the period in the individual life and group disability businesses. This resulted in a 2.5 percentage points increase in the loss ratio, from 51.6% in 2007 to 54.1% in 2008.

*Underwriting and Other Expenses*

Underwriting and other expenses for the segment increased by \$0.1 million, or 0.9%, during the three months ended March 31, 2008 primarily as a result of an increase in general expenses. The segment's operating expense ratio increased by 1.2 percentage points during the three months ended March 31, 2008, from 51.1% in 2007 to 52.3% in 2008.



**Table of Contents****Property and Casualty Insurance Operating Results**

| <i>(Dollar amounts in millions)</i>    | <b>Three months ended</b> |               |
|--|---------------------------|---------------|
|  | <b>March 31,</b>          | <b>2007</b>   |
|  | <b>2008</b>               |               |
| <b>Operating revenues:</b>             |                           |               |
| <b>Premiums earned, net:</b>           |                           |               |
| Premiums written                       | \$ 35.5                   | 35.2          |
| Premiums ceded                         | (15.6)                    | (15.4)        |
| Change in unearned premiums            | 3.4                       | 1.6           |
| <b>Premiums earned, net</b>            | <b>23.3</b>               | <b>21.4</b>   |
| <b>Net investment income</b>           | <b>3.0</b>                | <b>2.6</b>    |
| <b>Total operating revenues</b>        | <b>26.3</b>               | <b>24.0</b>   |
| <b>Operating costs:</b>                |                           |               |
| <b>Claims incurred</b>                 | <b>10.3</b>               | <b>10.2</b>   |
| <b>Underwriting and other expenses</b> | <b>13.9</b>               | <b>12.4</b>   |
| <b>Total operating costs</b>           | <b>24.2</b>               | <b>22.6</b>   |
| <b>Operating income</b>                | <b>\$ 2.1</b>             | <b>1.4</b>    |
| <b>Additional data:</b>                |                           |               |
| <b>Loss ratio</b>                      | <b>44.2%</b>              | <b>47.7%</b>  |
| <b>Operating expense ratio</b>         | <b>59.7%</b>              | <b>57.9%</b>  |
| <b>Combined ratio</b>                  | <b>103.9%</b>             | <b>105.6%</b> |

***Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007******Operating Revenues***

Total premiums written during the three months ended March 31, 2008 increased by \$0.3 million, or 0.9%, to \$35.5 million, principally as a result of an increase in premiums from dwelling and commercial multi-peril policies of approximately \$1.5 million and \$0.4 million, respectively, offset by a decrease in premiums from the auto liability line of business of approximately \$0.9 million.

Premiums ceded to reinsurers increased by approximately \$0.2 million, or 1.3% to \$15.6 million during the first quarter of 2008. The ratio of premiums ceded to premiums written increased by 0.1 percentage points, from 43.8% in 2007 to 43.9% in 2008, primarily as the result of the effects of the mix of business.

Change in unearned premiums present an increase of \$1.8 million when compared to prior year is the result of the segment's higher volume of business during the last quarter of the year 2007, which is now being amortized into income.

***Claims Incurred***

Claims incurred during the three months ended March 31, 2008 increased by \$0.1 million, or 1.0%, to \$10.3 million. The loss ratio decreased by 3.5 percentage points, to 44.2% during the three months ended March 31, 2008, primarily as a result of the segment's adherence to underwriting guidelines and enhancements to the claims handling process as well as to a change in the mix of business subscribed during the period. These efforts have resulted in improved loss ratios in the several lines of business.

***Underwriting and Other Expenses***

Underwriting and other operating expenses for the three months ended March 31, 2008 increased by \$1.5 million, or 12.1%, to \$13.9 million. The operating expense ratio increased by 1.7 percentage points during the same period, to 59.7% in 2008. This increase is primarily due to increases in net commission expense as a result of the increase in net premiums earned and to commission rate increases to various general agencies in several lines of business during 2007. In addition, the segment has experienced increases in other underwriting expenses, including salaries and related expenses.

**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>Three months ended<br/>March 31,</b> |              |
|--|---|--------------|
|  | <b>2008</b>                             | <b>2007</b>  |
| <b>Sources of cash:</b>                          |   |              |
| Proceeds from short-term borrowings              | \$ 55.5                                 |              |
| Proceeds from policyholder deposits              | 2.6                                     | 1.4          |
| Cash provided by operating activities            |   | 3.6          |
| Other  | 15.8                                    | 2.1          |
| <b>Total sources of cash</b>                     | <b>73.9</b>                             | <b>7.1</b>   |
| <b>Uses of cash:</b>                             |   |              |
| Cash used in operating activities                | (118.1)                                 |              |
| Net purchases of investment securities           | (84.5)                                  | (1.9)        |
| Capital expenditures                             | (1.5)                                   | (1.4)        |
| Dividends  |   | (2.4)        |
| Payments of long-term borrowings                 | (0.4)                                   | (0.4)        |
| Payments of short-term borrowings                | (45.7)                                  |              |
| Surrenders of policyholder deposits              | (1.7)                                   | (1.9)        |
| <b>Total uses of cash</b>                        | <b>(251.9)</b>                          | <b>(8.0)</b> |
| <b>Net decrease in cash and cash equivalents</b> | <b>\$(178.0)</b>                        | <b>(0.9)</b> |

Cash flows from operating activities decreased by \$121.7 million during the three months ended March 31, 2008, principally due to the effect of a decrease of \$17.7 million in the payable related to unsettled investment acquisitions as of December 31, 2007 and an increase in claims paid of \$51.9 million. This fluctuation was offset in part by an increase in premiums collected of \$30.3 million, an increase of \$11.0 million in net proceeds received from trading securities and an increase of \$1.9 million in interest received. The increase in premiums collected of \$30.3 million would have been higher when considering the \$22.8 million of managed care premiums collected in December 2007 but corresponding to January 2008.

In the 2008 period the proceeds from short-term borrowings exceeded payments of short-term borrowings by \$9.8 million. Short-term borrowings are used to address timing differences between cash receipts and disbursements. The increase in the other sources of cash of \$13.7 million is principally the result of a higher balance in outstanding checks over bank balances in the 2008 period.

Net purchases of investment securities increased by \$82.6 million during the period, primarily as the result of purchases of investments with trade date in December 2007 and a settlement date in January 2008.

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

*Financing and Financing Capacity*

We have several short-term facilities available to meet our liquidity needs. These short-term facilities are mostly in the form of arrangements to sell securities under repurchase agreements. As of March 31, 2008, we had \$53.0 million of

available credit under these facilities. There were \$9.8 million outstanding short-term borrowings under these facilities as of March 31, 2008.

As of March 31, 2008, 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).



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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 March 31, 2008, we and our managed care subsidiary, as applicable, are in compliance with these covenants.

In addition, as of March 31, 2008 we are a party to a secured term loan with a commercial bank, FirstBank Puerto Rico. This secured loan bears interest at a rate equal to the London Interbank Offered Rate (LIBOR) plus 100 basis points and requires monthly principal repayments of \$0.1 million. As of March 31, 2008, this secured loan had an outstanding balance of \$25.5 million and average annual interest rates of 4.7%.

This secured loan is 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. This secured loan contains certain covenants which are customary for this type of facility, including, but not limited to, restrictions on the granting of certain liens, limitations on acquisitions and limitations on changes in control. As of March 31, 2008, we are in compliance with these covenants. Failure to meet these covenants may trigger the accelerated payment of the secured loan's outstanding balance.

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, 2007.

**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, 2007. 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, 2007.

**Item 4. Controls and Procedures**

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2008. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2008. 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.

**Part II Other Information**

**Item 1. Legal Proceedings**

For a description of legal proceedings, see note 13 to the unaudited consolidated financial statements included in this quarterly report on Form 10-Q.

**Table of Contents****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, 2007.

***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, 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 former shareholders whose non-medical heirs may claim to have inherited up to 10,500,000 shares after giving effect to the 3,000-for-one stock split. As of the date of this Quarterly Report on Form 10-Q, two judicial claims seeking the return of or compensation for 54 shares (prior to giving effect to the 3,000-for-one stock split) had been brought by non-medical heirs of former shareholders whose shares were repurchased upon their death. In one claim, heirs purport to represent as a class all non-medical heirs of deceased shareholders whose shares we repurchased. In addition, we have received inquiries from non-medical heirs with respect to over 600 shares (or 1,800,000 shares after giving effect to the 3,000-for-one stock split).

We believe that we should prevail in litigation with respect to these matters; however, we cannot predict the outcome of any such 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**

Not applicable.

**Item 5. Other Information**

Not applicable.

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

- 3(i)(a) Amended and Restated Articles of Incorporation (incorporated herein by reference to Exhibit 3(i)(d) to TSM's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 0-49762).
- 3(i)(b)\* Amendment to Article Tenth of the Amended and Restated Articles of Incorporation of Triple-S Management Corporation.
- 3(i)(c)\* Articles of Incorporation of Triple-S Management Corporation, as currently in effect.

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*Exhibits Description*

- 11 Statement re computation of per share earnings; an exhibit describing the computation of the earnings per share for the three months ended March 31, 2008 and 2007 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 ended March 31, 2008 and 2007 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.

\* Filed herein.

**SIGNATURES**

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

**Triple-S Management Corporation**

Registrant

Date: May 9, 2008

By: /s/ Ramón M. Ruiz-Comas

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

Date: May 9, 2008

By: /s/ Juan J. Román

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