

TRIPLE-S MANAGEMENT CORP
Form 10-Q
November 04, 2011

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 September 30, 2011

or

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

For the transition period from ___ to ___

COMMISSION FILE NUMBER: 001-33865

Triple-S Management Corporation

Puerto Rico
(State or other jurisdiction of incorporation or organization)

66-0555678
(I.R.S. Employer Identification No.)

1441 F.D. Roosevelt Avenue
San Juan, Puerto Rico
(Address of principal executive offices)

00920
(Zip code)

(787) 749-4949
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

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

Title of each class	Outstanding at September 30, 2011
Common Stock Class A, \$1.00 par value	9,042,809
Common Stock Class B, \$1.00 par value	19,529,714

Triple-S Management Corporation

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For the Quarter Ended September 30, 2011

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Part I – Financial Information

Item 1. Financial Statements

Triple-S Management Corporation

Consolidated Balance Sheets (Unaudited)

(Dollar amounts in thousands, except per share data)

	September 2011	December 31, 2010
Assets		
Investments and cash:		
Equity securities held for trading, at fair value	\$-	\$51,099
Securities available for sale, at fair value:		
Fixed maturities	983,580	977,586
Equity securities	129,884	56,739
Securities held to maturity, at amortized cost:		
Fixed maturities	13,884	14,615
Policy loans	6,279	5,887
Cash and cash equivalents	135,917	45,021
Total investments and cash	1,269,544	1,150,947
Premiums and other receivables, net	272,583	325,780
Deferred policy acquisition costs and value of business acquired	147,815	146,086
Property and equipment, net	80,616	76,745
Deferred tax asset	21,396	29,445
Other assets	94,181	30,367
Total assets	\$1,886,135	\$1,759,370
Liabilities and Stockholders' Equity		
Claim liabilities	394,623	360,210
Liability for future policy benefits	247,938	236,523
Unearned premiums	164,919	98,341
Policyholder deposits	67,067	49,936
Liability to Federal Employees' Health Benefits Program (FEHBP)	20,430	15,018
Accounts payable and accrued liabilities	138,042	136,567
Deferred tax liability	24,306	12,655
Short-term borrowings	-	15,575
Long-term borrowings	114,797	166,027
Liability for pension benefits	39,356	51,246
Total liabilities	1,211,478	1,142,098
Stockholders' equity:		
Common stock Class A, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 9,042,809 at September 30, 2011 and December 31, 2010	9,043	9,043
	19,530	19,773

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Common stock Class B, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 19,529,714 and 19,772,614 shares at September 30, 2011 and December 31, 2010, respectively

Additional paid-in capital	147,246	155,299
Retained earnings	466,762	427,693
Accumulated other comprehensive income	32,076	5,464
Total stockholders' equity	674,657	617,272
Total liabilities and stockholders' equity	\$1,886,135	\$1,759,370

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenues:				
Premiums earned, net	\$525,371	\$496,511	\$1,520,485	\$1,493,449
Administrative service fees	5,210	10,195	18,767	34,859
Net investment income	12,061	12,794	36,513	37,888
Total operating revenues	542,642	519,500	1,575,765	1,566,196
Net realized investment gains (losses):				
Total other-than-temporary impairment losses on securities	-	(316)	-	(2,932)
Net realized gains, excluding other-than-temporary impairment losses on securities	5,569	3	18,457	2,673
Total net realized investment gains (losses)	5,569	(313)	18,457	(259)
Net unrealized investment (loss) gain on trading securities	(6,007)	4,611	(7,267)	631
Other income (expense), net	(169)	576	311	404
Total revenues	542,035	524,374	1,587,266	1,566,972
Benefits and expenses:				
Claims incurred	442,399	421,514	1,272,913	1,272,180
Operating expenses	83,623	74,111	252,216	227,702
Total operating costs	526,022	495,625	1,525,129	1,499,882
Interest expense	2,499	3,026	8,583	9,626
Total benefits and expenses	528,521	498,651	1,533,712	1,509,508
Income before taxes	13,514	25,723	53,554	57,464
Income tax expense (benefit):				
Current	1,161	6,040	3,155	14,461
Deferred	740	(805)	11,330	(3,734)
Total income taxes	1,901	5,235	14,485	10,727
Net income	\$11,613	\$20,488	\$39,069	\$46,737
Basic net income per share	\$0.40	\$0.70	\$1.36	\$1.61
Diluted net income per share	\$0.40	\$0.70	\$1.35	\$1.60

See accompanying notes to unaudited consolidated financial statements.

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Triple-S Management Corporation

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) (Unaudited)

(Dollar amounts in thousands, except per share data)

	2011	2010
Balance at January 1	\$617,272	\$537,772
Share-based compensation	1,489	1,316
Cash settlement of options under share-based compensation plan	(2,420)	-
Stock issued upon exercise of stock options	914	-
Repurchase and retirement of common stock	(8,279)	(404)
Comprehensive income (loss):		
Net income	39,069	46,737
Net unrealized change in fair value of available for sale securities, net of taxes	25,109	48,332
Defined benefit pension plan:		
Actuarial loss, net	1,744	1,089
Prior service credit, net	(241)	(203)
Total comprehensive income	65,681	95,955
Balance at September 30	\$674,657	\$634,639

See accompanying notes to unaudited consolidated financial statements.

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

	Nine months ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$39,069	\$46,737
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,435	10,605
Net amortization of investments	398	2,399
Provision for doubtful receivables, net	5,807	6,721
Deferred tax expense (benefit)	11,330	(3,734)
Net realized investment (gain) loss on sale of securities	(18,457)	259
Net unrealized loss (gain) on trading securities	7,267	(631)
Share-based compensation	1,489	1,316
Proceeds from trading securities sold:		
Equity securities	53,066	3,441
Acquisition of securities in trading portfolio:		
Equity securities	(2,764)	(4,931)
(Increase) decrease in assets:		
Premium and other receivables, net	70,430	(42,574)
Deferred policy acquisition costs and value of business acquired	(1,729)	(2,527)
Other deferred taxes	(177)	7,347
Other assets	(13,703)	3,673
Increase (decrease) in liabilities:		
Claim liabilities	(8,808)	63,373
Liability for future policy benefits	11,415	10,108
Unearned premiums	65,859	(15,853)
Policyholder deposits	986	487
Liability to FEHBP	5,412	3,027
Accounts payable and accrued liabilities	(26,416)	(2,223)
Net cash provided by operating activities	216,909	87,020

(Continued)

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

	Nine months ended September 30,	
	2011	2010
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	\$225,060	\$48,193
Fixed maturities matured/called	76,786	97,067
Equity securities sold	31,253	16,791
Securities held to maturity:		
Fixed maturities matured/called	1,941	1,852
Acquisition of investments:		
Securities available for sale:		
Fixed maturities	(212,358)	(199,809)
Equity securities	(111,770)	(22,436)
Fixed maturity securities held to maturity	(755)	(1,050)
Net outflows for policy loans	(392)	(124)
Acquisition of business, net of \$29,370 of cash acquired	(54,058)	-
Net capital expenditures	(12,000)	(13,678)
Net cash used in investing activities	(56,293)	(73,194)
Cash flows from financing activities:		
Change in outstanding checks in excess of bank balances	(9,275)	(2,458)
Net change in short-term borrowings	(15,575)	-
Repayments of long-term borrowings	(51,230)	(1,230)
Repurchase and retirement of common stock	(7,554)	-
Cash settlements of stock options	(2,420)	-
Proceeds from exercise of stock options	189	-
Proceeds from policyholder deposits	20,725	7,740
Surrenders of policyholder deposits	(4,580)	(7,575)
Net cash used in financing activities	(69,720)	(3,523)
Net increase in cash and cash equivalents	90,896	10,303
Cash and cash equivalents:		
Beginning of period	45,021	40,376
End of period	\$135,917	\$50,679

See accompanying notes to unaudited consolidated financial statements.

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

(1) Basis of Presentation

The accompanying consolidated interim financial statements prepared by Triple-S Management Corporation and its subsidiaries are unaudited. In this filing, the “Corporation”, the “Company”, “TSM”, “we”, “us” and “our” refer to Triple-S Management Corporation and its subsidiaries. The consolidated interim financial statements do not include all of the information and the footnotes required by accounting principles generally accepted in the U.S. (GAAP) for complete financial statements. These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2010.

In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of such consolidated interim financial statements have been included. The results of operations for the three months and nine months ended September 30, 2011 are not necessarily indicative of the results for the full year.

(2) Recent Accounting Standards

In September 2011, the Financial Accounting Standard Board (“FASB”) issued guidance to address concerns from various users of financial statements on the lack of transparency about an employer’s participation in a multiemployer pension plan. Users of financial statements have requested additional disclosure to increase awareness of the commitments and risks involved with participating in multiemployer pension plans. The amendments in this guidance will require additional disclosures about an employer’s participation in a multiemployer pension plan. For public entities, this guidance effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. We are currently evaluating the impact, if any, the adoption of this guidance will have on the financial position or results of operations.

In September 2011, the FASB issued guidance to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the guidance permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We are currently evaluating the impact, if any, the adoption of this guidance will have on the financial position or results of operations.

In July 2011, the FASB issued guidance to address questions about how health insurers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act. A health insurer’s portion of the annual fee becomes payable to the U.S. Treasury once the entity provides health insurance for any U.S. health risk for each applicable calendar year. The amendments specify that the liability for the fee should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. This guidance is effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective. We are currently evaluating the impact, if any, the adoption of this guidance will have on the financial position or results of operations.

In June 2011, the FASB issued guidance to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2011. The FASB has tentatively decided to propose delaying the effective date of the presentation requirements for reclassification adjustments in this guidance, since this provision raised concerns about undue complexity within the income statement, potentially compromising clarity. We do not expect the adoption of this guidance to have an impact on our financial position or results of operations.

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

In May 2011, the FASB issued guidance that changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements that result in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards (“IFRS”). For many of the requirements, FASB does not intend the amendments in this guidance to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the FASB’s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2011. We do not expect the adoption of this guidance to have an impact on our financial position or results of operations.

In April 2011, the FASB issued guidance to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The Board determined that the criterion pertaining to an exchange of collateral should not be a determining factor in assessing effective control. The Board concluded that the assessment of effective control should focus on a transferor’s contractual rights and obligations with respect to transferred financial assets, not on whether the transferor has the practical ability to perform in accordance with those rights or obligations. The Board also concluded that the remaining criteria are sufficient to determine effective control. Consequently, the amendments remove the transferor’s ability criterion from the consideration of effective control for repos and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. We do not expect the adoption of this guidance to have an impact on our financial position or results of operations.

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the nine months ended September 30, 2011 that could have a material impact on the Corporation’s financial position, operating results or financials statement 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.

Our Managed Care segment is engaged in the sale of managed care products to the Commercial and Medicare market sectors. Up to September 30, 2010, our Managed Care subsidiary, Triple-S Salud, Inc. (“TSS”) provided managed care services in Puerto Rico to Medicaid members in two regions on a fully-insured basis and in one region on an Administrative Service Only (ASO) basis. The contracts between the Government and TSS for the provision of services to the Medicaid population expired by their own terms on September 30, 2010, thus effective October 1st, 2010 we no longer provide services to these members. On October 17, 2011, TSS entered into a new contract with the Government, effective November 1st, 2011, to administer the provision of the physical health component of the

miSalud program (similar to Medicaid) in designated service regions in the Commonwealth of Puerto Rico. TSS will receive a monthly per-member, per-month administrative fee for its services and will not bear the insurance risk of the program.

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Triple-S Management Corporation
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(Dollar amounts in thousands, except per share data)
(Unaudited)

As discussed further in note 14, our Managed Care segment includes the results of operations and financial condition of American Health since February 1, 2011.

The following tables summarize the operations by major operating segment for the three months and nine months ended September 30, 2011 and 2010:

	Three months ended		Nine months ended	
	September 30, 2011	2010	September 30, 2011	2010
Operating revenues:				
Managed Care:				
Premiums earned, net	\$471,945	\$445,514	\$1,363,053	\$1,340,261
Administrative service fees	5,210	10,195	18,767	34,859
Intersegment premiums /service fees	1,644	1,649	4,584	4,717
Net investment income	4,474	5,225	13,475	15,262
Total managed care	483,273	462,583	1,399,879	1,395,099
Life Insurance:				
Premiums earned, net	28,651	26,606	83,410	78,410
Intersegment premiums	88	99	262	293
Net investment income	4,619	4,467	13,549	12,913
Total life insurance	33,358	31,172	97,221	91,616
Property and Casualty Insurance:				
Premiums earned, net	24,775	24,391	74,022	74,778
Intersegment premiums	153	153	460	460
Net investment income	2,482	2,594	7,065	8,197
Total property and casualty insurance	27,410	27,138	81,547	83,435
Other segments: *				
Intersegment service revenues	3,906	12,452	11,548	40,127
Operating revenues from external sources	-	-	4	-
Total other segments	3,906	12,452	11,552	40,127
Total business segments	547,947	533,345	1,590,199	1,610,277
TSM operating revenues from external sources	312	508	1,261	1,516
Elimination of intersegment premiums	(1,885)	(1,901)	(5,306)	(5,470)
Elimination of intersegment service fees	(3,906)	(12,452)	(11,548)	(40,127)
Other intersegment eliminations	174	-	1,159	-
Consolidated operating revenues	\$542,642	\$519,500	\$1,575,765	\$1,566,196

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Operating income:				
Managed care	\$11,264	16,417	\$32,669	47,532
Life insurance	5,263	4,529	13,178	13,055
Property and casualty insurance	(1,046)	2,242	1,957	3,311
Other segments *	384	476	515	974
Total business segments	15,865	23,664	48,319	64,872
TSM operating revenues from external sources	308	508	1,261	1,516
TSM unallocated operating expenses	(1,783)	(2,678)	(6,810)	(7,102)
Elimination of TSM intersegment charges	2,230	2,381	7,866	7,028
Consolidated operating income	16,620	23,875	50,636	66,314
Consolidated net realized investment gains (losses)	5,569	(313)	18,457	(259)
Consolidated net unrealized (loss) gain on trading securities	(6,007)	4,611	(7,267)	631
Consolidated interest expense	(2,499)	(3,026)	(8,583)	(9,626)
Consolidated other income (expense), net	(169)	576	311	404
Consolidated income before taxes	\$13,514	25,723	\$53,554	57,464
Depreciation and amortization expense:				
Managed care	5,137	2,767	14,196	8,157
Life insurance	162	173	487	510
Property and casualty insurance	371	485	1,148	1,290
Total business segments	5,670	3,425	15,831	9,957
TSM depreciation expense	200	216	604	648
Consolidated depreciation and amortization expense	\$5,870	3,641	\$16,435	10,605

* 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.

	September 30, 2011	December 31, 2010
Assets:		
Managed care	\$892,614	\$790,485
Life insurance	589,891	523,246
Property and casualty insurance	339,696	339,955
Other segments *	17,129	16,842
Total business segments	1,839,330	1,670,528
Unallocated amounts related to TSM:		
Cash, cash equivalents, and investments	48,567	62,841
Property and equipment, net	22,102	20,712
Other assets	17,232	20,600

	87,901	104,153
Elimination entries-intersegment receivables and others	(41,096)	(15,311)
Consolidated total assets	\$1,886,135	\$1,759,370

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

(4) Investment in Securities

The amortized cost for debt securities and cost for 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 September 30, 2011 and December 31, 2010, were as follows:

	December 31, 2010			
	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Trading securities:				
Equity securities	\$43,832	\$10,738	\$(3,471)	\$51,099
	September 30, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Fixed maturities:				
Obligations of government-sponsored enterprises	\$89,863	\$5,929	\$-	\$95,792
U.S. Treasury securities and obligations of U.S. government instrumentalities	39,743	2,170	-	41,913
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	76,619	2,366	-	78,985
Municipal securities	366,534	39,263	(37)	405,760
Corporate bonds	110,540	19,387	(220)	129,707
Residential mortgage-backed securities	9,000	778	-	9,778
Collateralized mortgage obligations	216,739	5,447	(541)	221,645
Total fixed maturities	909,038	75,340	(798)	983,580
Equity securities:				
Common stocks	66	2,813	-	2,879
Preferred stocks	313	93	-	406
Perpetual preferred stocks	1,000	-	(111)	889
Mutual funds	133,215	662	(8,167)	125,710
Total equity securities	134,594	3,568	(8,278)	129,884
Total	\$1,043,632	\$78,908	\$(9,076)	\$1,113,464

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

		December 31, 2010		
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Fixed maturities:				
Obligations of government-sponsored enterprises	\$ 124,735	\$ 6,650	\$ -	\$ 131,385
U.S. Treasury securities and obligations of U.S. government instrumentalities	47,427	5,451	-	52,878
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	117,519	3,115	(10)	120,624
Municipal securities	272,383	3,979	(2,798)	273,564
Corporate bonds	102,184	7,698	(250)	109,632
Residential mortgage-backed securities	12,560	801	(1)	13,360
Collateralized mortgage obligations	271,149	6,158	(1,164)	276,143
Total fixed maturities	947,957	33,852	(4,223)	977,586
Equity securities:				
Common stocks	901	3,430	-	4,331
Preferred stocks	4,298	68	(737)	3,629
Perpetual preferred stocks	1,000	-	(94)	906
Mutual funds	41,551	6,632	(310)	47,873
Total equity securities	47,750	10,130	(1,141)	56,739
Total	\$ 995,707	\$ 43,982	\$ (5,364)	\$ 1,034,325
		September 30, 2011		
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
Obligations of government-sponsored enterprises	\$ 1,793	\$ 181	\$ -	\$ 1,974
U.S. Treasury securities and obligations of U.S. government instrumentalities	625	213	-	838
Corporate bonds	9,739	209	-	9,948
Residential mortgage-backed securities	479	34	-	513
Certificates of deposit	1,248	-	-	1,248
Total	\$ 13,884	\$ 637	\$ -	\$ 14,521

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	Amortized cost	December 31, 2010 Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity :				
Obligations of government-sponsored enterprises	\$1,793	\$151	\$-	\$1,944
U.S. Treasury securities and obligations of				
U.S. government instrumentalities	1,478	203	-	1,681
Corporate bonds	9,443	414	-	9,857
Residential mortgage-backed securities	660	41	-	701
Certificates of deposit	1,241	-	-	1,241
Total	\$14,615	\$809	\$-	\$15,424

Gross unrealized losses on investment securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2011 and December 31, 2010 were as follows:

	Less than 12 months			September 30, 2011 12 months or longer			Total		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
Securities available for sale:									
Fixed maturities:									
Municipal securities	\$ 10,512	\$ (37)	3	\$ -	\$ -	-	\$ 10,512	\$ (37)	3
Corporate bonds	8,482	(220)	6	-	-	-	8,482	(220)	6
Collateralized mortgage obligations	25,126	(420)	12	1,857	(121)	1	26,983	(541)	13
Total fixed maturities	44,120	(677)	21	1,857	(121)	1	45,977	(798)	22
Equity securities:	-	-	-	889	(111)	1	889	(111)	1

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Perpetual preferred stocks									
Mutual funds	99,678	(7,993)	27	1,659	(174)	1	101,337	(8,167)	28
Total equity securities	99,678	(7,993)	27	2,548	(285)	2	102,226	(8,278)	29
Total for securities available for sale	\$ 143,798	\$ (8,670)	48	\$ 4,405	\$ (406)	3	\$ 148,203	\$ (9,076)	51

	Less than 12 months			December 31, 2010 12 months or longer			Total		
	Gross		Number of Securities	Gross		Number of Securities	Gross		Number of Securities
	Estimated Fair Value	Unrealized Loss		Estimated Fair Value	Unrealized Loss		Estimated Fair Value	Unrealized Loss	
Securities available for sale:									
Fixed maturities:									
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	\$2,483	\$ (10)	5	\$-	\$ -	-	\$2,483	\$ (10)	5
Municipal securities	105,280	(2,652)	53	692	(146)	1	105,972	(2,798)	54
Corporate bonds	5,828	(250)	3	-	-	-	5,828	(250)	3
Residential mortgage-backed securities	-	-	-	36	(1)	1	36	(1)	1
Collateralized mortgage obligations	77,417	(1,144)	12	1,953	(20)	1	79,370	(1,164)	13
Total fixed maturities	191,008	(4,056)	73	2,681	(167)	3	193,689	(4,223)	76
Equity securities:									
Preferred stocks	-	-	-	3,263	(737)	1	3,263	(737)	1
Perpetual preferred stocks	-	-	-	906	(94)	1	906	(94)	1
Mutual funds	2,337	(310)	2	-	-	-	2,337	(310)	2
Total equity securities	2,337	(310)	2	4,169	(831)	2	6,506	(1,141)	4
Total for securities available for sale	\$193,345	\$ (4,366)	75	\$6,850	\$ (998)	5	\$200,195	\$ (5,364)	80

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The Corporation regularly monitors and evaluates the difference between the cost and estimated fair value of investments. For investments with a fair value below cost, the process includes evaluating: (1) the length of time and the extent to which the estimated fair value has been less than amortized cost for fixed maturity securities, or cost for equity securities, (2) the financial condition, near-term and long-term prospects for the issuer, including relevant industry conditions and trends, and implications of rating agency actions, (3) the Corporation's intent to sell or the likelihood of a required sale prior to recovery, (4) the recoverability of principal and interest for fixed maturity securities, or cost for equity securities, and (5) other factors, as applicable. 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 estimated fair value solely due to changes in interest rates, other-than temporary impairment may not be appropriate. Due to the subjective nature of the Corporation's analysis, along with the judgment that must be applied in the analysis, it is possible that the Corporation could reach a different conclusion whether or not to impair a security if it had access to additional information about the investee. Additionally, it is possible that the investee's ability to meet future contractual obligations may be different than what the Corporation determined during its analysis, which may lead to a different impairment conclusion in future periods. If after monitoring and analyzing impaired securities, the Corporation determines that a decline in the estimated fair value of any available-for-sale security below cost is other-than-temporary, the carrying amount of equity securities is reduced to its fair value and of fixed maturity securities is reduced by the credit component of the other-than-temporary impairment. When a decline in the estimated fair value of any held-to-maturity security below cost is deemed other-than-temporary, the carrying amount of the security is reduced by the other-than-temporary impairment. The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an other-than-temporary impairment, the impaired security is accounted for as if it had been purchased on the measurement date of the impairment. For debt securities, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield.

The Corporation's process for identifying and reviewing invested assets for other-than temporary impairments during any quarter includes the following:

Identification and evaluation of securities that have possible indications of other-than-temporary impairment, which includes an analysis of all investments with gross unrealized investment losses that represent 20% or more of their cost and all investments with an unrealized loss greater than \$50.

Review and evaluation of any other security based on the investee's current financial condition, liquidity, near-term recovery prospects, implications of rating agency actions, the outlook for the business sectors in which the investee operates and other factors. This evaluation is in addition to the evaluation of those securities with a gross unrealized investment loss representing 20% or more of their cost.

Consideration of evidential matter, including an evaluation of factors or triggers that may or may not cause individual investments to qualify as having other-than-temporary impairments; and

Determination of the status of each analyzed security as other-than-temporary or not, with documentation of the rationale for the decision.

The Corporation continually reviews its investment portfolios under the Corporation's impairment review policy. Given the current market conditions and the significant judgments involved, there is a continuing risk that further declines in fair value may occur and additional material other-than-temporary impairments may be recorded in future periods.

Municipal securities: The unrealized losses of these securities were principally caused by fluctuations in interest rates and general market conditions. The Corporation does not consider these investments other-than-temporarily impaired because the decline in estimated fair value is principally attributable to changes in interest rates, the Corporation does not intend to sell the investments and it is more likely than not that the Corporation will not be required to sell the investments before recovery of their amortized cost basis, which may be maturity, and because the Corporation expects to collect all contractual cash flows.

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Corporate Bonds: The unrealized losses of these bonds were principally caused by fluctuations in interest rates and general market conditions. All corporate bonds included in the table above have investment grade ratings and have been in an unrealized position for less than six months. The Corporation does not consider these investments other-than-temporarily impaired because the decline in estimated fair value is principally attributable to changes in interest rates, the Corporation does not intend to sell the investments and it is more likely than not that the Corporation will not be required to sell the investments before recovery of their amortized cost basis, which may be maturity, and because the Corporation expects to collect all contractual cash flows.

Collateralized Mortgage Obligations: The unrealized losses on investments in collateralized mortgage obligations were mostly caused by fluctuations in interest rates and credit spreads. The contractual cash flows of these securities are guaranteed by a U.S. government-sponsored enterprise. The investment grade credit rating of our securities reflects the seniority of the securities that the Corporation owns. The Corporation does not consider these investments other-than-temporarily impaired because the decline in fair value is attributable to changes in interest rates and not credit quality, the Corporation does not intend to sell the investments and it is more likely than not that the Corporation will not be required to sell the investments before recovery of their amortized cost basis, which may be maturity, and because the Corporation expects to collect all contractual cash flows.

Perpetual Preferred Stocks: The market value of this preferred stock has experienced a slight decrease during this year, however, because the issuer's capital ratios are above regulatory levels, the Corporation does not have the intent to sell the investment, and the Corporation has the intent and ability to hold the investment until a market price recovery, this investment is not considered other-than-temporarily impaired.

Mutual Funds: The security that has been in an unrealized loss position more than twelve months has experienced an improvement in fair value during this year. All other funds have been in an unrealized loss position for less than twelve months. These positions are not considered other-than-temporarily impaired because the Corporation does not have the intent to sell these investments, and the Corporation has the ability to hold the investments until a market price recovery.

Maturities of investment securities classified as available for sale and held to maturity at September 30, 2011 were as follows:

	September 30, 2011	
	Amortized cost	Estimated fair value
Securities available for sale:		
Due in one year or less	\$ 12,386	\$ 12,586
Due after one year through five years	144,218	150,404
Due after five years through ten years	131,567	147,092
Due after ten years	395,128	442,075
Residential mortgage-backed securities	9,000	9,778
Collateralized mortgage obligations	216,739	221,645
	\$ 909,038	\$ 983,580
Securities held to maturity:		

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Due in one year or less	\$ 10,987	\$ 11,196
Due after one year through five years	-	-
Due after five years through ten years	-	-
Due after ten years	2,418	2,812
Residential mortgage-backed securities	479	513
	\$ 13,884	\$ 14,521

Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations with or without call or prepayment penalties.

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Information regarding realized and unrealized gains and losses from investments for the three months and nine months ended September 30, 2011 and 2010 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Fixed maturity securities:				
Securities available for sale:				
Gross gains from sales	\$ 3,792	\$ -	\$ 10,941	\$ 69
Gross losses from sales	(13)	(148)	(248)	(272)
Gross losses from other-than-temporary impairments	-	-	-	(95)
Total debt securities	3,779	(148)	10,693	(298)
Equity securities:				
Trading securities:				
Gross gains from sales	7,329	110	11,195	935
Gross losses from sales	(4,298)	(212)	(4,726)	(741)
	3,031	(102)	6,469	194
Securities available for sale:				
Gross gains from sales	686	273	3,317	3,259
Gross losses from sales	(1,927)	(19)	(2,022)	(576)
Gross losses from other-than-temporary impairments	-	(317)	-	(2,838)
	(1,241)	(63)	1,295	(155)
Total equity securities	1,790	(165)	7,764	39
Net realized gains (losses) on securities	\$ 5,569	\$ (313)	\$ 18,457	\$ (259)

The other-than-temporary impairments on fixed maturity securities are attributable to credit losses.

	Three month ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Changes in net unrealized gains (losses):				
Recognized in income:				
Equity securities – trading	\$ (6,007)	\$ 4,611	\$ (7,267)	\$ 631
Recognized in accumulated other comprehensive income (loss):				
Fixed maturities – available for sale	39,441	21,393	44,913	53,900
Equity securities – available for sale	(13,943)	3,346	(13,699)	3,066
	\$ 25,498	\$ 24,739	\$ 31,214	\$ 56,966
Not recognized in the consolidated financial statements:				
Fixed maturities – held to maturity	\$ (50)	\$ 90	\$ (172)	\$ 442

The deferred tax liability/asset related to unrealized gains and losses, respectively, recognized in accumulated other comprehensive income/ (loss) during the nine months ended September 30, 2011 and 2010 aggregated to \$6,105 and \$10,315, respectively.

As of September 30, 2011 and December 31, 2010, no individual investment in securities exceeded 10% of stockholders' equity.

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Components of net investment income were as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Fixed maturities	\$10,645	\$ 11,707	\$33,224	\$ 34,303
Equity securities	1,083	756	1,997	2,595
Policy loans	116	113	336	330
Cash equivalents and interest-bearing deposits	101	58	386	160
Other	116	160	570	500
Total	\$12,061	\$ 12,794	\$36,513	\$ 37,888

(5) Premiums and Other Receivables, Net

Premiums and other receivables, net as of September 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011	December 31, 2010
Premiums	\$93,073	\$144,501
Self-funded group receivables	70,301	73,750
FEHBP	12,152	11,001
Agent balances	31,253	37,262
Accrued interest	9,646	9,781
Reinsurance recoverable	49,013	47,342
Other	29,256	22,177
	294,694	345,814
Less allowance for doubtful receivables:		
Premiums	13,450	13,106
Other	8,661	6,928
	22,111	20,034
Total premiums and other receivables, net	\$272,583	\$325,780

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(6) Claim Liabilities

The activity in the total claim liabilities for the three months and nine months ended September 30, 2011 and 2010 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Claim liabilities at beginning of period	\$398,708	\$411,410	\$360,210	\$360,446
Reinsurance recoverable on claim liabilities	(31,854)	(33,069)	(31,449)	(30,712)
Net claim liabilities at beginning of period	366,854	378,341	328,761	329,734
Claim liabilities acquired from American Health	-	-	41,666	-
Incurred claims and loss-adjustment expenses:				
Current period insured events	435,953	417,642	1,274,432	1,259,518
Prior period insured events	2,515	671	(11,552)	4,006
Total	438,468	418,313	1,262,880	1,263,524
Payments of losses and loss-adjustment expenses:				
Current period insured events	386,457	383,961	956,934	951,570
Prior period insured events	59,899	22,016	317,407	251,011
Total	446,356	405,977	1,274,341	1,202,581
Net claim liabilities at end of period	358,966	390,677	358,966	390,677
Reinsurance recoverable on claim liabilities	35,657	33,142	35,657	33,142
Claim liabilities at end of period	\$394,623	\$423,819	\$394,623	\$423,819

As a result of differences between actual amounts and estimates of insured events in prior periods, the amounts included as incurred claims for prior period insured events differ from anticipated claims incurred.

The credit in the incurred claims and loss-adjustment expenses for prior period insured events for the nine months ended September 30, 2011 is due primarily to better than expected utilization trends.

Reinsurance recoverable on unpaid claims is reported within the premium and other receivables, net in the accompanying consolidated financial statements. The claims incurred disclosed in this table exclude the change in the liability for future policy benefits expense, which amounted to \$3,931 and \$10,033, during the three months and nine months ended September 30, 2011, respectively. The change in the liability for future policy benefits during the three months and nine months ended September 30, 2010 amount to \$3,201 and \$8,656, respectively.

(7) Fair Value Measurements

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 current accounting guidance for fair value measurements and disclosures, are as follows:

Level Input: Input Definition:

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- 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 1 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.

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The Corporation uses observable inputs when available. Fair value is based upon quoted market prices when available. If market prices are not available, the Corporation employs internally-developed models that primarily use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. The Corporation limits valuation adjustments to those deemed necessary to ensure that the security or derivative's fair value adequately represents the price that would be received or paid in the marketplace. Valuation adjustments may include consideration of counterparty credit quality and liquidity as well as other criteria. The estimated fair value amounts are subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in estimating fair value could affect the Corporation's results. The fair value measurement levels are not indicative of risk of investment.

The fair value information of financial instruments in the accompanying consolidated financial statements was determined as follows:

(i) Cash and Cash Equivalent

The carrying amount approximates fair value because of the short-term nature of such instruments.

(ii) Investment in Securities

The fair value of investment securities is estimated based on quoted market prices for those or similar investments. Additional information pertinent to the estimated fair value of investment in securities is included in note 4.

(iii) Policy Loans

Policy loans have no stated maturity dates and are part of the related insurance contract. The carrying amount of policy loans approximates fair value because their interest rate is reset periodically in accordance with current market rates.

(iv) Receivables, Accounts Payable and Accrued Liabilities and Short-term Borrowings

The carrying amount of receivables, accounts payable and accrued liabilities and short-term borrowings approximates fair value because they mature and should be collected or paid within 12 months after September 30, 2011.

(v) Policyholder Deposits

The fair value of policyholder deposits is the amount payable on demand at the reporting date, and accordingly, the carrying value amount approximates fair value.

(vi) Long-term Borrowings

The carrying amounts and fair value of the Corporation's long-term borrowings are as follows:

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	September 30, 2011		December 31, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans payable to bank	\$ 19,797	\$ 19,797	\$ 21,027	\$ 21,027
6.3% senior unsecured notes payable	-	-	50,000	49,625
6.6% senior unsecured notes payable	35,000	34,606	35,000	34,388
6.7% senior unsecured notes payable	35,000	34,913	35,000	35,000
Repurchase agreement	25,000	25,763	25,000	24,575
Totals	\$ 114,797	\$ 115,079	\$ 166,027	\$ 164,615

The carrying amount of the loans payable to bank approximates fair value due to its floating interest-rate structure. The fair value of the senior unsecured notes payable was determined using broker quotations.

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(vii) Derivative Instruments

Current market pricing models were used to estimate fair value of structured note agreements. Fair values were determined using market quotations provided by outside securities consultants or prices provided by market makers using observable inputs.

The following tables summarize fair value measurements by level at September 30, 2011 and December 31, 2010 for assets measured at fair value on a recurring basis:

	September 30, 2011			Total
	Level 1	Level 2	Level 3	
Equity securities held for trading	\$-	\$-	\$-	\$-
Securities available for sale:				
Fixed maturity securities				
Obligations of government-sponsored enterprises	-	95,792	-	95,792
U.S. Treasury securities and obligations of U.S government instrumentalities	41,913	-	-	41,913
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	78,985	-	78,985
Municipal securities	-	405,760	-	405,760
Corporate bonds	-	129,707	-	129,707
Residential agency mortgage-backed securities	-	9,778	-	9,778
Collateralized mortgage obligations	-	221,645	-	221,645
Total fixed maturities	41,913	941,667	-	983,580
Equity securities				
Common stocks	2,879	-	-	2,879
Preferred stocks	406	-	-	406
Perpetual preferred stocks	889	-	-	889
Mutual funds	110,792	9,832	5,086	125,710
Total equity securities	114,966	9,832	5,086	129,884
Derivatives (reported within other assets in the consolidated balance sheets)	-	50	-	50
Total	\$156,879	\$951,549	\$5,086	\$1,113,514

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	December 31, 2010			Total
	Level 1	Level 2	Level 3	
Equity securities held for trading	\$51,099	\$-	\$-	\$51,099
Securities available for sale:				
Fixed maturity securities				
Obligations of government-sponsored enterprises	-	131,385	-	131,385
U.S. Treasury securities and obligations of U.S government instrumentalities	52,878	-	-	52,878
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	120,624	-	120,624
Municipal securities	-	273,564	-	273,564
Corporate bonds	-	109,632	-	109,632
Residential agency mortgage-backed securities	-	13,360	-	13,360
Collateralized mortgage obligations	-	276,143	-	276,143
Total fixed maturities	52,878	924,708	-	977,586
Equity securities				
Common stocks	4,331	-	-	4,331
Preferred stocks	3,629	-	-	3,629
Perpetual preferred stocks	906	-	-	906
Mutual funds	27,858	18,971	1,044	47,873
Total equity securities	36,724	18,971	1,044	56,739
Derivatives (reported within other assets in the consolidated balance sheets)	-	748	-	748
Total	\$140,701	\$944,427	\$1,044	\$1,086,172

The fair value of fixed maturity and equity securities included in the Level 2 category were based on market values obtained from independent pricing services, which utilize evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and when available loan performance data. Because many fixed income securities do not trade on a daily basis, the models used by independent pricing service providers to prepare evaluations apply available information, such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. For certain equity securities, quoted market prices for the identical security are not always available and the fair value is estimated by reference to similar securities for which quoted prices are available. The independent pricing service providers monitor market indicators, industry and economic events, and for broker-quoted only securities, obtain quotes from market makers or broker-dealers that they recognize to be market participants.

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Transfers into or out of the Level 3 category occur when unobservable inputs, such as the Company's best estimate of what a market participant would use to determine a current transaction price, become more or less significant to the fair value measurement. Transfers between levels, if any, are recorded as of the actual date of the event or change in circumstance that caused the transfer. Transfers into Level 3 from Level 2 during the three and nine months ended September 30, 2011 primarily reflect the level of unobservable inputs used to value certain private international equity and real estate funds. There were no transfers between Levels I and II during the three and nine months ended September 30, 2011 and 2010. A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months and nine months ended September 30, 2011 and 2010 is as follows:

	September 30, 2011			September 30, 2010		
	Fixed Maturity Securities	Equity Securities	Total	Fixed Maturity Securities	Equity Securities	Total
Beginning balance	\$-	\$1,338	\$1,338	\$-	\$699	\$699
Unrealized gains (losses) in other accumulated comprehensive income	-	54	54	-	(6)	(6)
Purchases	-	525	525	-	153	153
Transfers into Level 3	-	3,169	3,169	-	-	-
Ending balance	\$-	\$5,086	\$5,086	\$-	\$846	\$846

	September 30, 2011			September 30, 2010		
	Fixed Maturity Securities	Equity Securities	Total	Fixed Maturity Securities	Equity Securities	Total
Beginning balance	\$-	\$1,044	\$1,044	\$-	\$775	\$775
Unrealized gains (losses) in other accumulated comprehensive income	-	126	126	-	(253)	(253)
Purchases	-	747	747	-	324	324
Transfers into Level 3	-	3,169	3,169	-	-	-
Ending balance	\$-	\$5,086	\$5,086	\$-	\$846	\$846

(8) Share-Based Compensation

Share-based compensation expense recorded during the three months and nine months ended September 30, 2011 was \$398 and \$1,489, respectively. Share-based compensation expense recorded during the three months and nine months ended September 30, 2010 was \$638 and \$1,316, respectively. During the nine months ended September 30, 2011 cash received from stock option exercises was \$189. The impact of these cash receipts is included within the cash flows from financing activities in the accompanying consolidated statement of cash flows. During the nine months

ended September 30, 2011, 32,776 shares were repurchased and retired as a result of a non-cash exercise of stock options. Also, during the nine months ended September 30, 2011, 432,567 options were cash-settled for \$2,420 at its fair value at time of settlement. No options were exercised or cash-settled during the nine months ended September 30, 2010.

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(9) Comprehensive Income

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

	Net unrealized gain on securities	Liability for pension benefits	Accumulated other comprehensive income
Balance at January 1	\$ 32,743	\$ (27,279)	\$ 5,464
Net current period change	25,109	1,503	26,612
Balance at September 30	\$ 57,852	\$ (25,776)	\$ 32,076

(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. In addition, a subsidiary of the Corporation, which is incorporated under the laws of the State of Delaware, is also subject to U.S. Federal income taxes. As of September 30, 2011, tax years 2004 through 2011 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 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 carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of earnings in the period that includes the enactment date. Quarterly income taxes are calculated using the effective tax rate determined based on the income forecasted for the full fiscal year.

In 2010, the government of Puerto Rico adopted a comprehensive tax reform in two phases. The first phase became effective in the last quarter of 2010 and was mostly related to reducing the income tax burden to individuals. In 2010 only, corporations received an income tax credit amounting to 7% of the tax determined, defined as the tax liability less certain credits. The second phase of the reform, which was approved on January 31, 2011, reduces the maximum corporate income tax rate from 39% to approximately 30%, eliminates a temporary surtax of 5%, and adds several tax credits and deductions, among other tax reliefs and changes. As a result of this income tax rate reduction, the consolidated net deferred tax assets were decreased through a one-time charge to the consolidated deferred tax expense of approximately \$6,400 during the nine months ended September 30, 2011.

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(11) Pension Plan

The components of net periodic benefit cost for the three months and nine months ended September 30, 2011 and 2010 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Components of net periodic benefit cost:				
Service cost	\$1,406	\$1,218	\$2,926	\$3,772
Interest cost	1,624	1,478	5,125	4,497
Expected return on assets	(1,270)	(1,044)	(3,997)	(3,148)
Amortization of prior service benefit	(109)	(110)	(344)	(333)
Amortization of actuarial loss	809	588	2,492	1,782
Net periodic benefit cost	\$2,460	\$2,130	\$6,202	\$6,570

Employer contributions: The Corporation disclosed in its audited consolidated financial statements for the year ended December 31, 2010 that it expected to contribute \$10,000 to its pension program in 2011. As of September 30, 2011, the Corporation has contributed \$16,500 to the pension program. The Corporation expects no further contributions to fund its pension program in 2011.

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

The following table sets forth the computation of basic and diluted earnings per share for the three months and nine months ended September 30, 2011 and 2010:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Numerator for earnings per share:				
Net income available to stockholders	\$11,613	\$20,488	\$39,069	\$46,737
Denominator for basic earnings per share:				
Weighted average of common shares	28,736,762	29,095,272	28,776,279	29,085,188
Effect of dilutive securities	113,485	220,301	180,415	197,690
Denominator for diluted earnings per share	28,850,247	29,315,573	28,956,694	29,282,878
Basic net income per share	\$0.40	\$0.70	\$1.36	\$1.61
Diluted net income per share	\$0.40	\$0.70	\$1.35	\$1.60

During the three months and nine months ended September 30, 2011, the weighted average of stock option shares of approximately 4,032 was excluded from the denominator for the diluted earnings per share computation because the stock options were anti-dilutive. There were no anti-dilutive stock options during the three months and nine months ended September 30, 2010.

(13)Contingencies

As of September 30, 2011, the Corporation is a defendant in various lawsuits arising in the ordinary course of business. We are also defendants in various other claims and proceedings, some of which are described below. 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.

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Management believes that the aggregate liabilities, if any, arising from all such claims, assessments, audits and lawsuits will 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 the financial condition, 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 been asserted to date, including claims from persons purporting to have contractual rights to acquire shares of the Corporation on favorable terms (“Share Acquisition Agreements”) or to have inherited such shares notwithstanding applicable transfer and ownership restrictions.

Hau et al Litigation (formerly known as Jordan et al)

On April 24, 2002, Octavio Jordán, Agripino Lugo, Ramón Vidal, and others filed a suit against the Corporation, the Corporation’s subsidiary TSS and others in the Court of First Instance for San Juan, Superior Section (the “Court of First Instance”), alleging, among other things, violations by the defendants of provisions of the Puerto Rico Insurance Code, antitrust violations, unfair business practices, RICO violations, breach of contract with providers, and damages in the amount of \$12 million. Following years of complaint amendments, motions practice and interim appeals up to the level of the Puerto Rico Supreme Court, the plaintiffs amended their complaint on June 20, 2008 to allege with particularity the same claims initially asserted but on behalf of a more limited group of plaintiffs, and increase their claim for damages to approximately \$207 million. After extensive discovery, plaintiffs amended their complaint for the third time in December 2010 and dropped all claims predicated on violations of the antitrust and RICO laws and the Puerto Rico Insurance Code. In addition, the plaintiffs voluntarily dismissed with prejudice any and all claims against officers of the Corporation and TSS. Two of the original plaintiffs were also eliminated from the Third Amended Complaint (TAC). The TAC alleges breach of six Share Acquisition Agreements, breach of the provider contract by way of discriminatory audits and improper payment of services rendered, and reduces the claim for damages to approximately \$13.3 million. Plaintiffs also allege a claim for libel and slander against a former President of TSM. In January 2011, we filed our response and a counterclaim for malicious prosecution and abuse of process. Discovery is ongoing. The Corporation is vigorously defending this claim.

Dentists Association Litigation

On February 11, 2009, the Puerto Rico Dentists Association (Colegio de Cirujanos Dentistas de Puerto Rico) filed a complaint in the Court of First Instance against 24 health plans operating in Puerto Rico that offer dental health coverage. The Corporation and two of its subsidiaries, TSS and Triple-C, Inc. (“TCI”), were included as defendants. This litigation purports to be a class action filed on behalf of Puerto Rico dentists who are similarly situated.

The complaint alleges that the defendants, on their own and as part of a common scheme, systematically deny, delay and diminish the payments due to dentists so that they are not paid in a timely and complete manner for the covered

medically necessary services they render. The complaint also alleges, among other things, violations to the Puerto Rico Insurance Code, antitrust laws, the Puerto Rico racketeering statute, unfair business practices, breach of contract with providers, and damages in the amount of \$150 million. In addition, the complaint claims that the Puerto Rico Insurance Companies Association is the hub of an alleged conspiracy concocted by the member plans to defraud dentists. There are numerous available defenses to oppose both the request for class certification and the merits. The Corporation intends to vigorously defend this claim.

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Two codefendant plans, whose main operations are outside Puerto Rico, removed the case to federal court in Florida, which the plaintiffs and the other codefendants, including the Corporation, opposed. Following months of jurisdictional proceedings in the federal court system, the federal district court in Puerto Rico decided to retain jurisdiction on February 8, 2011. The defendants filed a joint motion to dismiss the case on the merits, because the complaint fails to state a claim upon which relief can be granted. On August 31, 2011, the District Court dismissed all of plaintiffs' claims except for its breach of contract claim, and ordered the parties to brief the issue of whether the court still has federal jurisdiction under the Class Action Fairness Act of 2005. The parties have briefed the issue. In addition, the plaintiffs moved the court to reconsider its August 31, 2011 decision and the defendants moved the court to dismiss the breach of contract claim. The parties are awaiting the court's decision on these issues.

Colón Litigation

On October 15, 2007, José L. Colón-Dueño, a former holder of one share of TSS predecessor stock, filed suit against TSS and the Puerto Rico Commissioner of Insurance (the "Commissioner") in the Court of First Instance. The sale of that share to Mr. Colón-Dueño was voided in 1999 pursuant to an order issued by the Commissioner in which the sale of 1,582 shares to a number of TSS shareholders was voided. TSS, however, appealed the Commissioner's order before the Puerto Rico Court of Appeals, which upheld the order on March 31, 2000. Plaintiff requests that the court direct TSS to return his share of stock and compensate him for alleged damages in excess of \$500,000 plus attorney's fees. On January 13, 2011, the Court of First Instance dismissed the case with prejudice and, on July 1, 2011, the Puerto Rico Court of Appeals confirmed such dismissal. Plaintiff filed a petition before the Puerto Rico Supreme Court on July 28, 2011, requesting the revision of the Court of Appeals' judgment. The Corporation is vigorously contesting this lawsuit because, among other reasons, the Commissioner's order is final and cannot be collaterally attacked in this litigation.

Claims by Heirs of Former Shareholders

The Corporation and TSS are defending three individual lawsuits, all filed in state court, from persons who claim to have inherited a total of 48 shares of the Corporation or one of its predecessors or affiliates (before giving effect to the 3,000-for-one stock split). While each case presents unique facts and allegations, the lawsuits generally allege that the redemption of the shares by the Corporation pursuant to transfer and ownership restrictions contained in the Corporation's (or its predecessors' or affiliates') articles of incorporation and bylaws was improper. In two of these cases, the Court of First Instance determined that the plaintiffs' claims are time barred under the two year statute of limitations contained in the local securities law. These cases are in different stages of appeal by the plaintiffs. In the third case, the court of First Instance denied our request for summary judgment based on its determination that there are material issues of fact in controversy. In response to our appeal, the Puerto Rico Court of Appeals confirmed the decision of the Court of First instance. We plan to file a request for reconsideration in this case.

Management believes all these claims are time barred under one or more statutes of limitations and other grounds and is vigorously defending them. This belief is supported by the outcome of a similar claim brought by non-medical heirs against us in 2009. The Puerto Rico Court of Appeals dismissed that claim as time barred under the two year statute of limitations contained in the local securities law, and the Puerto Rico Supreme Court denied the plaintiffs petition for certiorari in January 2011.

ACODESE Investigation

During April 2010, each of the Company's wholly-owned insurance subsidiaries received subpoenas for documents from the U.S. Attorney for the Commonwealth of Puerto Rico (the "U.S. Attorney") and the Puerto Rico Department of Justice ("PRDOJ") requesting information principally related to the Asociación de Compañías de Seguros de Puerto Rico, Inc. ("ACODESE" by its Spanish acronym). Also in April, the Company's insurance subsidiaries received a request for information from the Office of the Commissioner of Insurance of Puerto Rico ("OCI") related principally to ACODESE. The Company's insurance subsidiaries are members of ACODESE, an insurance trade association established in Puerto Rico since 1975, and their current presidents have participated over the years on ACODESE's board of directors.

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The Company believes similar subpoenas and information requests were issued to other member companies of ACODESE in connection with the investigation of alleged payments by the former Executive Vice President of ACODESE to members of the Puerto Rico Legislative Assembly beginning in 2005. The Company, however, has not been informed of the specific subject matter of the investigations being conducted by the U.S. Attorney, the PRDOJ or the OCI. The Company is fully complying with the subpoenas and the request for information and intends to cooperate with any related government investigation. The Company at this time cannot reasonably assess the outcome of these investigations or their impact on the Company.

Intrusions into Triple-C, Inc. Internet IPA Database

On September 21, 2010, we learned from a competitor that a specific internet database managed by our subsidiary TCI containing information pertaining to individuals previously insured by TSS under the Government of Puerto Rico's Health Insurance Plan ("HIP") and to independent practice associations ("IPAs") that provided services to those individuals, had been accessed without authorization by certain of our competitor's employees from September 9 to September 15, 2010. TCI served as a third-party administrator for TSS in the administration of its HIP contracts until September 30, 2010. We conducted a thorough investigation with the assistance of external resources and identified the information that was accessed and downloaded into the competitor's system. The September 2010 intrusions may have potentially compromised protected health information of approximately 398,000 beneficiaries in the North and Metro-North regions of the HIP. Our investigation also revealed that protected health information of approximately 5,500 HIP beneficiaries, 2,500 Medicare beneficiaries and IPA data from all three HIP regions previously serviced by TSS was accessed through multiple, separate intrusions into the TCI IPA database from October 2008 to August 2010. We have no evidence indicating that the stolen information included Social Security numbers. We attempted to notify by mail all beneficiaries whose information may have been compromised by these intrusions. We also established a toll-free call center to address inquiries and complaints from the individuals to whom notice was provided. We received a total of approximately 1,530 inquiries and no complaints from these individuals.

Our investigation revealed that the security breaches were the result of unauthorized use of one or more active user IDs and passwords specific to the TCI IPA database, and not the result of breaches of TCI's, TSS's or the Corporation's system security features. Nonetheless, we took measures to strengthen TCI's server security and credentials management procedures and conducted an assessment of our system-wide data and facility security to prevent the occurrence of a similar incident in the future.

We were unable to determine the purpose of these breaches and do not know the extent of any fraudulent use of the information or its impact on the potentially affected individuals and IPAs. According to representations made by our competitor, however, the target was financial information related to IPAs and management of the HIP, rather than the beneficiaries' information.

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We notified the appropriate Puerto Rico and federal government agencies of these events, and gave public notice of the breaches as required under Puerto Rico and federal law. We received a number of inquiries and requests for information related to these events from these government agencies and are cooperating with them. The Puerto Rico government agency that oversees the HIP levied a fine of \$100,000 on TSS in connection with these incidents, but following our request for reconsideration, the agency withdrew the fine until the pertinent federal authorities conclude their investigations of this matter. On August 16, 2011, the Office for Civil Rights of the U.S. Department of Health and Human Services initiated a review of TSS's and TCI's compliance with the security and privacy rules promulgated under the Health Insurance Portability and Accountability Act of 1996, in connection with these data breaches. We do not have sufficient information at this time to predict whether any future action by government entities or others as a result of the data breaches would adversely affect our business, financial condition and results of operations.

Joint Underwriting Association Litigations

On August 19, 2011, plaintiffs, purportedly a group of motor vehicle owners, filed a putative class action in the United States District Court for the District of Puerto Rico against the Puerto Rico Joint Underwriting Association ("JUA") and 17 other defendants, including Triple-S Propiedad, Inc. ("TSP"), alleging violations under the Puerto Rico Insurance Code, the Puerto Rico Civil Code, the Racketeer Influenced and Corrupt Organizations Act ("RICO") and the local statute against organized crime and money laundering. JUA is a private association created by law to administer a compulsory public liability insurance program for motor vehicles in Puerto Rico ("CLI"). As required by its enabling act, JUA is composed of all the insurers that underwrite private motor vehicle insurance in Puerto Rico and exceed the minimum underwriting percentage established in such act. TSP is a member of JUA.

In this lawsuit entitled Noemí Torres Ronda, et al v. Joint Underwriting Association, et al., plaintiffs allege that the defendants illegally charged and misappropriated a portion of the CLI premiums paid by motor vehicle owners in violation of the Puerto Rico Insurance Code. Specifically, they claim that because the defendants do not incur in acquisition or administration costs allegedly totaling 12% of the premium dollar, charging for such costs constitutes the illegal traffic of premiums. Plaintiffs also claim that the defendants, as members of JUA, violated RICO through various inappropriate actions designed to defraud motor vehicle owners located in Puerto Rico and embezzle a portion of the CLI premiums for their benefit.

Plaintiffs seek the reimbursement of funds for the class amounting to \$406.6 million, treble damages under RICO, and equitable relief, including a permanent injunction and declaratory judgment barring defendants from their alleged conduct and practices, along with costs and attorneys' fees.

This case is in a very early stage, and neither answers nor dispositive motions have been filed. The Corporation intends to vigorously contest this lawsuit on several grounds. Among them, based on the opinion of counsel, the Corporation believes that the complaint falls short of the pleading requirements under RICO and is barred by the filed rate doctrine, because the premiums were established by law and filed with the Puerto Rico Insurance Commissioner. Furthermore, TSP is obligated by law to participate in JUA and charge the legislated premiums for CLI.

A similar case entitled Maria Margarita Collazo Burgos, et al. v. La Asociación de Suscripción Conjunta del Seguro de Responsabilidad Obligatorio (JUA), et al., was filed against JUA and its members, including TSP, in the Puerto

Rico Court of First Instance, San Juan Part on January 28, 2010.

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This litigation is a putative class action lawsuit brought on behalf of motor vehicle owners in Puerto Rico. Plaintiffs in this lawsuit allege that each of the defendants engaged in similar activities and conduct as those alleged in the Torres litigation and claim the recovery of \$225 million for the class pertaining to the acquisition and administration costs of the CLI, allegedly charged in violation of the Puerto Rico Insurance Code's provisions prohibiting the illegal traffic of premiums. TSP is vigorously contesting this action.

At this early stage of these cases, the Corporation cannot assess the probability of an adverse outcome, or the reasonable financial impact that any such outcome may have on the Corporation.

(14) Business Combination

Effective February 7, 2011, the Corporation announced that its subsidiary, TSS completed the acquisition of 100% of the outstanding capital stock of Socios Mayores en Salud Holdings, Inc. (from now on referred to as "American Health" or "AH"), a provider of Medicare Advantage services to over 40,000 dual and non-dual eligible members in Puerto Rico. After this acquisition the Corporation expects to be better positioned for continued growth in the Medicare Advantage business. The Corporation accounted for this acquisition in accordance with the provisions of Accounting Standard Codification Topic 805, Business Combinations. The results of operations and financial condition of AH are included in the accompanying consolidated financial statements for the period following the effective date of the acquisition. The aggregate purchase price of the acquired entity was preliminarily estimated at approximately \$83,428. Direct costs related to the acquisition amounted to \$440 and were included in the consolidated operating expenses during the nine months ended September 30, 2011.

Although the closing date of the transaction was February 7, 2011, the consideration amount was determined using AH's financial position as of January 31, 2011 and as such, TSS has acquired the net assets held by AH as of that date. Therefore, we have recorded a preliminary allocation of the purchase price to AH tangible and intangible assets acquired and liabilities assumed based on their fair value as of January 31, 2011. Additional adjustments to the purchase price allocation may occur for one year after the date of acquisition if new information becomes known about facts and circumstances that existed as of January 31, 2011 that, if known, would have affected the amounts recognized as of that date. Preliminary goodwill has been recorded based on the amount by which the purchase price exceeds the fair value of the net assets acquired. Goodwill will not be deductible for tax purposes and is attributable to synergies and economies of scale expected from the acquisition. The following table summarizes the consideration transferred to acquire AH as of September 30, 2011 and the preliminary allocation of the purchase price to the assets acquired and liabilities assumed at the acquisition.

Cash	\$80,263
Due to seller	3,165
Total purchase price	\$83,428
Investments and cash and cash equivalents	\$70,359
Premiums and other receivables	19,791
Property and equipment	1,665
Intangible assets	35,060
Other assets	9,985

Claim liabilities	(41,272)
Accounts payable and accrued liabilities	(27,534)
Deferred tax liability	(10,518)
Total net assets	\$57,536
Goodwill	\$25,892

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As of the date of this quarterly report, the external valuation procedures have not progressed to a stage where we can identify and quantify the intangible assets acquired in this transaction. Because the external valuation procedures have not been completed this purchase price allocation is preliminary. In addition, the Company is evaluating certain tax matters and some receivables and accounts payable that could also change the purchase price allocation. As a result, the amount of the final purchase price allocation could differ materially from the amounts presented in the unaudited interim consolidated financial statements. To the extent that any amount is assigned to a tangible or finite live intangible asset, this amount will be depreciated or amortized, as appropriate, to earnings over the expected period of benefit of the asset. At September 30, 2011, we recognized preliminary intangible assets of \$35.1 million and goodwill of \$25.9 million within the consolidated other assets. During the three months and nine months ended September 30, 2011 we recognized \$2.1 million and \$5.5 million, respectively, of amortization expense related to estimated intangible assets resulting from the AH transaction.

The consolidated statements of earnings for the three months ended September 30, 2011 include \$118,732 and \$2,171 related to AH operating revenues and net income, respectively. The consolidated statements of earnings for the nine months ended September 30, 2011 include \$309,276 and \$4,591 related to AH operating revenues and net income, respectively, corresponding to the period subsequent to the effective date of the acquisition. The following unaudited pro forma financial information presents the combined results of operations of the Corporation and AH as if the acquisition had occurred at the beginning of 2010. The unaudited pro forma financial information is not intended to represent or be indicative of the Corporation's consolidated results of operations that would have been reported had the acquisition been completed as of the beginning of the periods presented and should not be taken as indicative of the Corporation's future consolidated results of operations.

	Unaudited			
	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Operating revenues	\$542,632	\$616,742	\$1,612,361	\$1,849,579
Net Income	\$11,944	\$22,412	\$39,562	\$55,456
Basic net income per share	\$0.62	\$0.75	\$1.38	\$1.91
Diluted net income per share	\$0.61	\$0.74	\$1.37	\$1.89

The above pro forma operating revenues and net income considers the following estimated acquisition adjustments:

- Amortization of intangible assets – based on the estimated fair value of the tangible net assets acquired from AH, we estimate that we will recognize in our consolidated balance sheet preliminary intangible assets of approximately \$60.5 million, including goodwill. We considered an amortization expense for the three months and nine months ended September 30, 2011 of \$1.5 million and \$4.6 million, respectively. We considered an amortization expense for the three months and nine months ended September 30, 2010 of \$2.1 million and \$6.2 million, respectively.

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Interest expense – represents the interest expense related to the short-term reverse repurchase agreements amounting to \$55.0 million to finance the first payment of the acquisition. This agreement was paid during the quarter of the acquisition. Total interest expense related to these reverse repurchase agreements was approximately \$42.

- Net investment income - this pro forma adjustment represents the anticipated bond discount amortization of approximately \$31 and \$92 for the three months and nine months ended September 30, 2010, respectively, due to the fair value accounting of investment in securities. For the nine months ended September 30, 2011 an additional bond discount amortization of approximately \$11 was recorded.

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