

TRIPLE-S MANAGEMENT CORP

Form 10-Q

August 11, 2006

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

(Mark One)

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

**For the quarterly period ended June 30, 2006**

**OR**

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

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

**COMMISSION FILE NUMBER: 0-49762**

**Triple-S Management Corporation**

(Exact name of registrant as specified in its charter)

**Puerto Rico**

(State or other jurisdiction of incorporation or organization)

**66-0555678**

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

**1441 F.D. Roosevelt Avenue**

**San Juan, Puerto Rico**

(Address of principal executive offices)

**00920**

(Zip code)

**(787) 749-4949**

(Registrant's telephone number, including area code)

**Not applicable**

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

**Title of each class**  
Common Stock, \$40.00 par value

**Outstanding at June 30, 2006**  
8,911

**Triple-S Management Corporation**  
**FORM 10-Q**  
For the Quarter Ended June 30, 2006  
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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/>June 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|--|--|------------------------------|
| <b>ASSETS</b>  |  |                              |
| Investments and cash:  |  |                              |
| Securities held for trading, at fair value:                          |  |                              |
| Equity securities  | \$ 80,017                                | 78,215                       |
| Securities available for sale, at fair value:                        |  |                              |
| Fixed maturities   | 695,310                                  | 515,174                      |
| Equity securities  | 55,383                                   | 51,810                       |
| Securities held to maturity, at amortized cost:                      |  |                              |
| Fixed maturities   | 21,005                                   | 21,129                       |
| Policy loans   | 5,129                                    |                              |
| Cash and cash equivalents  | 53,946                                   | 48,978                       |
| Total investments, cash and cash equivalents                         | 910,790                                  | 715,306                      |
| Premiums and other receivables, net                                  | 170,445                                  | 244,038                      |
| Deferred policy acquisition costs and value of business acquired     | 105,606                                  | 81,568                       |
| Property and equipment, net  | 40,503                                   | 34,709                       |
| Net deferred tax asset   | 2,944                                    | 2,151                        |
| Other assets   | 57,360                                   | 59,690                       |
| Total assets   | \$1,287,648                              | 1,137,462                    |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                           |  |                              |
| Claim liabilities:   |  |                              |
| Claims processed and incomplete                                      | \$ 154,742                               | 139,694                      |
| Unreported losses  | 170,802                                  | 143,224                      |
| Unpaid loss-adjustment expenses                                      | 16,054                                   | 14,645                       |
| Total claim liabilities  | 341,598                                  | 297,563                      |
| Future policy benefits   | 172,100                                  |                              |
| Future policy benefits reserve related to funds withheld reinsurance |  | 118,635                      |
| Unearned premiums  | 101,603                                  | 95,703                       |
| Policyholder deposits  | 53,852                                   | 41,738                       |
| Liability to Federal Employees Health Benefits Program               | 4,490                                    | 4,356                        |
| Accounts payable and accrued liabilities                             | 114,644                                  | 106,468                      |
| Short-term borrowings  |  | 1,740                        |

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|  |                    |           |
|--|--------------------|-----------|
| Long-term borrowings   | <b>183,907</b>     | 150,590   |
| Additional minimum pension liability   | <b>14,466</b>      | 11,966    |
| <b>Total liabilities</b>   | <b>986,660</b>     | 828,759   |
| Stockholders' equity:  |                    |           |
| Common stock, \$40 par value. Authorized 12,500 shares; issued and outstanding 8,911 at June 30, 2006 and 8,904 at December 31, 2005 | <b>356</b>         | 356       |
| Additional paid-in capital   | <b>150,408</b>     | 150,408   |
| Retained earnings  | <b>170,733</b>     | 162,964   |
| Accumulated other comprehensive loss   | <b>(20,509)</b>    | (5,025)   |
| <b>Total stockholders' equity</b>  | <b>300,988</b>     | 308,703   |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$1,287,648</b> | 1,137,462 |

See  
 accompanying  
 notes to  
 unaudited  
 consolidated  
 financial  
 statements.

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

For the three months and six months ended June 30, 2006 and 2005

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

|  | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|  | <b>2006</b>               | <b>2005</b> | <b>2006</b>             | <b>2005</b> |
| <b>REVENUE:</b>  |                           |             |                         |             |
| Premiums earned, net   | <b>\$389,210</b>          | 339,618     | <b>771,314</b>          | 673,007     |
| Amounts attributable to self-funded arrangements                   | <b>58,270</b>             | 52,439      | <b>109,076</b>          | 104,354     |
| Less amounts attributable to claims under self-funded arrangements | <b>(55,068)</b>           | (49,302)    | <b>(102,445)</b>        | (97,842)    |
|  | <b>392,412</b>            | 342,755     | <b>777,945</b>          | 679,519     |
| Net investment income  | <b>10,766</b>             | 7,217       | <b>20,816</b>           | 14,281      |
| Net realized investment gains                                      | <b>433</b>                | 1,363       | <b>961</b>              | 4,677       |
| Net unrealized investment gain (loss) on trading securities        | <b>(2,245)</b>            | (634)       | <b>311</b>              | (6,427)     |
| Other income (expense), net  | <b>(1,286)</b>            | (142)       | <b>(87)</b>             | 490         |
| <br>   |                           |             |                         |             |
| Total revenue  | <b>400,080</b>            | 350,559     | <b>799,946</b>          | 692,540     |
| <b>BENEFITS AND EXPENSES:</b>                                      |                           |             |                         |             |
| Claims incurred  | <b>334,186</b>            | 297,901     | <b>660,870</b>          | 600,824     |
| Operating expenses, net of reimbursement for services              | <b>56,932</b>             | 45,453      | <b>114,662</b>          | 89,219      |
| Interest expense   | <b>3,692</b>              | 1,856       | <b>7,086</b>            | 3,644       |
| Total benefits and expenses  | <b>394,810</b>            | 345,210     | <b>782,618</b>          | 693,687     |
| <br>   |                           |             |                         |             |
| Income (loss) before taxes   | <b>5,270</b>              | 5,349       | <b>17,328</b>           | (1,147)     |
| <b>INCOME TAX EXPENSE (BENEFIT):</b>                               |                           |             |                         |             |
| Current  | <b>779</b>                | 758         | <b>3,415</b>            | 1,979       |
| Deferred   | <b>(128)</b>              | 183         | <b>(87)</b>             | (2,327)     |
| Total income taxes   | <b>651</b>                | 941         | <b>3,328</b>            | (348)       |
| <br>   |                           |             |                         |             |
| Net income (loss)  | <b>\$ 4,619</b>           | 4,408       | <b>14,000</b>           | (799)       |
| <br>   |                           |             |                         |             |
| Basic net income (loss) per share                                  | <b>\$ 518</b>             | 495         | <b>1,571</b>            | (90)        |

See  
accompanying  
notes to  
unaudited  
consolidated  
financial  
statements.

**Table of Contents****TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES***Consolidated Statements of Stockholders' Equity and Comprehensive Income (Unaudited)*For the six months ended June 30, 2006 and 2005 *(Dollar amounts in thousands, except per share data)*

|  | <b>2006</b>      | <b>2005</b> |
|--|------------------|-------------|
| <b>BALANCE AT JANUARY 1</b>                    | <b>\$308,703</b> | 301,433     |
| Dividends                                      | <b>(6,231)</b>   |             |
| Comprehensive income (loss):                   |                  |             |
| Net income (loss)                              | <b>14,000</b>    | (799)       |
| Net unrealized change in investment securities | <b>(15,621)</b>  | (6,983)     |
| Net change in fair value of cash flow hedges   | <b>137</b>       | 177         |
| Total comprehensive income (loss)              | <b>(1,484)</b>   | (7,605)     |
| <b>BALANCE AT JUNE 30</b>                      | <b>\$300,988</b> | 293,828     |

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 six months ended June 30, 2006 and 2005

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

|   | <b>Six months ended</b> |                 |
|---|-------------------------|-----------------|
|   | <b>June 30,</b>         |                 |
|   | <b>2006</b>             | <b>2005</b>     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>              |                         |                 |
| Premiums collected  | \$ 746,119              | 664,493         |
| Claims, losses and benefits paid                          | (622,189)               | (578,955)       |
| Cash paid to suppliers and employees                      | (126,278)               | (96,566)        |
| Interest received   | 21,619                  | 14,322          |
| Income taxes paid   | (506)                   | (6,482)         |
| Proceeds from trading securities sold or matured:         |                         |                 |
| Fixed maturities sold                                     |                         | 57,795          |
| Equity securities   | 11,439                  | 14,021          |
| Acquisitions of investments in trading portfolio:         |                         |                 |
| Fixed maturities  |                         | (32,144)        |
| Equity securities   | (11,579)                | (11,784)        |
| Interest paid   | (5,603)                 | (3,064)         |
| Expense reimbursement from Medicare                       | 7,480                   | 6,986           |
| Net cash provided by operating activities                 | <b>20,502</b>           | <b>28,622</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>              |                         |                 |
| Proceeds from investments sold or matured:                |                         |                 |
| Securities available for sale:                            |                         |                 |
| Fixed maturities sold                                     | 17,337                  | 1,172           |
| Fixed maturities matured                                  | 19,928                  | 7,920           |
| Equity securities   | 362                     | 2,670           |
| Securities held to maturity:                              |                         |                 |
| Fixed maturities matured                                  | 277                     | 594             |
| Acquisitions of investments:                              |                         |                 |
| Securities available for sale:                            |                         |                 |
| Fixed maturities  | (39,447)                | (26,796)        |
| Equity securities   | (5,847)                 | (2,822)         |
| Securities held to maturity:                              |                         |                 |
| Fixed maturities  |                         | (8,494)         |
| Acquisition of business, net of \$10,403 of cash acquired | (27,793)                |                 |
| Net disbursements for policy loans                        | (350)                   |                 |
| Capital expenditures                                      | (7,225)                 | (3,143)         |
| Proceeds from sale of property and equipment              | 2                       |                 |
| Net cash used in investing activities                     | <b>(42,756)</b>         | <b>(28,899)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>              |                         |                 |

|   |                  |          |
|---|------------------|----------|
| Change in outstanding checks in excess of bank balances | <b>2,556</b>     | 2,451    |
| Payments of short-term borrowings                       | <b>(106,137)</b> | (77,285) |
| Proceeds from short-term borrowings                     | <b>104,397</b>   | 75,585   |
| Payments of long-term borrowings                        | <b>(1,683)</b>   | (3,183)  |
| Proceeds from long-term borrowings                      | <b>35,000</b>    |          |
| Dividends   | <b>(6,231)</b>   |          |
| Proceeds from policyholder deposits                     | <b>3,531</b>     | 5,740    |
| Surrenders of policyholder deposits                     | <b>(4,211)</b>   | (3,110)  |
| Net cash provided by financing activities               | <b>27,222</b>    | 198      |
| Net increase (decrease) in cash and cash equivalents    | <b>4,968</b>     | (79)     |
| Cash and cash equivalents at beginning of the period    | <b>48,978</b>    | 35,115   |
| Cash and cash equivalents at end of the period          | <b>\$ 53,946</b> | 35,036   |

See  
 accompanying  
 notes to  
 unaudited  
 consolidated  
 financial  
 statements.

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**TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES**

*Notes to Consolidated Financial Statements*

June 30, 2006

*(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 (TSM) and its subsidiaries (the Corporation) are unaudited, except for the balance sheet information as of December 31, 2005, 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 accounting principles generally accepted in the United States of America 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, 2005.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such consolidated interim financial statements have been included. The results of operations for the three months and six months ended June 30, 2006 are not necessarily indicative of the results for the full year. The Corporation has several significant accounting policies that are disclosed in note 2 of the notes to the audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2005. These significant accounting policies have not changed from those previously disclosed, except for the addition of the following significant accounting policies related to the liability for future policy benefits and the value of business acquired resulting from the acquisition of Great American Life Assurance Company of Puerto Rico (GA Life):

**Future Policy Benefits**

The liability for future policy benefits has been computed using the level premium method based on estimated future investment yield, mortality, and withdrawal experience. The interest rate assumption is 5.0% for all years in issue. Mortality has been calculated principally on select and ultimate tables in common usage in the industry. Withdrawals have been determined principally on industry tables, modified by the Corporation's experience.

**Value of Business Acquired**

The value assigned to the insurance in-force at the date of the acquisition is amortized using methods similar to those used to amortize the deferred policy acquisition costs as disclosed in the Corporation's Annual Report on Form 10-K as of December 31, 2005.

**(2) Recent Accounting Standards**

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*, was issued in June 2006. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation is effective for fiscal years beginning after December 15, 2006.

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The adoption of this Interpretation is not expected to have a material impact on the Corporation's financial statements. SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, an amendment of FASB Statements No. 133 and 140, was issued in February 2006. This statement amends SFAS No. 133, *Accounting for Derivatives and Hedging Activities*, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and allows an entity to remeasure at fair value a hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation from the host, if the holder irrevocably elects to account for the whole instrument on a fair value basis. Subsequent changes in the fair value of the instrument would be recognized in earnings. This statement also clarifies certain issues included in the amended SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all financial instruments acquired and issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 is not expected to have an impact on the Corporation's financial statements.

SFAS No. 156, *Accounting for Servicing of Financial Assets*, an amendment of SFAS No. 140, was issued in March 2006. This statement amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement is effective as of the beginning of the first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 156 is not expected to have an impact on the Corporation's financial statements.

**(3) Segment Information**

The operations of the Corporation are conducted principally through four business segments: Health Insurance Commercial Program, Health Insurance Healthcare Reform Program, Property and Casualty Insurance and Life and Disability Insurance. On January 31, 2006 the Corporation completed the acquisition of 100% of the common stock of GA Life. The results of operations and financial position of GA Life are included in the Corporation's consolidated financial statements for the period following January 31, 2006. The operations of GA Life are included in the Corporation's Life and Disability Insurance segment along with the operations of Seguros de Vida Triple-S, Inc. (SVTS). Effective June 30, 2006, the Corporation merged the operations of GA Life and SVTS after receiving required regulatory approvals. GA Life is the surviving entity. Prior to completing the acquisition of GA Life, the operations of SVTS were the only component of the Corporation's Life and Disability Insurance segment. The following tables summarize the operations by major operating segment for the three months and six months ended June 30, 2006 and 2005:

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

June 30, 2006

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

(Unaudited)

|   | <b>Operating Segments</b>                              |  |  |  |                | <b>Total</b> |
|---|--|--|--|--|----------------|--------------|
|   | <b>Health<br/>Insurance<br/>Commercial<br/>Program</b> | <b>Health<br/>Insurance<br/>Reform<br/>Program</b> | <b>Property<br/>and<br/>Casualty<br/>Insurance</b> | <b>Life and<br/>Disability<br/>Insurance</b> | <b>Other *</b> |              |
| <b>THREE MONTHS<br/>ENDED JUNE 30,<br/>2006</b>                     |  |  |  |  |                |              |
| Premiums earned, net  | \$222,914  | 120,267  | 21,988   | 24,041                                       |                | 389,210      |
| Amounts attributable to self-funded arrangements                    | 58,270   |  |  |  |                | 58,270       |
| Less: Amounts attributable to claims under self-funded arrangements | (55,068)   |  |  |  |                | (55,068)     |
| Intersegment premiums earned/service revenues                       | 1,491  |  | 155  | 78   | 12,197         | 13,921       |
|   | 227,607  | 120,267  | 22,143   | 24,119                                       | 12,197         | 406,333      |
| Net investment income   | 3,722  | 794  | 2,316  | 3,822  |                | 10,654       |
| Realized gain (loss) on sale of securities                          | 391  |  | 62   | (20)   |                | 433          |
| Unrealized loss on trading securities                               | (1,906)  |  | (299)  | (40)   |                | (2,245)      |
| Other income (expense), net   | (1,423)  | (11)   | 54   | 76   |                | (1,304)      |
| Total revenue   | \$228,391  | 121,050  | 24,276   | 27,957                                       | 12,197         | 413,871      |
| Net income (loss)   | \$ (2,257)   | 2,556  | 1,614  | 2,265  | 17             | 4,195        |
| Claims incurred   | \$200,112  | 108,981  | 11,629   | 13,464                                       |                | 334,186      |
| Operating expenses  | \$ 29,651  | 8,464  | 11,076   | 10,974                                       | 11,977         | 72,142       |
| Depreciation expense, included in operating expenses                | \$ 760   | 132  | 132  | 182  |                | 1,206        |

|                                 |          |     |      |       |     |       |
|---------------------------------|----------|-----|------|-------|-----|-------|
| Interest expense                | \$ 1,330 | 355 |      | 1,317 |     | 3,002 |
| Income tax expense<br>(benefit) | \$ (445) | 694 | (43) | (63)  | 203 | 346   |

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

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

June 30, 2006

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

(Unaudited)

**Operating Segments**

|   | <b>Health<br/>Insurance<br/>Commercial<br/>Program</b> | <b>Health<br/>Insurance<br/>Reform<br/>Program</b> | <b>Property<br/>and<br/>Casualty<br/>Insurance</b> | <b>Life and<br/>Disability<br/>Insurance</b> | <b>Other *</b> | <b>Total</b> |
|---|--|--|--|--|----------------|--------------|
| <b>THREE MONTHS<br/>ENDED JUNE 30,<br/>2005</b>                     |  |  |  |  |                |              |
| Premiums earned, net  | \$ 190,138   | 124,197  | 21,102   | 4,181  |                | 339,618      |
| Amounts attributable to self-funded arrangements                    | 52,439   |  |  |  |                | 52,439       |
| Less: Amounts attributable to claims under self-funded arrangements | (49,302)   |  |  |  |                | (49,302)     |
| Intersegment premiums earned/service revenues                       | 1,029  |  |  |  | 11,439         | 12,468       |
|   | 194,304  | 124,197  | 21,102   | 4,181  | 11,439         | 355,223      |
| Net investment income   | 3,410  | 749  | 2,180  | 761  |                | 7,100        |
| Realized gain (loss) on sale of securities                          | 1,445  |  | (105)  | 23   |                | 1,363        |
| Unrealized gain (loss) on trading securities                        | (740)  |  | 16   | 90   |                | (634)        |
| Other income (expense), net   | (79)   | (6)  | (168)  | 58   |                | (195)        |
| Total revenue   | \$ 198,340   | 124,940  | 23,025   | 5,113  | 11,439         | 362,857      |
| Net income (loss)   | \$ 5,276   | (4,280)  | 2,944  | 474  | (42)           | 4,372        |
| Claims incurred   | \$ 164,320   | 120,823  | 10,247   | 2,511  |                | 297,901      |
| Operating expenses  | \$ 25,899  | 9,722  | 9,108  | 1,977  | 11,313         | 58,019       |
| Depreciation expense, included in operating expenses                | \$ 858   |  | 90   | 20   |                | 968          |

|                                 |          |         |     |       |     |       |
|---------------------------------|----------|---------|-----|-------|-----|-------|
| Interest expense                | \$ 1,114 | 232     |     | 300   |     | 1,646 |
| Income tax expense<br>(benefit) | \$ 1,731 | (1,557) | 726 | (149) | 168 | 919   |

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



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June 30, 2006

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

(Unaudited)

|   | <b>Operating Segments</b>                                   |   |  |  |                | <b>Total</b> |
|---|---|---|--|--|----------------|--------------|
|   | <b>Health<br/>Insurance<br/><br/>Commercial<br/>Program</b> | <b>Health<br/>Insurance<br/><br/>Reform<br/>Program</b> | <b>Property<br/>and<br/>Casualty<br/>Insurance</b> | <b>Life and<br/>Disability<br/>Insurance</b> | <b>Other *</b> |              |
| <b>SIX MONTHS<br/>ENDED JUNE 30,<br/>2006</b>                       |   |   |  |  |                |              |
| Premiums earned, net  | \$ 434,021  | 247,763   | 43,886   | 45,644                                       |                | 771,314      |
| Amounts attributable to self-funded arrangements                    | 109,076   |   |  |  |                | 109,076      |
| Less: Amounts attributable to claims under self-funded arrangements | (102,445)   |   |  |  |                | (102,445)    |
| Intersegment premiums earned/service revenues                       | 2,889   |   | 284  | 156  | 25,465         | 28,794       |
| Net investment income   | 443,541   | 247,763   | 44,170   | 45,800                                       | 25,465         | 806,739      |
| Realized gain on sale of securities                                 | 7,477   | 1,595   | 4,680  | 6,832  |                | 20,584       |
| Unrealized gain on trading securities                               | 876   | 33  | 30   | 22   |                | 961          |
| Other income (expense), net   | 8   |   | 253  | 50   |                | 311          |
|   | (360)   | (15)  | 108  | 145  |                | (122)        |
| Total revenue   | \$ 451,542  | 249,376   | 49,241   | 52,849                                       | 25,465         | 828,473      |
| Net income (loss)   | \$ (141)  | 6,223   | 4,273  | 2,772  | 24             | 13,151       |
| Claims incurred   | \$ 390,969  | 222,863   | 21,942   | 25,096                                       |                | 660,870      |
| Operating expenses  | \$ 58,052   | 17,704  | 22,718   | 22,364                                       | 24,961         | 145,799      |
| Depreciation expense, included in operating expenses                | \$ 1,520  | 289   | 239  | 317  |                | 2,365        |

|                                 |          |       |     |       |     |       |
|---------------------------------|----------|-------|-----|-------|-----|-------|
| Interest expense                | \$ 2,570 | 679   |     | 2,602 |     | 5,851 |
| Income tax expense<br>(benefit) | \$ 92    | 1,907 | 308 | 15    | 480 | 2,802 |

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

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

(Unaudited)

**Operating Segments**

|   | <b>Health<br/>Insurance<br/>Commercial<br/>Program</b> | <b>Health<br/>Insurance<br/>Reform<br/>Program</b> | <b>Property<br/>and<br/>Casualty<br/>Insurance</b> | <b>Life and<br/>Disability<br/>Insurance</b> | <b>Other *</b> | <b>Total</b> |
|---|--|--|--|--|----------------|--------------|
| <b>SIX MONTHS<br/>ENDED JUNE 30,<br/>2005</b>                       |  |  |  |  |                |              |
| Premiums earned, net  | \$374,438  | 247,337  | 43,198   | 8,034  |                | 673,007      |
| Amounts attributable to self-funded arrangements                    | 104,354  |  |  |  |                | 104,354      |
| Less: Amounts attributable to claims under self-funded arrangements | (97,842)   |  |  |  |                | (97,842)     |
| Intersegment premiums earned/service revenues                       | 2,105  |  |  |  | 25,077         | 27,182       |
|   | 383,055  | 247,337  | 43,198   | 8,034  | 25,077         | 706,701      |
| Net investment income   | 6,823  | 1,490  | 4,285  | 1,472  |                | 14,070       |
| Realized gain (loss) on sale of securities                          | 3,548  | (25)   | 1,071  | 83   |                | 4,677        |
| Unrealized loss on trading securities                               | (5,546)  |  | (777)  | (104)  |                | (6,427)      |
| Other income (expense), net   | 109  | (11)   | 170  | 120  |                | 388          |
| Total revenue   | \$387,989  | 248,791  | 47,947   | 9,605  | 25,077         | 719,409      |
| Net income (loss)   | \$ (1,527)   | (5,191)  | 5,602  | 60   | 27             | (1,029)      |
| Claims incurred   | \$337,149  | 236,911  | 21,620   | 5,144  |                | 600,824      |
| Operating expenses  | \$ 50,139  | 18,636   | 19,449   | 3,959  | 24,718         | 116,901      |
| Depreciation expense, included in operating expenses                | \$ 1,683   |  | 197  | 59   |                | 1,939        |

|                                 |          |         |       |       |     |       |
|---------------------------------|----------|---------|-------|-------|-----|-------|
| Interest expense                | \$ 2,172 | 436     |       | 579   |     | 3,187 |
| Income tax expense<br>(benefit) | \$ 56    | (2,001) | 1,276 | (137) | 332 | (474) |

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

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

(Unaudited)

|   | <b>Operating Segments</b>                              |  |  |  |                | <b>Total</b> |
|---|--|--|--|--|----------------|--------------|
|   | <b>Health<br/>Insurance<br/>Commercial<br/>Program</b> | <b>Health<br/>Insurance<br/>Reform<br/>Program</b> | <b>Property<br/>and<br/>Casualty<br/>Insurance</b> | <b>Life and<br/>Disability<br/>Insurance</b> | <b>Other *</b> |              |
| <b>AS OF JUNE 30, 2006</b>  |  |  |  |  |                |              |
| Segment assets  | \$498,483  | 85,503   | 303,544  | 393,514                                      | 4,798          | 1,285,842    |
| Significant noncash<br>item:<br>Net change in<br>unrealized gain on<br>securities available for<br>sale | \$ (5,169)   | (802)  | (2,641)  | (6,861)                                      |                | (15,473)     |
| <b>AS OF DECEMBER<br/>31, 2005</b>  |  |  |  |  |                |              |
| Segment assets  | \$459,288  | 82,685   | 307,228  | 271,615                                      | 4,310          | 1,125,126    |
| Significant noncash<br>item:<br>Net change in<br>unrealized gain on<br>securities available for<br>sale | \$ (12,432)  | (1,301)  | (3,090)  | (1,844)                                      |                | (18,667)     |
| Net change in<br>minimum pension<br>liability   | (2,048)  |  | (142)  | (76)   | (453)          | (2,719)      |

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

organization as well as the third-party administrator of health insurance services.

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June 30, 2006

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

(Unaudited)

**RECONCILIATION OF REPORTABLE SEGMENT TOTALS  
WITH FINANCIAL STATEMENTS**

|   | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|---|---------------------------|-------------|-------------------------|-------------|
|   | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|   | <b>2006</b>               | <b>2005</b> | <b>2006</b>             | <b>2005</b> |
| <b>TOTAL REVENUE</b>                              |                           |             |                         |             |
| Total revenues for reportable segments            | \$401,674                 | 351,418     | 803,008                 | 694,332     |
| Total revenues for other segments                 | 12,197                    | 11,439      | 25,465                  | 25,077      |
|   | 413,871                   | 362,857     | 828,473                 | 719,409     |
| Elimination of intersegment premiums earned       | (1,724)                   | (1,029)     | (3,329)                 | (2,105)     |
| Elimination of intersegment service revenues      | (12,197)                  | (11,439)    | (25,465)                | (25,077)    |
| Unallocated amount revenues from external sources | 130                       | 170         | 267                     | 313         |
|   | (13,791)                  | (12,298)    | (28,527)                | (26,869)    |
| Consolidated total revenue                        | \$400,080                 | 350,559     | 799,946                 | 692,540     |
| <b>NET INCOME</b>                                 |                           |             |                         |             |
| Net income (loss) for reportable segments         | \$ 4,178                  | 4,414       | 13,127                  | (1,056)     |
| Net income (loss) for other segments              | 17                        | (42)        | 24                      | 27          |
|   | 4,195                     | 4,372       | 13,151                  | (1,029)     |
| Elimination of TSM charges:                       |                           |             |                         |             |
| Rent expense                                      | 1,685                     | 1,617       | 3,375                   | 3,241       |
| Interest expense                                  | 1,401                     | 300         | 2,744                   | 556         |
| Management fees                                   | 930                       |             | 1,610                   |             |
|   | 4,016                     | 1,917       | 7,729                   | 3,797       |
| Unallocated amounts related to TSM:               |                           |             |                         |             |
| General and administrative expenses               | (1,326)                   | (1,519)     | (2,642)                 | (2,741)     |
| Income tax expense                                | (305)                     | (22)        | (526)                   | (126)       |
| Interest expense                                  | (2,091)                   | (510)       | (3,979)                 | (1,013)     |
| Other revenues from external sources              | 130                       | 170         | 267                     | 313         |
|   | (3,592)                   | (1,881)     | (6,880)                 | (3,567)     |

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|                                |          |       |        |       |
|--------------------------------|----------|-------|--------|-------|
| Consolidated net income (loss) | \$ 4,619 | 4,408 | 14,000 | (799) |
|--------------------------------|----------|-------|--------|-------|

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June 30, 2006

(Dollar amounts in thousands, except per share data)

(Unaudited)

**RECONCILIATION OF REPORTABLE SEGMENT TOTALS WITH FINANCIAL STATEMENTS**

|                      | <b>Three months ended June 30, 2006</b> |                         |                     |
|----------------------|---|-------------------------|---------------------|
|                      | <b>Segment</b>                          |                         | <b>Consolidated</b> |
|                      | <b>Totals</b>                           | <b>Adjustments</b><br>* | <b>Totals</b>       |
| Claims incurred      | \$334,186                               |                         | 334,186             |
| Operating expenses   | 72,142                                  | (15,210)                | 56,932              |
| Depreciation expense | 1,206                                   | 282                     | 1,488               |
| Interest expense     | 3,002                                   | 690                     | 3,692               |
| Income tax expense   | 346                                     | 305                     | 651                 |

|                      | <b>Three months ended June 30, 2006</b> |                         |                     |
|----------------------|---|-------------------------|---------------------|
|                      | <b>Segment</b>                          |                         | <b>Consolidated</b> |
|                      | <b>Totals</b>                           | <b>Adjustments</b><br>* | <b>Totals</b>       |
| Claims incurred      | \$297,901                               |                         | 297,901             |
| Operating expenses   | 58,019                                  | (12,566)                | 45,453              |
| Depreciation expense | 968                                     | 272                     | 1,240               |
| Interest expense     | 1,646                                   | 210                     | 1,856               |
| Income tax expense   | 919                                     | 22                      | 941                 |

|                      | <b>Six months ended June 30, 2006</b> |                         |                     |
|----------------------|---------------------------------------|-------------------------|---------------------|
|                      | <b>Segment</b>                        |                         | <b>Consolidated</b> |
|                      | <b>Totals</b>                         | <b>Adjustments</b><br>* | <b>Totals</b>       |
| Claims incurred      | \$660,870                             |                         | 660,870             |
| Operating expenses   | 145,799                               | (31,137)                | 114,662             |
| Depreciation expense | 2,365                                 | 565                     | 2,930               |
| Interest expense     | 5,851                                 | 1,235                   | 7,086               |
| Income tax expense   | 2,802                                 | 526                     | 3,328               |

|                      | <b>Six months ended June 30, 2006</b> |                         |                     |
|----------------------|---------------------------------------|-------------------------|---------------------|
|                      | <b>Segment</b>                        |                         | <b>Consolidated</b> |
|                      | <b>Totals</b>                         | <b>Adjustments</b><br>* | <b>Totals</b>       |
| Claims incurred      | \$600,824                             |                         | 600,824             |
| Operating expenses   | 116,901                               | (27,682)                | 89,219              |
| Depreciation expense | 1,939                                 | 549                     | 2,488               |
| Interest expense     | 3,187                                 | 457                     | 3,644               |

|                              |       |     |       |
|------------------------------|-------|-----|-------|
| Income tax expense (benefit) | (474) | 126 | (348) |
|------------------------------|-------|-----|-------|

\* Adjustments represent TSM operations and the elimination of intersegment charges.

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

(Unaudited)

**RECONCILIATION OF REPORTABLE SEGMENT TOTALS WITH FINANCIAL STATEMENTS**

|   | <b>June 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|---|--------------------------|------------------------------|
| <b>ASSETS</b>   |                          |                              |
| Total assets for reportable segments                      | \$1,281,044              | 1,120,816                    |
| Total assets for other segments                           | 4,798                    | 4,310                        |
|   | 1,285,842                | 1,125,126                    |
| Elimination entries – intersegment receivables and others | (36,084)                 | (28,705)                     |
| Unallocated amounts related to TSM:                       |                          |                              |
| Parent cash, cash equivalents and investments             | 11,259                   | 11,054                       |
| Parent net property and equipment                         | 24,197                   | 24,760                       |
| Parent other assets                                       | 2,434                    | 5,227                        |
|   | 37,890                   | 41,041                       |
| Consolidated assets                                       | \$1,287,648              | 1,137,462                    |

**OTHER SIGNIFICANT ITEMS**

|   | <b>As of June 30, 2006</b>     |                     |
|---|--------------------------------|---------------------|
|   | <b>Segment</b>                 | <b>Consolidated</b> |
|   | <b>Adjustments</b>             |                     |
|   | <b>Totals</b>                  | <b>Totals</b>       |
|   | <b>*</b>                       |                     |
| Significant noncash item – net change in unrealized gain on securities available for sale | \$(15,473)                     | (15,621)            |
|   | (148)                          |                     |
|   | <b>As of December 31, 2005</b> |                     |
|   | <b>Segment</b>                 | <b>Consolidated</b> |
|   | <b>Adjustments</b>             |                     |
|   | <b>Totals</b>                  | <b>Totals</b>       |
|   | <b>*</b>                       |                     |
| Significant noncash items:  |                                |                     |
| Net change in unrealized gain on securities available for sale                            | \$(18,667)                     | (18,832)            |
| Net change in minimum pension liability   | (2,719)                        | (2,788)             |

\* Adjustments represent principally TSM operations and the elimination of intersegment charges.

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**(4) Investment in Securities**

The amortized cost for debt securities and equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for trading, available-for-sale and held-to-maturity securities by major security type and class of security at June 30, 2006 and December 31, 2005, were as follows:

|                     | Amortized<br>cost | June 30, 2006                |                               | Estimated<br>fair<br>value |
|---------------------|-------------------|------------------------------|-------------------------------|----------------------------|
|                     |                   | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses |                            |
| Trading securities: |                   |                              |                               |                            |
| Equity securities   | \$70,888          | 12,237                       | (3,108)                       | 80,017                     |

|                                | Amortized<br>cost | June 30, 2006                |                               | Estimated<br>fair<br>value |
|--------------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
|                                |                   | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses |                            |
| Securities available for sale: |                   |                              |                               |                            |
| Fixed maturities               | \$720,203         | 302                          | (25,195)                      | 695,310                    |
| Equity securities              | 46,115            | 12,752                       | (3,484)                       | 55,383                     |
|                                | \$766,318         | 13,054                       | (28,679)                      | 750,693                    |

|                              | Amortized<br>cost | June 30, 2006                |                               | Estimated<br>fair<br>value |
|------------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
|                              |                   | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses |                            |
| Securities held to maturity: |                   |                              |                               |                            |
| Fixed maturities             | \$21,005          | 296                          | (1,170)                       | 20,131                     |

|  | Amortized | December 31, 2005 |            | Estimated<br>fair |
|--|-----------|-------------------|------------|-------------------|
|  |           | unrealized        | unrealized |                   |
|  |           |                   |            |                   |

|                                | <b>cost</b>      | <b>gains</b>             | <b>losses</b>     | <b>value</b>     |
|--------------------------------|------------------|--------------------------|-------------------|------------------|
| Trading securities:            |                  |                          |                   |                  |
| Equity securities              | <b>\$69,397</b>  | <b>11,378</b>            | <b>(2,560)</b>    | <b>78,215</b>    |
|                                |                  |                          |                   |                  |
|                                |                  | <b>December 31, 2005</b> |                   |                  |
|                                |                  | <b>Gross</b>             | <b>Gross</b>      |                  |
|                                | <b>Amortized</b> | <b>unrealized</b>        | <b>unrealized</b> | <b>Estimated</b> |
|                                | <b>cost</b>      | <b>gains</b>             | <b>losses</b>     | <b>fair</b>      |
|                                |                  |                          |                   | <b>value</b>     |
| Securities available for sale: |                  |                          |                   |                  |
| Fixed maturities               | <b>\$524,287</b> | <b>694</b>               | <b>(9,807)</b>    | <b>515,174</b>   |
| Equity securities              | <b>38,675</b>    | <b>14,550</b>            | <b>(1,415)</b>    | <b>51,810</b>    |
|                                | <b>\$562,962</b> | <b>15,244</b>            | <b>(11,222)</b>   | <b>566,984</b>   |

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

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|                              | <b>December 31, 2005</b> |                   |                   |
|------------------------------|--------------------------|-------------------|-------------------|
|                              | <b>Gross</b>             | <b>Gross</b>      | <b>Estimated</b>  |
|                              | <b>Amortized</b>         | <b>unrealized</b> | <b>unrealized</b> |
|                              | <b>cost</b>              | <b>gains</b>      | <b>losses</b>     |
|                              |                          |                   | <b>fair</b>       |
|                              |                          |                   | <b>value</b>      |
| Securities held to maturity: |                          |                   |                   |
| Fixed maturities             | <b>\$21,129</b>          | <b>254</b>        | <b>(623)</b>      |
|                              |                          |                   | <b>20,760</b>     |

Investment in securities at June 30, 2006 are mostly comprised of U.S. Treasury securities, obligations of U.S. government sponsored agencies and obligations of U.S. government instrumentalities (62.0%), mortgage backed and collateralized mortgage obligations that are U.S. agency-backed (9.4%) and obligations of the government of Puerto Rico and its instrumentalities (5.7%). The remaining 22.9% of the investment portfolio is comprised of equity securities and mutual funds.

The Corporation regularly monitors the difference between the cost and estimated fair value of investments. For investments with a fair value below cost, the process includes evaluating the length of time and the extent to which cost exceeds fair value, the prospects and financial condition of the issuer, and the Corporation's intent and ability to retain the investment to allow for recovery in fair value, among other factors. This process is not exact and further requires consideration of risks such as credit and interest rate risks. Consequently, if an investment's cost exceeds its fair value solely due to changes in interest rates, impairment may not be appropriate. If after monitoring and analyzing, the Corporation determines that a decline in the estimated fair value of any available-for-sale or held-to-maturity security below cost is other than temporary, the carrying amount of the security is reduced to its fair value. The impairment is charged to operations and a new cost basis for the security is established. During the six months ended June 30, 2006 the Corporation recognized an other-than-temporary impairment amounting to \$388 on one of its equity securities classified as available for sale.

The unrealized losses on investments were mainly caused by interest rate increases and market fluctuations. Because the Corporation has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

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**(5) Premiums and Other Receivables**

Premiums and other receivables as of June 30, 2006 and December 31, 2005 were as follows:

|  | <b>June 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|--|--------------------------|------------------------------|
| Premiums                                 | \$ <b>87,865</b>         | 53,391                       |
| Self-funded group receivables            | <b>24,317</b>            | 21,620                       |
| FEHBP                                    | <b>10,604</b>            | 9,491                        |
| Accrued interest                         | <b>7,688</b>             | 5,074                        |
| Agents balances                          | <b>3,013</b>             |                              |
| Funds withheld reinsurance receivable    |                          | 118,635                      |
| Reinsurance recoverable                  | <b>36,611</b>            | 33,915                       |
| Other                                    | <b>14,227</b>            | 14,152                       |
|  | <b>184,325</b>           | 256,278                      |
| Less allowance for doubtful receivables: |                          |                              |
| Premiums                                 | <b>9,474</b>             | 7,792                        |
| Other                                    | <b>4,406</b>             | 4,448                        |
|  | <b>13,880</b>            | 12,240                       |
| Total premiums and other receivables     | <b>\$ 170,445</b>        | 244,038                      |

**(6) Claim Liabilities**

The activity in the total claim liabilities for the three months and six months ended June 30, 2006 and 2005 is as follows:

|  | <b>Three months ended<br/>June 30,</b> |             | <b>Six months ended<br/>June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2006</b>                            | <b>2005</b> | <b>2006</b>                          | <b>2005</b> |
| Claim liabilities at beginning of period     | \$ <b>326,339</b>                      | 304,632     | <b>297,563</b>                       | 279,325     |
| Reinsurance recoverable on claim liabilities | <b>(29,031)</b>                        | (25,285)    | <b>(28,720)</b>                      | (26,555)    |
| Net claim liabilities at beginning of period | <b>297,308</b>                         | 279,347     | <b>268,843</b>                       | 252,770     |
| Claim liabilities acquired from GA Life      |  |             | <b>8,771</b>                         |             |



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|  |                  |         |                |         |
|--|------------------|---------|----------------|---------|
| Incurred claims and loss-adjustment expenses:    |                  |         |                |         |
| Current period insured events                    | <b>333,790</b>   | 295,216 | <b>650,594</b> | 592,733 |
| Prior period insured events                      | <b>(3,605)</b>   | 2,685   | <b>855</b>     | 8,091   |
| <br>   |                  |         |                |         |
| Total  | <b>330,185</b>   | 297,901 | <b>651,449</b> | 600,824 |
| <br>   |                  |         |                |         |
| Payments of losses and loss-adjustment expenses: |                  |         |                |         |
| Current period insured events                    | <b>290,834</b>   | 277,796 | <b>458,545</b> | 415,147 |
| Prior period insured events                      | <b>24,234</b>    | 25,352  | <b>158,093</b> | 164,347 |
| <br>   |                  |         |                |         |
| Total  | <b>315,068</b>   | 303,148 | <b>616,638</b> | 579,494 |
| <br>   |                  |         |                |         |
| Net claim liabilities at end of period           | <b>312,425</b>   | 274,100 | <b>312,425</b> | 274,100 |
| Reinsurance recoverable on claim liabilities     | <b>29,173</b>    | 26,597  | <b>29,173</b>  | 26,597  |
| <br>   |                  |         |                |         |
| Claim liabilities at end of period               | <b>\$341,598</b> | 300,697 | <b>341,598</b> | 300,697 |

As a result of changes in estimates of insured events in prior periods, the amounts included as incurred claims for prior period insured events differ from anticipated claims incurred. The credits in the incurred claims and loss-adjustment expenses for prior period insured events for the three months ended

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(Unaudited)

June 30, 2006 are due to a favorable development of the claim liabilities attributed to better than expected utilization trends. The amount in the incurred claims and loss-adjustment expenses for prior period insured events for the six months ended June 30, 2006 and 2005 and for the three months ended June 30, 2005 is due to an unfavorable development of the claim liabilities attributed to higher than expected cost per service and utilization trends.

**(7) Long-term Borrowings**

A summary of the Corporation's long-term borrowings at June 30, 2006 and December 31, 2005 is as follows:

|   | <b>June 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|---|--------------------------|------------------------------|
| Secured loan payable of \$20,000, payable in various different installments up to August 31, 2007, with interest payable on a monthly basis at a rate reset periodically of 130 basis points over LIBOR selected (which was 6.43% and 5.71% at June 30, 2006 and December 31, 2005, respectively) | \$ 10,500                | 11,500                       |
| Senior unsecured notes payable of \$50,000 due September 2019. Interest is payable semiannually at a fixed rate of 6.30%.   | 50,000                   | 50,000                       |
| Senior unsecured notes payable of \$60,000 due December 2020. Interest is payable monthly at a fixed rate of 6.60%.   | 60,000                   | 60,000                       |
| Senior unsecured notes payable of \$35,000 due January 2021. Interest is payable monthly at a fixed rate of 6.70%.  | 35,000                   |                              |
| Secured loan payable of \$41,000, payable in monthly installments of \$137 up to July 1, 2024, plus interest at a rate reset periodically of 100 basis points over LIBOR selected (which was 6.13% and 5.29% at June 30, 2006 and December 31, 2005, respectively)                                | 28,407                   | 29,090                       |
| Total long-term borrowings  | <b>\$ 183,907</b>        | 150,590                      |

On January 23, 2006 the Corporation issued and sold \$35,000 of its 6.7% senior unsecured notes payable due January 2021 (the 6.7% notes). The 6.7% notes were privately placed to various accredited institutional investors. The notes pay interest each month beginning on March 1, 2006, until such principal becomes due and payable. These notes can be prepaid after five years at par, in full or in part, as determined by the Corporation. Debt issuance costs amounting to \$306 were deferred and will be amortized over the term of the notes and are reported as other assets in the accompanying consolidated balance sheets.

**(8) Comprehensive Income**

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

|                             | <b>Unrealized</b> | <b>Minimum</b>   | <b>Cash</b>   | <b>Accumulated</b>   |
|-----------------------------|-------------------|------------------|---------------|----------------------|
|                             | <b>gains on</b>   | <b>pension</b>   | <b>flow</b>   | <b>other</b>         |
|                             | <b>securities</b> | <b>liability</b> | <b>hedges</b> | <b>comprehensive</b> |
|                             |                   |                  |               | <b>income</b>        |
| <b>BALANCE AT JANUARY 1</b> | \$ 3,217          | (8,613)          | 371           | (5,025)              |
| Net current period change   | (15,621)          |                  | 137           | (15,484)             |

|                           |                   |                |            |                 |
|---------------------------|-------------------|----------------|------------|-----------------|
| <b>BALANCE AT JUNE 30</b> | <b>\$(12,404)</b> | <b>(8,613)</b> | <b>508</b> | <b>(20,509)</b> |
|                           | 20                |                |            |                 |

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(Dollar amounts in thousands, except per share data)

(Unaudited)

**(9) Income Taxes**

Under Puerto Rico income tax law, the Corporation is not allowed to file consolidated tax returns with its subsidiaries. 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.

**(10) Pension Plan**

The components of net periodic benefit cost for the three months and six months ended June 30, 2006 and 2005 were as follows:

|  | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|  | <b>2006</b>               | <b>2005</b> | <b>2006</b>             | <b>2005</b> |
| Components of net periodic benefit cost: |                           |             |                         |             |
| Service cost                             | <b>\$1,322</b>            | 1,187       | <b>2,692</b>            | 2,330       |
| Interest cost                            | <b>1,128</b>              | 1,038       | <b>2,303</b>            | 2,068       |
| Expected return on assets                | <b>(935)</b>              | (868)       | <b>(1,926)</b>          | (1,711)     |
| Amortization of prior service cost       | <b>12</b>                 | 12          | <b>24</b>               | 24          |
| Amortization of actuarial loss           | <b>590</b>                | 505         | <b>1,192</b>            | 995         |
| Net periodic benefit cost                | <b>\$2,117</b>            | 1,874       | <b>4,285</b>            | 3,706       |

**Employer contributions**

The Corporation disclosed in its audited consolidated financial statements for the year ended December 31, 2005 that it expected to contribute \$6,000 to its pension program in 2006. As of June 30, 2006, no contributions have been made. The Corporation currently anticipates contributing approximately \$6,000 to fund the pension program in 2006.

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

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

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The following table sets forth the computation of basic net income (loss) per share for the three months and six months ended June 30, 2006 and 2005:

|   | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|---|---------------------------|-------------|-------------------------|-------------|
|   | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|   | <b>2006</b>               | <b>2005</b> | <b>2006</b>             | <b>2005</b> |
| Numerator for basic earnings per share:       |                           |             |                         |             |
| Net income (loss) available to stockholders   | <b>\$4,619</b>            | 4,408       | <b>14,000</b>           | (799)       |
| Denominator for basic earnings per share:     |                           |             |                         |             |
| Weighted average of outstanding common shares | <b>8,911</b>              | 8,904       | <b>8,909</b>            | 8,904       |
| Basic net income (loss) per share             | <b>\$ 518</b>             | 495         | <b>1,571</b>            | (90)        |

**(12) Contingencies**

- (a) As of June 30, 2006, the Corporation is a defendant in various lawsuits arising in the ordinary course of business. Management believes, based on the opinion of its legal counsel, that the aggregate liabilities, if any, arising from such actions would not have a material adverse effect on the consolidated financial position and results of operations of the Corporation.
- (b) Drs. Carlyle Benavent and Ibrahim Pérez (the plaintiffs) caused the initiation of an administrative proceeding before the Puerto Rico Insurance Commissioner (the Commissioner) against TSI and TSM alleging the illegality of the repurchase and subsequent sale of 1,582 shares of TSI's common stock due to the fact that the ultimate purchasers of said shares were selected on an improper and selective basis by the Corporation in violation of the Puerto Rico Insurance Code. The plaintiffs alleged that they were illegally excluded from participation in the sale of shares by TSI due to the illegally selective nature of the sale of shares and that, consequently, the sale of shares should be eliminated.

In December 1996, the Commissioner of Insurance issued an order to annul the sale of the 1,582 shares. TSI contested such order through an administrative and judicial review process. Consequently, the sale of 1,582 shares was cancelled and the purchase price was returned to each former stockholder. In the year 2000, the Commissioner of Insurance issued an order that, among other things, required that all corporate decisions undertaken by TSI through the vote of its stockholders of record, be ratified in a stockholders' meeting or in a subsequent referendum. In November 2000, TSM, as the sole stockholder of TSI, ratified all such decisions. Thereafter the plaintiffs filed a petition for review of the Commissioner's determination before the Puerto Rico Circuit Court of Appeals (the Court of Appeals). TSI and the Commissioner opposed such petition.

Pursuant to that review, on September 24, 2002, the Court of Appeals issued an order requiring the Commissioner to order that a meeting of shareholders be held to ratify TSI's corporate reorganization and the change of name of TSI from Seguros de Servicios de Salud de Puerto Rico, Inc. to Triple-S, Inc. The Court of Appeals based its decision on administrative and procedural issues directed at the Commissioner. Subsequently, the Commissioner, TSM and TSI filed a motion of reconsideration. On May 18, 2003, the Court of Appeals granted TSI's and TSM's Motion of Reconsideration and that the reorganization of TSI was approved by the

stockholders.

On May 26, 2006, Plaintiff Ibrahim Pérez filed a motion requesting a voluntary dismissal of the case with prejudice arguing that the controversy had become moot. The Supreme Court granted

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the motion, and on June 30, 2006 issued a Judgment dismissing this case as requested by Plaintiff Pérez.

- (c) On September 4, 2003, José Sánchez and others filed a putative class action complaint against the Corporation, present and former directors of TSM and TSI, and others, in the United States District Court for the District of Puerto Rico, alleging violations under the Racketeer Influenced and Corrupt Organizations Act, better known as the RICO Act. The suit, among other allegations, alleges a scheme to defraud the plaintiffs by acquiring control of TSI through illegally capitalizing TSI and later converting it to a for-profit corporation and depriving the stockholders of their ownership rights. The plaintiffs base their later allegations on the supposed decisions of TSI's board of directors and stockholders, allegedly made in 1979, to operate with certain restrictions in order to turn TSI into a charitable corporation, basically forever. On March 4, 2005 the Court issued an Opinion and Order. In this Opinion and Order, of the twelve counts included in the complaint, eight counts were dismissed for failing to assert an actionable injury; six of them for lack of standing and two for failing to plead with sufficient particularity in compliance with the Rules. All shareholder allegations, including those described above, were dismissed in the Opinion and Order. The remaining four counts were found standing, in a limited way, in the Opinion and Order. The parties finished class certification discovery and fully briefed the issue of class certification. While waiting for the Court's decision on the issue of class certification, the Court *sua sponte*, issued an Order to Show Cause (OTC) to plaintiffs as to why the complaint should not be dismissed with prejudice. The Court's OTC is predicated on the parties' submissions about class certification. The Court then granted plaintiffs leave to file a sur-reply, which they did on April 21, 2006. In its OTC the Court indicated that it would decide first the sustainability of the complaint before deciding plaintiffs' request for class certification. On May 4, 2006, the Court issued an Opinion and Order, which entered a summary judgment in favor of all the defendants, and dismissing the case because Plaintiffs' allegations were unsupported at trial. Plaintiffs filed a notice of appeal before the United States Court of Appeals for the First Circuit. Recently, the Appeals Court notified the briefing schedule, and Plaintiffs have until August 21, 2006 to file their brief.
- (d) On April 24, 2002, Octavio Jordán, Agripino Lugo, Ramón Vidal, and others filed a suit against TSM, TSI and others in the Court of First Instance for San Juan, Superior Section, alleging, among other things, violations by the defendants of provisions of the Puerto Rico Insurance Code, anti-monopolistic practices, unfair business practices and damages in the amount of \$12.0 million. They also requested that TSM sell shares to them. After a preliminary review of the complaint, it appears that many of the allegations brought by the plaintiffs have been resolved in favor of TSM and TSI in previous cases brought by the same plaintiffs in the United States District Court for the District of Puerto Rico and by most of the plaintiffs in the local courts. The defendants, including TSM and TSI answered the complaint, filed a counterclaim and filed several motions to dismiss this claim. On February 18, 2005 the plaintiffs informed their intention to amend the complaint and the Court granted them 45 days to do so and 90 days to the defendants to file the corresponding motion to dismiss. On May 9, 2005 the plaintiffs amended the complaint and the defendants prepared the corresponding motions to dismiss this amended complaint. The plaintiffs amended the complaint to allege causes of action similar to those dismissed by the United States District Court for the District of Puerto Rico in the Sánchez case. Defendants moved to dismiss the amended complaint. Plaintiffs notified their opposition to some of the defendants' motion to dismiss, and the defendants filed the corresponding replies. On January 25, 2006, the court held a hearing to argue the dispositive motions. On March 16, 2006 the Court held another hearing to hear additional argument on the same motions. On July 6, 2006 the Court held the last of three

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hearings to hear arguments on the defendants dispositive motions. The Court stayed all discovery until the motions are resolved.

- (e) On May 22, 2003 a putative class action suit was filed by Kenneth A. Thomas, M.D. and Michael Kutell, M.D., on behalf of themselves and all others similarly situated and the Connecticut State Medical Society against the Blue Cross and Blue Shield Association (BCBSA) and multiple other insurance companies including TSI. The case is pending before the U.S. District Court for the Southern District of Florida, Miami District.

The individual plaintiffs bring this action on behalf of themselves and a class of similarly situated physicians seeking redress for alleged illegal acts of the defendants, which they allege have resulted in a loss of their property and a detriment to their business, and for declaratory and injunctive relief to end those practices and prevent further losses. Plaintiffs alleged that the defendants, on their own and as part of a common scheme, systematically deny, delay and diminish the payments due to doctors so that they are not paid in a timely manner for the covered, medically necessary services they render.

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

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

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 Court issued a 90-day stay to allow the parties to discuss their differences and come to amicable agreement. The stay expired on March 7, 2006. Upon the expiration of the stay, both plaintiffs and defendants agreed to request the Court to extend the stay until April 21, 2006. The stay expired and the parties informed the Court that they need additional time to iron out the details of an amicable solution. The Court has not reacted to the parties' joint request. If the Court denies another stay, the parties will have to continue the proceedings where they were left before the issuance of the first stay. In the meantime, the Court issued an Agreed Order on the Preservation of Records. This order supersedes the parties' existing record-keeping policies in regards to the documents and materials specified in the order. The purpose of the order is to avoid the disposition of documents that might be relevant for the case.

- (f) On December 8, 2003 a putative class action was filed by Jeffrey Solomon, MD and Orlando Armstrong, MD, on behalf of themselves and all other similarly situated and the American Podiatric Medical Association, Florida Chiropractic Association, California Podiatric Medical Association, Florida Podiatric Medical



Association, Texas Podiatric Medical Association, and Independent Chiropractic Physicians, against the BCBSA and multiple other insurance companies, including TSI and all members of the BCBSA. The case is still pending before the United States District Court for the Southern District of Florida, Miami District.

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The lawsuit challenges many of the same practices as the litigation described in the immediately preceding item.

Management believes that TSI was made a party to this litigation for the sole reason that TSI is associated with the BCBSA.

On June 25, 2004, plaintiffs amended the complaint but the allegations against TSI did not vary. 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 Court issued a 90-day stay to allow the parties to discuss their differences and come to an amicable agreement. The stay expired on March 7, 2006. Upon the expiration of the stay, both plaintiffs and defendants agreed to request the Court to extend the stay until April 21, 2006. The stay expired and the parties informed the Court that they need additional time to iron out the details of an amicable solution. The Court has not reacted to the parties' joint request. If the Court denies another stay, the parties will have to continue the proceedings where they were left before the issuance of the first stay. In the meantime, the Court issued an Agreed Order on the Preservation of Records. This order supersedes the parties' existing record-keeping policies in regards to the documents and materials specified in the order. The purpose of the order is to avoid the disposition of documents that might be relevant for the case.

**(13) Acquisition**

Effective January 31, 2006, the Corporation acquired 100% of the common stock of Great American Life Assurance Company of Puerto Rico (GA Life). As a result of this acquisition, the Corporation became one of the leading providers of life insurance policies in Puerto Rico. The acquisition was accounted by the Corporation in accordance with the provisions of SFAS No. 141, *Business Combinations*. The results of operations and financial condition of GA Life are included in the accompanying unaudited consolidated financial statements for the period following the effective date of the acquisition. The aggregate purchase price of the acquired entity amounted to \$38,196; of this amount \$37,500 were paid in cash on January 31, 2006 and \$696 are direct costs related to the acquisition. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The Corporation is still in the process of evaluating the net assets acquired and of obtaining third-party valuations of certain intangible assets. Consequently, the allocation of the purchase price is preliminary and subject to revision based on the outcome of the ongoing evaluation of these assets and liabilities.

|                               |               |
|-------------------------------|---------------|
| Current assets                | \$219,747     |
| Property and equipment        | 1,500         |
| Value of business acquired    | 21,973        |
| <br>Total assets acquired     | <br>243,220   |
| <br>Total liabilities assumed | <br>205,024   |
| <br>Net assets acquired       | <br>\$ 38,196 |

The estimated fair value of the value of business acquired was actuarially determined by discounting after-tax profits at a risk rate of return equal to approximately 12%. After-tax profits were forecasted based upon models of the in force, actual invested assets as of acquisition date and best-estimate actuarial assumptions regarding premium income,

claims, persistency, expenses and investment income accruing from invested

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assets plus reinvestment of positive cash flows. The best-estimate actuarial assumptions were based upon GA Life's recent experience in each of its major life and health insurance product lines. The amount of value of business acquired is to be amortized, considering interest, over the anticipated premium-paying period of the related policies in proportion to the ratio of annual premium revenue to the expected total premium revenue to be received over the life of the policies.

The following unaudited pro forma financial information presents the combined results of operations of the Corporation and GA Life as if the acquisition had occurred at January 1, 2006 and 2005. The pro forma results of operations for 2006 combine the results of the Corporation for 2006 and the historical results of GA Life for the one month period ended January 31, 2006. 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.

|                            | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|----------------------------|---------------------------|-------------|-------------------------|-------------|
|                            | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|                            | <b>2006</b>               | <b>2005</b> | <b>2006</b>             | <b>2005</b> |
| Total revenue              | <b>\$400,080</b>          | 377,192     | <b>807,229</b>          | 740,432     |
| Net income                 | <b>\$ 4,619</b>           | 11,603      | <b>14,317</b>           | 9,577       |
| Basic net income per share | <b>\$ 518</b>             | 1,303       | <b>1,607</b>            | 1,076       |

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**(14) Reconciliation of Net Income to Net Cash Provided by Operating Activities**

A reconciliation of net income to net cash provided by operating activities is as follows:

|  | <b>Six months ended</b> |             |
|--|-------------------------|-------------|
|  | <b>June 30,</b>         |             |
|  | <b>2006</b>             | <b>2005</b> |
| Net income (loss)  | \$ <b>14,000</b>        | (799)       |
| Adjustments to reconcile net income (loss) to net cash provided by operating expenses: |                         |             |
| Depreciation and amortization  | <b>2,930</b>            | 2,488       |
| Amortization of investment discounts   | <b>534</b>              | 321         |
| Accretion in value of securities   | <b>(334)</b>            | (288)       |
| Increase (decrease) in provision for doubtful receivables                              | <b>775</b>              | (249)       |
| Decrease in net deferred taxes   | <b>(87)</b>             | (2,327)     |
| Gain on sale of securities   | <b>(961)</b>            | (4,677)     |
| Unrealized gain (loss) of trading securities   | <b>(311)</b>            | 6,427       |
| Proceeds from trading securities sold:   |                         |             |
| Fixed maturities   |                         | 57,795      |
| Equity securities  | <b>11,439</b>           | 14,021      |
| Acquisition of securities in trading portfolio:  |                         |             |
| Fixed maturities   |                         | (32,144)    |
| Equity securities  | <b>(11,579)</b>         | (11,784)    |
| Loss on sale of property and equipment   | <b>(1)</b>              | (1)         |
| (Increase) decrease in assets:   |                         |             |
| Premiums receivable  | <b>(37,066)</b>         | (10,469)    |
| Accrued interest receivable  | <b>712</b>              | 8           |
| Agents balances  | <b>(58)</b>             |             |
| Reinsurance receivable   | <b>(1,873)</b>          | 497         |
| Other receivables  | <b>121</b>              | 1,996       |
| Deferred policy acquisition costs  | <b>(2,065)</b>          | (61)        |
| Prepaid income tax   | <b>2,909</b>            | (2,676)     |
| Other assets   | <b>194</b>              | (4,233)     |
| Increase (decrease) in liabilities:  |                         |             |
| Claims processed and incomplete  | <b>10,334</b>           | 6,717       |
| Unreported losses  | <b>23,409</b>           | 14,698      |
| Unpaid loss-adjustment expenses  | <b>1,109</b>            | (43)        |
| Future policy benefits   | <b>5,702</b>            |             |
| Unearned premiums  | <b>3,600</b>            | (1,701)     |
| Policyholder deposits  | <b>889</b>              | 580         |
| Liability to FEHBP   | <b>134</b>              | (2,985)     |
| Accounts payable and accrued liabilities   | <b>(3,954)</b>          | (662)       |
| Income tax payable   |                         | (1,827)     |

|   |                  |        |
|---|------------------|--------|
| Net cash provided by operating activities | <b>\$ 20,502</b> | 28,622 |
|---|------------------|--------|

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

The Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Quarterly Report on Form 10-Q is intended to update the reader on matters affecting the financial condition and results of operations of Triple-S Management Corporation (TSM) and its subsidiaries (the Corporation) for the three months and six months ended June 30, 2006. 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, 2005.

**Cautionary Statement Regarding Forward-Looking Information**

This Quarterly Report on Form 10-Q and other publicly available documents of the Corporation 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 the financial condition, results of operations and business of the Corporation. These statements are not historical, but instead represent the Corporation's belief regarding future events, any of which, by their nature, are inherently uncertain and outside of the Corporation's control. These statements may address, among other things, future financial results, strategy for growth, and market position. It is possible that the Corporation's 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. The Corporation is 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.

**Structure of the Organization**

TSM is incorporated under the laws of the Commonwealth of Puerto Rico. It is the holding company of several entities, through which it offers a wide range of insurance products and services. These insurance products and services are offered through the following TSM wholly-owned subsidiaries:

Triple-S, Inc. (TSI), a health insurance company serving two major segments: the Commercial Program and the Commonwealth of Puerto Rico Healthcare Reform Program (the Healthcare Reform);

Seguros Triple-S, Inc. (STS), a property and casualty insurance company;

Great American Life Assurance Company of Puerto Rico (GA Life) a life insurance company; and

Seguros de Vida Triple-S, Inc. (SVTS), a life and disability insurance and annuity products company. Effective June 30, 2006, the Corporation merged the operations of GA Life and SVTS after receiving required regulatory approvals. GA Life is the surviving entity.

In addition to the insurance subsidiaries mentioned above, TSM has the following other wholly-owned subsidiaries: Interactive Systems, Inc. (ISI) and Triple-C, Inc. (TCI). ISI provides data processing services to TSM and its subsidiaries. TCI is currently engaged as the third-party administrator in the administration of the Corporation's Healthcare Reform segment. It also provides healthcare advisory services and other health-related services to TSI and other third parties.

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**Recent Developments**

*Puerto Rico's Economy*

The government of Puerto Rico announced the possibility of a lack of current budgetary funds to complete this fiscal year ending June 30, 2006 if the legislative branch did not authorize a budget loan from the Government Development Bank. This situation was resolved prior to June 30, 2006 when the legislative and executive branches of the government approved a loan to provide funding for the budget related to the fiscal year ended June 30, 2006. Also, the legislative and executive branches approved a fiscal reform and a tax reform, which would raise additional funds in future fiscal years. The approved tax reform imposes a tax based upon the consumption of goods and services. The Corporation's business with the Government was not adversely affected with this situation.

*Healthcare Reform Segment*

All of the Reform contract's extension expired on June 30, 2006. During July 2006, the government of Puerto Rico (the government) extended the contracts for all regions until September 30, 2006 with rates pending to be negotiated retroactively to July 1, 2006. In addition, the contract for the North and Southwest regions currently served by TSI were renewed for a one year term, from October 1, 2006 to September 30, 2007, with the applicable rates pending to be negotiated among the parties. The government has requested proposals to serve the Metro-North region under a Third Party Administrator pilot program.

**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.

**Significant Transactions**

Effective January 31, 2006, TSM completed the acquisition of 100% of the common stock of GA Life for \$37.5 million. As a result of this acquisition, the Corporation became one of the leading providers of life insurance policies in Puerto Rico. After its acquisition, GA Life and SVTS form the Corporation's Life and Disability Insurance segment. As previously mentioned, effective June 30, 2006, TSM merged the operations of GA Life with those of SVTS after receiving required regulatory approvals. GA Life is the surviving entity. GA Life's results of operations and financial condition are included in the Corporation's consolidated financial statements included in this Quarterly Report on Form 10-Q for the period following January 31, 2006.

The historical results of operations of the entities pre-acquisition and comparable basis information for the three months and six months ended June 30, 2005 are included in the following tables. Comparable basis information was determined by adding the historical statements of earnings for the Corporation and GA Life. Comparable basis information is presented in order to provide a more meaningful comparison to the current period due to the acquisition of GA Life. Comparable basis is not calculated in accordance with U.S. Generally Accepted Accounting Principles and is not intended to represent or be indicative of the results of operations of the Corporation that would have been reported had the acquisition been completed as of January 31, 2005.



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| <i>(Dollar amounts in thousands)</i>                               | <b>Three months ended June 30, 2005</b> |                |                         |
|--|---|----------------|-------------------------|
|  | <b>TSM</b>                              | <b>GA Life</b> | <b>Comparable Basis</b> |
| <b>REVENUE:</b>  |   |                |                         |
| Premiums earned, net   | \$ 339,618                              | 18,949         | 358,567                 |
| Amounts attributable to self-funded arrangements                   | 52,439                                  |                | 52,439                  |
| Less amounts attributable to claims under self-funded arrangements | (49,302)                                |                | (49,302)                |
|  | 342,755                                 | 18,949         | 361,704                 |
| Net investment income  | 7,217                                   | 3,054          | 10,271                  |
| Net realized investment gains                                      | 1,363                                   | 5,113          | 6,476                   |
| Net unrealized investment loss on trading securities               | (634)                                   |                | (634)                   |
| Other income, net  | (142)                                   |                | (142)                   |
| Total revenue  | 350,559                                 | 27,116         | 377,675                 |
| <b>BENEFITS AND EXPENSES:</b>                                      |   |                |                         |
| Claims incurred  | 297,901                                 | 10,640         | 308,541                 |
| Operating expenses, net of reimbursement for services              | 45,453                                  | 8,734          | 54,187                  |
| Interest expense   | 1,856                                   |                | 1,856                   |
| Total benefits and expenses  | 345,210                                 | 19,374         | 364,584                 |
| Income before taxes  | 5,349                                   | 7,742          | 13,091                  |
| <b>INCOME TAX EXPENSE (BENEFIT):</b>                               |   |                |                         |
| Current  | 758                                     | 503            | 1,261                   |
| Deferred   | 183                                     | (396)          | (213)                   |
| Total income taxes   | 941                                     | 107            | 1,048                   |
| Net income   | \$ 4,408                                | 7,635          | 12,043                  |
| Basic net income per share   | \$ 495                                  |                | 1,353                   |

| <i>(Dollar amounts in thousands)</i>                               | <b>Six months ended June 30, 2005</b> |                |                         |
|--|---------------------------------------|----------------|-------------------------|
|  | <b>TSM</b>                            | <b>GA Life</b> | <b>Comparable Basis</b> |
| <b>REVENUE:</b>  |                                       |                |                         |
| Premiums earned, net   | \$ 673,007                            | 31,243         | 704,250                 |
| Amounts attributable to self-funded arrangements                   | 104,354                               |                | 104,354                 |
| Less amounts attributable to claims under self-funded arrangements | (97,842)                              |                | (97,842)                |

|   |          |        |         |
|---|----------|--------|---------|
|   | 679,519  | 31,243 | 710,762 |
| Net investment income                                 | 14,281   | 5,012  | 19,293  |
| Net realized investment gains                         | 4,677    | 4,738  | 9,415   |
| Net unrealized investment loss on trading securities  | (6,427)  |        | (6,427) |
| Other income, net                                     | 490      |        | 490     |
| <br>  |          |        |         |
| Total revenue   | 692,540  | 40,993 | 733,533 |
| <b>BENEFITS AND EXPENSES:</b>                         |          |        |         |
| Claims incurred                                       | 600,824  | 17,358 | 618,182 |
| Operating expenses, net of reimbursement for services | 89,219   | 14,189 | 103,408 |
| Interest expense                                      | 3,644    |        | 3,644   |
| <br>  |          |        |         |
| Total benefits and expenses                           | 693,687  | 31,547 | 725,234 |
| <br>  |          |        |         |
| Income (loss) before taxes                            | (1,147)  | 9,446  | 8,299   |
| <br>  |          |        |         |
| <b>INCOME TAX EXPENSE (BENEFIT):</b>                  |          |        |         |
| Current   | 1,979    | 626    | 2,605   |
| Deferred  | (2,327)  | (792)  | (3,119) |
| <br>  |          |        |         |
| Total income taxes                                    | (348)    | (166)  | (514)   |
| <br>  |          |        |         |
| Net income (loss)                                     | \$ (799) | 9,612  | 8,813   |
| <br>  |          |        |         |
| Basic net income (loss) per share                     | \$ (90)  |        | 990     |

**Table of Contents****Life and Disability Insurance Segment**

| <i>(Dollar amounts in thousands)</i>              | <b>Three months ended June 30, 2005</b> |                |                         |
|---|---|----------------|-------------------------|
|   | <b>SVTS</b>                             | <b>GA Life</b> | <b>Comparable Basis</b> |
| <b>Net earned premiums and commission income:</b> |   |                |                         |
| Earned premiums                                   |   |                |                         |
| Life  | \$ 2,207                                | 15,106         | 17,313                  |
| Disability  | 3,439                                   | 40             | 3,479                   |
| Cancer and other dreaded diseases                 | 373                                     | 4,193          | 4,566                   |
| Total earned premiums                             | 6,019                                   | 19,339         | 25,358                  |
| Earned premiums ceded                             | (2,004)                                 | (390)          | (2,394)                 |
| Net earned premiums                               | 4,015                                   | 18,949         | 22,964                  |
| Commission income on reinsurance                  | 166                                     |                | 166                     |
| <b>Net premiums earned</b>                        | <b>\$ 4,181</b>                         | <b>18,949</b>  | <b>23,130</b>           |
| <b>Claims incurred</b>                            | <b>\$ 2,511</b>                         | <b>10,640</b>  | <b>13,151</b>           |
| <b>Operating expenses</b>                         | <b>1,977</b>                            | <b>8,734</b>   | <b>10,711</b>           |
| <b>Total underwriting costs</b>                   | <b>\$ 4,488</b>                         | <b>19,374</b>  | <b>23,862</b>           |
| <b>Underwriting income (loss)</b>                 | <b>\$ (307)</b>                         | <b>(425)</b>   | <b>(732)</b>            |

| <i>(Dollar amounts in thousands)</i>              | <b>Six months ended June 30, 2005</b> |                |                         |
|---|---------------------------------------|----------------|-------------------------|
|   | <b>SVTS</b>                           | <b>GA Life</b> | <b>Comparable Basis</b> |
| <b>Net earned premiums and commission income:</b> |                                       |                |                         |
| Earned premiums                                   |                                       |                |                         |
| Life  | \$ 4,409                              | 24,911         | 29,320                  |
| Disability  | 6,793                                 | 66             | 6,859                   |
| Cancer and other dreaded diseases                 | 586                                   | 6,975          | 7,561                   |
| Total earned premiums                             | 11,788                                | 31,952         | 43,740                  |
| Earned premiums ceded                             | (4,027)                               | (709)          | (4,736)                 |
| Net earned premiums                               | 7,761                                 | 31,243         | 39,004                  |
| Commission income on reinsurance                  | 273                                   |                | 273                     |
| <b>Net premiums earned</b>                        | <b>\$ 8,034</b>                       | <b>31,243</b>  | <b>39,277</b>           |

|                                   |            |        |         |
|-----------------------------------|------------|--------|---------|
| <b>Claims incurred</b>            | \$ 5,144   | 17,358 | 22,502  |
| <b>Operating expenses</b>         | 3,959      | 14,189 | 18,148  |
| <b>Total underwriting costs</b>   | \$ 9,103   | 31,547 | 40,650  |
| <b>Underwriting income (loss)</b> | \$ (1,069) | (304)  | (1,373) |

**General Information**

Substantially all of the revenues of the Corporation are generated from premiums earned and investment income. Claims incurred include the payment of benefits and losses, mostly to physicians, hospitals and other service providers, and to policyholders. A portion of the claims incurred for each period consists of a management and actuarial estimate of claims incurred but not reported to the segment during the period. Each segment's results of operations depend largely on their ability to accurately predict and effectively manage these claims. Operating expenses comprise general, selling, commission, depreciation and payroll and payroll related expenses.

The Corporation (on a consolidated basis and for each reportable segment), along with most insurance entities, uses the loss ratio, the expense ratio and the combined ratio as measures of performance. The loss ratio is computed as claims incurred divided by the premiums earned, net and fee revenue. The expense ratio is computed as operating expenses divided by the premiums earned, net and fee revenue. The combined ratio is the sum of the loss ratio and the expense ratio. These ratios are relative measurements that describe, for every \$100 of premiums earned, net and fee revenue, the costs of claims and operating

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expenses. A combined ratio below 100 demonstrates underwriting profit; a combined ratio above 100 demonstrates underwriting loss.

**Consolidated Operating Results**

The analysis in this section provides an overall view of the consolidated statements of operations and key financial information. Further details of the results of operations of each reportable segment are included in the analysis of operating results for the respective segments.

*Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005*

| (dollar amounts in thousands)                             | <b>Three months ended June 30,</b> |             |                                  |
|---|------------------------------------|-------------|----------------------------------|
|   | <b>2006</b>                        | <b>2005</b> | <b>Comparable<br/>Basis 2005</b> |
| <b>Consolidated earned premiums, net and fee revenue</b>  | <b>\$392,412</b>                   | 342,755     | 361,704                          |
| <b>Consolidated claims incurred</b>                       | <b>\$334,186</b>                   | 297,901     | 308,541                          |
| <b>Consolidated operating expenses</b>                    | <b>56,932</b>                      | 45,453      | 54,187                           |
| <b>Consolidated operating costs</b>                       | <b>\$391,118</b>                   | 343,354     | 362,728                          |
| <b>Consolidated loss ratio</b>                            | <b>85.2%</b>                       | 86.9%       | 85.3%                            |
| <b>Consolidated expense ratio</b>                         | <b>14.5%</b>                       | 13.3%       | 15.0%                            |
| <b>Consolidated combined ratio</b>                        | <b>99.7%</b>                       | 100.2%      | 100.3%                           |
| <b>Consolidated net investment income</b>                 | <b>\$ 10,766</b>                   | 7,217       | 10,271                           |
| <b>Consolidated realized gain on sale of securities</b>   | <b>433</b>                         | 1,363       | 6,476                            |
| <b>Consolidated unrealized loss on trading securities</b> | <b>(2,245)</b>                     | (634)       | (634)                            |
| <b>Total consolidated net investment income</b>           | <b>\$ 8,954</b>                    | 7,946       | 16,113                           |
| <b>Consolidated other income (expense)</b>                | <b>\$ (1,286)</b>                  | (142)       | (142)                            |
| <b>Consolidated interest expense</b>                      | <b>\$ 3,692</b>                    | 1,856       | 1,856                            |
| <b>Consolidated income tax expense (benefit)</b>          | <b>\$ 651</b>                      | 941         | 1,048                            |
| <b>Consolidated net income</b>                            | <b>\$ 4,619</b>                    | 4,408       | 12,043                           |

Consolidated earned premiums, net and fee revenue for the three months ended June 30, 2006 presented an increase of \$49.7 million, or 14.5%, when compared to the consolidated earned premiums, net and fee revenue for the three months ended June 30, 2005. On a comparable basis the consolidated earned premiums, net and fee revenue increased by \$30.7 million, or 8.5%. The fluctuation on a comparable basis is attributed to the following:

The earned premiums, net and fee revenue corresponding to the Health Insurance Commercial Program segment increased by \$33.3 million, or 17.1%, during the period. The increase in premiums earned, net of this segment is primarily due to an increase in the average enrollment of the Medicare Advantage business in the 2006 period. The average enrollment of the segment's rated contracts decreased during the same period, the effect of which was mitigated by an average increase in commercial accounts premium rates of 4.0%.

The earned premiums, net of the Property and Casualty Insurance segment increased by \$1.0 million during the three months ended June 30, 2006. The fluctuation in the earned premiums of this segment is principally due to an increase in the earned premiums of the dwelling business of \$1.4 million, or 21.9%, net of a decrease in the earned premiums of the commercial multi-peril business of \$1.0 million, or 6.7%. In addition, during the three months ended June 30, 2006 the segment experienced an increase of \$1.7 million in the change in unearned premiums resulting from changes in the mix of the business subscribed.

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The net earned premiums and commission income on a comparable basis of the Life and Disability Insurance segment increased by \$1.0 million, or 4.3%. The increase in the earned premiums net of this segment is due to increases in the life and cancer and other dreaded diseases lines of business of \$815 thousand, or 4.7%, and \$619 thousand, or 13.5%, respectively. The fluctuation in the premiums of these lines of business is principally due to increased sales in the 2006 period.

The earned premiums, net of the Health Insurance Healthcare Reform Program segment presented a decrease of \$3.9 million, or 3.2% during this period. This decrease is the result of a decrease in average enrollment, net of 5.8% increase in premium rates effective August 1, 2005.

Consolidated claims incurred for the three months ended June 30, 2006 increased by \$36.3 million, or 12.2%, when compared to the claims incurred for the three months ended June 30, 2005. On a comparable basis, the consolidated claims incurred increased by \$25.6 million, or 8.3%. The fluctuation on a comparable basis is mostly due to the increase of \$35.8 million, or 21.8%, in the claims incurred of the Health Insurance Commercial Program segment during the 2006 period, net of a decrease of \$11.8 million, or 9.8%, in the claims incurred of the Health Insurance Healthcare Reform Program segment. The fluctuation in the claims incurred of both segments is principally due to a corresponding fluctuation in the average enrollment of each segment.

The consolidated loss ratio reflected a decrease of 1.7 percentage points during the 2006 period. On a comparable basis the consolidated loss ratio increased by 0.1 percentage points. The increase in the loss ratio on a comparable basis is mostly driven by the Health Insurance Commercial Program segment, which experienced higher utilization trends during the 2006 period.

Consolidated operating expenses for the three months ended June 30, 2006 increased by \$11.5 million, or 25.3%, when compared to the operating expenses for the three months ended June 30, 2005. On a comparable basis, the consolidated operating expenses increased by \$2.7 million, or 5.1%. The increase in the consolidated operating expenses on a comparable basis is mainly attributed to the segments increased volume of business during the 2006 period. The consolidated expense ratio on a comparable basis presented a decrease of 0.5 percentage points during the 2006 period mostly because the 2005 period includes start-up costs related to the launching of the Medicare Advantage products by the Health Insurance Commercial Program segment.

The consolidated realized gains during the 2006 and 2005 periods are the result of the sound and timely management of the investment portfolio in accordance with corporate investment policies, and from the normal portfolio turnover of the trading and available for sale securities.

The unrealized loss on trading securities is related to investments held by the segments in equity securities and corporate bonds. The unrealized loss of \$2.2 million experienced during the 2006 period is attributed to losses in the portfolios held by the segments in equity securities. One of the equity securities portfolios is designed to replicate the Standard & Poor's 500 Index and the other two are actively managed to simulate the Russell 1000 Growth Index and the Russell 1000 Value Index. All of these indexes experienced negative returns in the 2006 quarter.

The consolidated other income experienced a decrease of \$1.1 million on both the actual and comparable basis. This decrease is principally attributed to a fluctuation in the fair value of the derivative component of the Corporation's structured note agreements. The index return valuation of these structured notes is linked to the performance of the Dow Jones Euro STOXX 50 and Nikkei 225 Equity indexes. Both of these indexes experienced a negative return during the 2006 quarter, thus causing the decrease in the fair value of the derivative component of the structured notes. Further details of the Corporation's investment in these structured notes is included in the audited financial statements included the Annual Report on Form 10-K filed as of and for the year ended December 31, 2005.

The consolidated interest expense presented an increase of \$1.8 million on both an actual and comparable basis. This increase is primarily due to the interest expense corresponding to the new debt issued and sold by the Corporation during the last quarter of the year 2005 and during the first quarter of the year 2006. On

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December 21, 2005 the Corporation issued and sold its \$60.0 million 6.6 % Senior Unsecured Notes Due December 2019 in connection with the coinsurance funds withheld reinsurance agreement with GA Life. On January 23, 2006 the Corporation issued and sold its \$35.0 million 6.7% Senior Unsecured Notes Due January 2021 in connection with the acquisition of GA Life. Both Senior Unsecured Notes had the effect of increasing the interest expense of the 2006 period by \$1.6 million.

The consolidated income tax expense for the three months period ended June 30, 2006 decreased by \$290 thousand when compared to the same period of the prior year. The consolidated income tax expense on a comparable basis presented a decrease of \$397 thousand. This decrease is mostly due to a decrease in income before tax when comparing the 2006 to the 2005 periods.

*Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005*

| (dollar amounts in thousands)                                    | <b>Six months ended June 30,</b> |             |                              |
|--|----------------------------------|-------------|------------------------------|
|  | <b>2006</b>                      | <b>2005</b> | <b>Comparable Basis 2005</b> |
| <b>Consolidated earned premiums, net and fee revenue</b>         | <b>\$777,945</b>                 | 679,519     | 710,762                      |
| <b>Consolidated claims incurred</b>                              | <b>\$660,870</b>                 | 600,824     | 618,182                      |
| <b>Consolidated operating expenses</b>                           | <b>114,662</b>                   | 89,219      | 103,408                      |
| <b>Consolidated operating costs</b>                              | <b>\$775,532</b>                 | 690,043     | 721,590                      |
| <b>Consolidated loss ratio</b>                                   | <b>85.0%</b>                     | 88.4%       | 87.0%                        |
| <b>Consolidated expense ratio</b>                                | <b>14.7%</b>                     | 13.1%       | 14.5%                        |
| <b>Consolidated combined ratio</b>                               | <b>99.7%</b>                     | 101.5%      | 101.5%                       |
| <b>Consolidated net investment income</b>                        | <b>\$ 20,816</b>                 | 14,281      | 19,293                       |
| <b>Consolidated realized gain on sale of securities</b>          | <b>961</b>                       | 4,677       | 9,415                        |
| <b>Consolidated unrealized gain (loss) on trading securities</b> | <b>311</b>                       | (6,427)     | (6,427)                      |
| <b>Total consolidated net investment income</b>                  | <b>\$ 22,088</b>                 | 12,531      | 22,281                       |
| <b>Consolidated other income</b>                                 | <b>\$ (87)</b>                   | 490         | 490                          |
| <b>Consolidated interest expense</b>                             | <b>\$ 7,086</b>                  | 3,644       | 3,644                        |
| <b>Consolidated income tax expense (benefit)</b>                 | <b>\$ 3,328</b>                  | (348)       | (514)                        |
| <b>Consolidated net income (loss)</b>                            | <b>\$ 14,000</b>                 | (799)       | 8,813                        |

Consolidated earned premiums, net and fee revenue for the six months ended June 30, 2006 presented an increase of \$98.4 million, or 14.5%, when compared to the consolidated earned premiums, net and fee revenue for the six months ended June 30, 2005. On a comparable basis the consolidated earned premiums, net and fee revenue increased by \$67.2 million, or 9.5%. The fluctuation on a comparable basis is attributed to the following:

The earned premiums, net and fee revenue corresponding to the Health Insurance Commercial Program segment increased by \$60.5 million, or 15.8%, during the period. The increase in premiums earned, net of this segment is primarily due to an increase in the average enrollment of the Medicare Advantage business in the 2006 period. The average enrollment of the segment's rated contracts decreased during the same period, the



effect of which was mitigated by an average increase in commercial accounts premium rates of 4.0%.

On a comparable basis, in the 2006 period the net earned premiums and commission income of the Life and Disability Insurance segment increased by \$6.5 million, or 16.6%. The increase in the earned premiums net of this segment is due to the following:

- o The assumed earned premiums of the segment on both the actual and comparable basis increased by \$4.4 million in the 2006 period. This increase is due to the business assumed by SVTS during January 2006 as a result of the coinsurance funds withheld agreement with GA

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Life, in which SVTS assumes 69% of GA Life's business effective December 22, 2005. However, since TSM acquired GA Life, now both entities form the Corporation's Life and Disability Insurance segment. Thus, this reinsurance agreement is eliminated upon the combination of both entities for segment presentation. The effects of the reinsurance transactions corresponding to this agreement were eliminated for consolidated financial statement purposes for the period following January 31, 2006.

- o On a comparable basis, the earned premiums of the segment's life and cancer and other dreaded diseases lines of business increased by \$1.4 million, or 4.6%, and \$1.3 million, or 16.6%, respectively, mostly due to new sales during the period.

The premiums earned, net of the Property and Casualty Insurance segment increased by \$1.0 million, or 2.3%, when comparing the 2006 and 2005 periods. This increase is mostly noted in the dwelling and auto physical damage lines of business, which increased by \$1.4 million, or 11.0%, and \$1.2 million, or 12.4%, respectively, during this period. The increase in the premiums for these lines of business is attributed to increased sales during the 2006 period.

Consolidated claims incurred for the six months ended June 30, 2006 increased by \$60.0 million, or 10.0%, when compared to the claims incurred for the six months ended June 30, 2005. On a comparable basis, the consolidated claims incurred increased by \$42.7 million, or 6.9%. The fluctuation on a comparable basis is mostly due to an increase of \$53.8 million, or 16.0%, in the claims incurred of the Health Insurance - Commercial Program segment during the 2006 period. This increase is mitigated by a decrease in the claims incurred of the Health Insurance Healthcare Reform Program segment of \$14.0 million, or 5.9%. The fluctuation in the claims incurred of both segments is principally due to a corresponding fluctuation in the average enrollment of each segment. In addition, the claims incurred on a comparable basis of the Life and Disability insurance segment increased by \$2.6 million, or 11.5%, mostly as the result of the claims incurred assumed in accordance with the terms of the previously described coinsurance funds withheld agreement with GA Life.

The consolidated loss ratio reflected a decrease of 3.4 percentage points during the 2006 period. The decrease, on a comparable basis, of the consolidated loss ratio was 2.0 percentage points. This decrease is mostly driven by the Health Insurance - Healthcare Reform Program segment, which experienced lower utilization trends during the 2006 period.

Consolidated operating expenses for the six months ended June 30, 2006 increased by \$25.4 million, or 28.5%, when compared to the operating expenses for the six months ended June 30, 2005. On a comparable basis, the consolidated operating expenses increased by \$11.3 million, or 10.9%. The increase in the consolidated operating expenses on a comparable basis is mainly attributed to the segments increased volume of business during the 2006 period. In addition, the Corporation experienced increases in payroll and related expenses, commission expense and in technology related costs. The consolidated expense ratio on a comparable basis presented an increase of 0.2 percentage points during the 2006 period.

The consolidated realized gains during the 2006 and 2005 periods are the result of the sound and timely management of the investment portfolio in accordance with corporate investment policies, and from the normal portfolio turnover of the trading and available for sale securities.

The unrealized gain on trading securities is related to investments held by the segments in equity securities and corporate bonds. The unrealized gain of \$311 thousand experienced during the 2006 period is attributed to gains in the portfolios held by the segments in equity securities. All of the indexes to which these portfolios are linked experienced positive returns in the 2006 period, except for the Russell 1000 Growth Index which experienced negative returns in the same period.

The consolidated interest expense presented an increase of \$3.4 million on both an actual and comparable basis. As previously mentioned, this increase is primarily due to the interest expense corresponding to the new debt issued and sold by the Corporation during the last quarter of the year 2005 and during the 2006 period. The new debt issued by the Corporation had the effect of increasing the interest expense of the 2006 period by \$3.2 million.

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The consolidated income tax expense for the six months period ended June 30, 2006 increased by \$3.7 million when compared to the same period of the prior year. The consolidated income tax expense on a comparable basis presented an increase of \$3.8 million. This increase is mostly due to an increase in the income before tax when comparing the 2006 to the 2005 periods.

**Health Insurance Commercial Program Operating Results**

| (dollar amounts in thousands)                                       | Three months ended<br>June 30, |          | Six months ended<br>June 30, |          |
|---|--------------------------------|----------|------------------------------|----------|
|   | 2006                           | 2005     | 2006                         | 2005     |
| <b>Average enrollment</b>   | <b>633,281</b>                 | 630,721  | <b>633,986</b>               | 630,805  |
| Earned premiums   | \$ <b>223,623</b>              | 190,907  | <b>435,468</b>               | 375,964  |
| Amounts attributable to self-funded arrangements                    | <b>59,052</b>                  | 52,699   | <b>110,518</b>               | 104,933  |
| Less: Amounts attributable to claims under self-funded arrangements | <b>(55,068)</b>                | (49,302) | <b>(102,445)</b>             | (97,842) |
| <b>Earned premiums and fee revenue</b>                              | <b>\$ 227,607</b>              | 194,304  | <b>443,541</b>               | 383,055  |
| <b>Claims incurred</b>  | <b>\$ 200,112</b>              | 164,320  | <b>390,969</b>               | 337,149  |
| <b>Operating expenses</b>   | <b>29,651</b>                  | 25,899   | <b>58,052</b>                | 50,139   |
| <b>Total underwriting costs</b>                                     | <b>\$ 229,763</b>              | 190,219  | <b>449,021</b>               | 387,288  |
| <b>Underwriting loss</b>  | <b>\$ (2,156)</b>              | 4,085    | <b>(5,480)</b>               | (4,233)  |
| <b>Loss ratio</b>   | <b>87.9%</b>                   | 84.6%    | <b>88.1%</b>                 | 88.0%    |
| <b>Expense ratio</b>  | <b>13.0%</b>                   | 13.3%    | <b>13.1%</b>                 | 13.1%    |
| <b>Combined ratio</b>   | <b>100.9%</b>                  | 97.9%    | <b>101.2%</b>                | 101.1%   |

*Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005*

Earned premiums and fee revenue for the three months ended June 30, 2006 increased by \$33.3 million, or 17.1%, when compared to the earned premiums and fee revenue for the three months ended June 30, 2005. This increase in earned premiums and fee revenue is the result of the following:

Premiums generated by the segment's Medicare Advantage program presented an increase of \$38.1 million when compared to the same period in 2005. This increase is primarily due to the increase in enrollment experienced in this business. The average enrollment of the Medicare Advantage program presented an increase of 33,875 members upon comparison of the 2006 and 2005 periods. In January 2006, the segment expanded its Medicare Advantage program with the introduction of *Medicare Platino* (for medically indigent Medicare-qualified beneficiaries in Puerto Rico) and *FarmaMed* (prescription drugs program for beneficiaries of Medicare Parts A and B). The enrollment for these programs contributed to the increase in average membership of the Medicare Advantage business.

The segment experienced a decrease in the earned premiums corresponding to its other rated contracts lines of business of approximately \$6.8 million. This decrease is the combined effect of a decrease in the average enrollment of 32,515 members, or 6.9%, and an average increase in premium rates of approximately 4.0%. The decrease in average enrollment in the individual and local government employees is mainly the result of qualifying enrollees transferring to Medicare Advantage policies. The average enrollment of the individual and

local government employees business decreased by 7,088, or 8.7%, and 5,645, or 15.6%, respectively, during the 2006 period.

Claims incurred in the 2006 period presented an increase of \$35.8 million, or 21.8%, when compared to the same period in 2005. This increase is mostly related to the claims incurred from the Medicare Advantage business, which presented an increase of \$30.0 million during the 2006 period. In addition, claims incurred in the rated contracts lines of business increased mostly due to an increase in utilization trends during the 2006 period. The segment's loss ratio increased 3.3 percentage points, due to the increased utilization trends in rated groups and a higher loss ratio in the Medicare Advantage business.

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Operating expenses for the three months ended June 30, 2006 increased by \$3.8 million, or 14.5%, when compared to the three months ended June 30, 2005. This increase is primarily attributed to additional administrative costs related to the Medicare Advantage business and to the normal inflationary increase in operating costs. The segment's expense ratio decreased 0.3 percentage points in the same period mostly as the result of the start-up costs related to the launching of the Medicare Advantage products in the 2005 period.

*Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005*

Earned premiums and fee revenue for the six months ended June 30, 2006 increased by \$60.5 million, or 15.8%, when compared to the earned premiums and fee revenue for the six months ended June 30, 2005. This increase in earned premiums and fee revenue is the result of the following:

Premiums generated by the segment's Medicare Advantage program presented an increase of \$65.4 million during the 2006 period. This increase is primarily due to the increase in enrollment experienced in this business. The average enrollment of the Medicare Advantage program presented an increase of 29,310 members upon comparison of the 2006 and 2005 periods. As previously mentioned, the increase in enrollment of this business is due to the launching of new Medicare Advantage policies in the first quarter of the year 2006. The enrollment for these programs contributed to the increase in average membership of the Medicare Advantage business.

The segment experienced a decrease in the earned premiums corresponding to its other rated contracts lines of business during the 2006 period. This decrease is the combined effect of a decrease in the average enrollment of 27,057 members, or 5.7% and an average increase in premium rates during the six months ended June 30, 2006 of approximately 4.0%. The decrease in average enrollment in the individual and local government employees is mainly the result of qualifying enrollees transferring to Medicare Advantage policies. The average enrollment of the individual and local government employees business decreased by 6,009, or 7.3%, and 5,289, or 14.5%, respectively, during the 2006 period.

Claims incurred in the 2006 period presented an increase of \$53.8 million, or 16.0%, when compared to the same period in 2005. This increase is mostly related to the claims incurred from the Medicare Advantage business, which presented an increase of \$53.6 million during the 2006 period. The claims incurred related to the corporate and individual accounts decreased by \$1.8 million in the 2006 period primarily as the result of decreased enrollment during the period mitigated by the prorated effect of increases in costs and an increase in the utilization trends during the first six months of 2006. The segment's loss ratio increased 0.1 during the 2006 period.

Operating expenses for the six months ended June 30, 2006 increased by \$7.9 million, or 15.8%, when compared to the six months ended June 30, 2005. This increase is primarily attributed to additional administrative costs related to the Medicare Advantage business of approximately \$4.2 million and an increase of \$3.2 million are primarily to increases in payroll and related expenses and technology related costs consistent with corporate business initiatives. The segment's expense ratio remained at 13.1% during the 2006 and 2005 period.

**Table of Contents****Health Insurance Healthcare Reform Program Operating Results**

| (dollar amounts in thousands)     | Three months ended |         | Six months ended |         |
|-----------------------------------|--------------------|---------|------------------|---------|
|                                   | June 30,<br>2006   | 2005    | June 30,<br>2006 | 2005    |
| <b>Average enrollment</b>         | <b>570,978</b>     | 619,307 | <b>583,767</b>   | 615,283 |
| <b>Earned premiums</b>            | <b>\$ 120,267</b>  | 124,197 | <b>247,763</b>   | 247,337 |
| <b>Claims incurred</b>            | <b>\$ 108,981</b>  | 120,823 | <b>222,863</b>   | 236,911 |
| <b>Operating expenses</b>         | <b>8,464</b>       | 9,722   | <b>17,704</b>    | 18,636  |
| <b>Total underwriting costs</b>   | <b>\$ 117,445</b>  | 130,545 | <b>240,567</b>   | 255,547 |
| <b>Underwriting income (loss)</b> | <b>\$ 2,822</b>    | (6,348) | <b>7,196</b>     | (8,210) |
| <b>Loss ratio</b>                 | <b>90.6%</b>       | 97.3%   | <b>90.0%</b>     | 95.8%   |
| <b>Expense ratio</b>              | <b>7.0%</b>        | 7.8%    | <b>7.1%</b>      | 7.5%    |
| <b>Combined ratio</b>             | <b>97.7%</b>       | 105.1%  | <b>97.1%</b>     | 103.3%  |

*Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005*

Earned premiums for the three months ended June 30, 2006 decreased by \$3.9 million, or 3.2%, when compared to the earned premiums for the same period of last year. This increase is mostly the result of the following:

The segment's average enrollment during the 2006 quarter decreased by 48,329 members, or 7.8%, when compared to the average enrollment during the 2005 quarter. This decrease is mainly due to the shift of membership into a government-sponsored Medicare Advantage policy.

In addition, during the 2006 quarter the segment increased its allowance for doubtful receivables by approximately \$3.8 million. The additional allowance for doubtful receivables was recorded to provide for possible retroactive enrollment cancellations by the government of Puerto Rico.

Premium rates for this segment were increased, effective August 1<sup>st</sup>, 2005, by approximately 5.8% during the Healthcare Reform contract renegotiation process for the eleven-month period ended June 30, 2006.

Claims incurred during the three months ended June 30, 2006 presented a decrease of \$11.8 million, or 9.8%, when compared to the 2005 period. These fluctuations result mostly from the combined effect of the segment's decreased enrollment and to lower utilization trends experienced during the three months ended June 30, 2006 in risks assumed by the segment such as cardiovascular services, dialysis and obstetrics, among others. The loss ratio presented a decrease of 6.7 percentage points when comparing the 2006 and 2005 periods, which is attributed to the increase in premium rates and lower utilization trends.

Operating expenses presented a decrease of \$1.2 million, or 12.9%, when comparing the 2006 and 2005 periods primarily attributed to the segment's decreased volume of business. The expense ratio decreased by 0.8 percentage points during the 2006 period, from 7.8% in 2005 to 7.0% in 2006.

*Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005*

The segment's earned premiums increased by \$426 thousand, or 0.2%, when comparing the six months ended June 30, 2006 with the same period of the prior year. This increase is the combined result of the following:

Premium rates for this segment were increased, effective August 1<sup>st</sup>, 2005, by approximately 5.8% during the Healthcare Reform contract renegotiation process for the eleven-month period ended June 30, 2006.

The segment has experienced a decrease in enrollment during the 2006 period. The average enrollment in the 2006 period decreased by 31,516, or 5.1%, when compared to the 2005 period.

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This fluctuation is primarily due to the previously mentioned shift in membership into the government-sponsored Medicare Advantage policy.

In addition, during the second quarter of 2006 the segment increased its allowance for doubtful receivables by approximately \$3.8 million. The additional allowance for doubtful receivables was recorded to provide for possible retroactive enrollment cancellations by the government of Puerto Rico.

Claims incurred during the 2006 period decreased by \$14.0 million, or 5.9%, when compared to the claims incurred in the 2005 period. The segment's loss ratio decreased by 5.8 percentage points when comparing the 2006 and 2005 periods. These fluctuations are primarily the result of decreased enrollment and to lower utilization trends experienced during the three months ended June 30, 2006, particularly in those risks assumed by the segment such as cardiovascular services, dialysis and obstetrics, among others.

The operating expenses of the 2006 period present a decrease of \$932 thousand when compared to the operating expenses of the 2005 period that is primarily attributed to the segment's decreased volume of business. The expense ratio decreased by 0.4 percentage points during the 2006 period.

**Property and Casualty Insurance Operating Results**

| (dollar amounts in thousands)   | Three months ended<br>June 30, |          | Six months ended<br>June 30, |          |
|---------------------------------|--------------------------------|----------|------------------------------|----------|
|                                 | 2006                           | 2005     | 2006                         | 2005     |
| Premiums written                | \$ 36,446                      | 36,045   | 71,179                       | 69,812   |
| Premiums ceded                  | (15,650)                       | (14,590) | (29,379)                     | (29,065) |
| Change in unearned premiums     | 1,347                          | (353)    | 2,370                        | 2,451    |
| <b>Net premiums earned</b>      | <b>\$ 22,143</b>               | 21,102   | <b>44,170</b>                | 43,198   |
| <b>Claims incurred</b>          | <b>\$ 11,629</b>               | 10,247   | <b>21,942</b>                | 21,620   |
| <b>Operating expenses</b>       | <b>11,076</b>                  | 9,108    | <b>22,718</b>                | 19,449   |
| <b>Total underwriting costs</b> | <b>\$ 22,705</b>               | 19,355   | <b>44,660</b>                | 41,069   |
| <b>Underwriting income</b>      | <b>\$ (562)</b>                | 1,747    | <b>(490)</b>                 | 2,129    |
| <b>Loss ratio</b>               | <b>52.5%</b>                   | 48.6%    | <b>49.7%</b>                 | 50.0%    |
| <b>Expense ratio</b>            | <b>50.0%</b>                   | 43.2%    | <b>51.4%</b>                 | 45.0%    |
| <b>Combined ratio</b>           | <b>102.5%</b>                  | 91.8%    | <b>101.1%</b>                | 95.0%    |

*Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005*

Total premiums written for the three months period ended June 30, 2006 increased by \$401 thousand, or 1.1%, when compared to the three months period ended June 30, 2005. This increase is mostly reflected in the premiums written for the dwelling and commercial property monolines policies, which experienced an increase of \$1.4 million, or 21.9%, in the 2006 period. This increase was offset by a decrease of \$1.0 million, or 6.7%, in the commercial multi-peril line of business. The efforts directed to strengthen relationships with financial institutions has resulted in an increase in the dwelling business. The reported decrease in premiums written for the commercial multi-peril is attributed to the strong competition in the market for commercial accounts, where the premiums rates are still unregulated and subject to soft market conditions.

Claims incurred reflect an increase of \$1.4 million, or 13.5% when compared to the 2005 period. The loss ratio experienced an increase of 3.9 percentage points during the 2006 quarter when compared to the same quarter of the prior year. This increase is reflected primarily in the general liability, commercial auto physical damage and



commercial multi-peril liability. These fluctuations are primarily due to an increase in the average amount (severity) per claim received during the 2006 period.

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The operating expenses for the three months ended June 30, 2006 increased by \$2.0 million, or 21.6%, when compared to the operating expenses for the three months ended June 30, 2005. The expense ratio increased by 4.3 percentage points during this period. The increase in operating expenses in the 2006 period is mostly due to an increase in commission expense, payroll and related expenses, and consulting fees. The segment's commission rates for the commercial multi-peril and commercial auto business were increased by 2.5 percentage points in May 2005. In addition, during the 2005 period, the segment recorded an experience refund from the Compulsory Vehicle Liability Insurance Joint Underwriting Association. This refund, amounting to \$918 thousand, was recorded as a decrease to the operating expenses for the period. No experience refund has been received in the 2006 period.

*Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005*

Total premiums written for the 2006 period increased by \$1.4 million, or 2.0%, when compared to the 2005 period. This increase is mostly reflected in the dwelling and commercial property monoline and auto physical damage lines of business, which experienced an increase in premiums written of \$1.4 million, or 11.0%, and \$1.2 million, or 12.4%, respectively during this period. As previously mentioned, the segment's efforts to strengthen relations with financial institutions have resulted in the increased dwelling premiums. The segment's efforts to increase the auto insurance business have resulted in the increased auto physical damage premiums. The increase in premiums written for the dwelling and auto physical damage lines of business was partially offset by a decrease in the premiums written of the commercial multi-peril line of business of \$860 thousand, or 3.0%, during the 2006 period. This decrease in the commercial multi-peril premiums written is the result of strong competition and the prevailing soft market conditions for commercial accounts in the Puerto Rico market.

Claims incurred in the 2006 period increased by \$322 thousand, or 1.5%, when compared to the 2005 period. This increase is primarily attributed to the segment's increased volume of business. The loss ratio, on the other hand, decreased by 0.3 percentage points during the 2006 period when compared to the 2005 period. This decrease is principally due to the segment's focus on quality underwriting to improve loss experience. This focus on quality underwriting has resulted in improved loss ratios particularly in the commercial multi-peril non liability coverage, medical malpractice, and general liability lines of business.

The operating expenses for the six months ended June 30, 2006 increased by \$3.3 million, or 16.8%, when compared to the operating expenses for the six months ended June 30, 2005. The expense ratio increased by 6.4 percentage points during this period. Commission expenses increased by \$1.2 million when compared to 2005 as the result of the 2.5 percentage points increase in commission rates for the commercial auto and commercial multi-peril business, which was effective in May 2005. Also, salaries and benefits expenses increased primarily as the result of hiring additional claims and customer services staff. In addition, during the 2005 period, the segment recorded an experience refund from the Compulsory Vehicle Liability Insurance Joint Underwriting Association. This refund, amounting to \$918 thousand, was recorded as a decrease to the operating expenses for the period. No experience refund has been received in the 2006 period.

**Table of Contents****Life and Disability Insurance Operating Results***Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005*

| (dollar amounts in thousands)                    | <b>Three months ended June 30,</b> |             |                                  |
|--|------------------------------------|-------------|----------------------------------|
|  | <b>2006</b>                        | <b>2005</b> | <b>Comparable<br/>Basis 2005</b> |
| Earned premiums                                  | <b>\$ 26,603</b>                   | 6,019       | 25,358                           |
| Earned premiums ceded                            | <b>(2,580)</b>                     | (2,004)     | (2,394)                          |
| Net earned premiums                              | <b>24,023</b>                      | 4,015       | 22,964                           |
| Commission income on reinsurance                 | <b>96</b>                          | 166         | 166                              |
| <b>Net earned premiums and commission income</b> | <b>\$ 24,119</b>                   | 4,181       | 23,130                           |
| <b>Claims incurred</b>                           | <b>\$ 13,464</b>                   | 2,511       | 13,151                           |
| <b>Operating expenses</b>                        | <b>10,974</b>                      | 1,977       | 10,711                           |
| <b>Total underwriting costs</b>                  | <b>\$ 24,438</b>                   | 4,488       | 23,862                           |
| <b>Underwriting gain (loss)</b>                  | <b>\$ (319)</b>                    | (307)       | (732)                            |
| <b>Loss ratio</b>                                | <b>55.8%</b>                       | 60.1%       | 56.9%                            |
| <b>Expense ratio</b>                             | <b>45.5%</b>                       | 47.3%       | 46.3%                            |
| <b>Combined ratio</b>                            | <b>101.3%</b>                      | 107.4%      | 103.2%                           |

Premiums earned for the segment increased by \$20.6 million in the 2006 period. On a comparable basis premiums earned for the three months ended June 30, 2006 reflects an increase of \$1.2 million, or 4.9%. This increase in premiums earned on a comparable basis is primarily the result of the following:

Premiums for the life business, on a comparable basis, increased by \$815 thousand, or 4.7%, in the 2006 period. This increase is mostly the result of increases in the ordinary life and monthly debit ordinary life (MDO) premiums of 2.1% and 8.3%, respectively. The increase in premiums earned in the ordinary life and MDO business is principally due to new sales made during the 2006 period.

Premiums for the cancer and other dreaded diseases line of business on a comparable basis increased by \$619 thousand, or 13.5%, in the 2006 period. This increase is mainly attributed to the continued growth in sales of a new cancer product.

Claims incurred by the segment increased by \$10.9 million in the 2006 period. On a comparable basis the claims incurred for the three months ended June 30, 2006 increased by \$313 thousand, or 2.4%, when compared to the three months ended June 30, 2005. This increase of the claims incurred on a comparable basis is the net result of increases in the claims incurred of the ordinary life and surrender benefits of \$217 thousand and \$522 thousand, respectively, partially offset by a decrease in the claims incurred of the group life and group disability business of \$563 thousand, or 22.4%. The decrease in the claims incurred of the group life and group disability business results from improved claims experience on these lines, following the terminations during the past months of high loss ratio groups during their renewal process. The segment's close monitoring of claims experience in its group life and disability business has resulted in the improvement of the overall loss ratio from 56.9% in the 2005 period (on a comparable basis) to 55.8% in the 2006 period.

Operating expenses for the segment increased by \$9.0 million in the 2006 period. On a comparable basis operating expenses increased \$263 thousand, or 2.5%, when compared to the 2005 period, reducing the expense ratio by 0.8 percentage points, from 46.3% to 45.5%. The increase in the operating expenses on a comparable basis is primarily due to the combined effect of increases in the amortization of deferred policy acquisition costs and the value of business acquired created upon the acquisition of GA Life and decreases in commissions and other administrative expenses.

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Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

| (dollar amounts in thousands)                    | <b>Six months ended June 30,</b> |             |                              |
|--|----------------------------------|-------------|------------------------------|
|  | <b>2006</b>                      | <b>2005</b> | <b>Comparable Basis 2005</b> |
| Earned premiums                                  | \$ <b>45,961</b>                 | 11,788      | 43,740                       |
| Earned premiums ceded                            | <b>(4,823)</b>                   | (4,027)     | (4,736)                      |
| Assumed earned premiums                          | <b>4,413</b>                     |             |                              |
| <b>Net earned premiums</b>                       | <b>45,551</b>                    | 7,761       | 39,004                       |
| Commission income on reinsurance                 | <b>249</b>                       | 273         | 273                          |
| <b>Net earned premiums and commission income</b> | <b>\$ 45,800</b>                 | 8,034       | 39,277                       |
| <b>Claims incurred</b>                           | <b>\$ 25,096</b>                 | 5,144       | 22,502                       |
| <b>Operating expenses</b>                        | <b>22,364</b>                    | 3,959       | 18,148                       |
| <b>Total underwriting costs</b>                  | <b>\$ 47,460</b>                 | 9,103       | 40,650                       |
| <b>Underwriting loss</b>                         | <b>\$ (1,660)</b>                | (1,069)     | (1,373)                      |
| <b>Loss ratio</b>                                | <b>54.8%</b>                     | 64.0%       | 57.3%                        |
| <b>Expense ratio</b>                             | <b>48.8%</b>                     | 49.3%       | 46.2%                        |
| <b>Combined ratio</b>                            | <b>103.6%</b>                    | 113.3%      | 103.5%                       |

Earned premiums for the segment increased by \$34.2 million in the 2006 period. On a comparable basis earned premiums for the six months ended June 30, 2006 reflects an increase of \$2.2 million, or 5.1%. This increase on a comparable basis is the result of the following:

Premiums for the life business, on a comparable basis, increased by \$1.4 million, or 4.6%. This increase is mostly the result of increases in the ordinary life and MDO business, which premiums present an increase of 9.7% and 3.2%, respectively. The increase experienced in these lines is attributed to new sales made in the 2006 period.

Premiums for the cancer and other dreaded diseases line of business increased \$1.3 million, or 16.6%, in the 2006 period. This increase is mainly attributed to the growth in sales of a new cancer product.

The premiums earned on a comparable basis for the group disability lines of business decreased by \$387 thousand, or 5.6%, in the 2006 period. This fluctuation is mainly due to a disciplined underwriting of groups where premiums have been significantly adjusted to reflect expected losses on groups with high loss ratios and those groups have decided not to renew.

On December 22, 2005, the segment entered into a coinsurance funds withheld agreement with GA Life. Under the terms of this agreement the segment shared 69% of all the business written by GA Life as of and after the effective date of the agreement. Since GA Life was acquired by TSM effective January 31, 2006, the segment reflects premiums assumed of \$4.4 million that represents the segment's 69% share of premiums for the month of January 2006 under this coinsurance agreement with GA Life. The effects of the reinsurance transactions corresponding to this agreement were eliminated for consolidated financial statement purposes for the period

following January 31, 2006.

Claims incurred in the 2006 period increased by \$19.9 million when compared to the six months ended June 30, 2005. On a comparable basis the claims incurred of the segment increased by \$2.6 million, or 11.5%. This increase of the claims incurred on a comparable basis is primarily due to the segment's 69% share of claims and actuarial reserves for the month of January 2006 under the coinsurance agreement with GA Life amounting to \$2.3 million. In addition, increases in ordinary life and surrender benefits of \$515 thousand and \$780 thousand respectively were offset by a decrease of \$885 thousand, or 17.2%, in the claims incurred in the group life and disability business. The decrease experienced in the claims incurred of the group life and disability lines of business is the result of the improved claims experience on these lines, following terminations during the past quarters of high loss ratio groups during their renewal process. The segment's close monitoring of claims experience in its group life and disability business has resulted in

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the improvement of the overall loss ratio from 57.3% in the 2005 period (on a comparable basis) to 54.8% in the 2006 period.

Operating expenses for the segment increased by \$18.4 million in the 2006 period. On a comparable basis operating expenses increased by \$4.2 million, or 23.2%. The expense ratio on a comparable basis increased by 2.6 percentage points, from 46.2% in the 2005 period to 48.8% in the 2006 period. Of the total increase in operating expenses, \$1.8 million is related to the segment 69% share of commissions and other operating expenses for the month of January 2006, under the coinsurance agreement with GA Life. The remaining increase in operating expenses is mostly related to management fees charged by TSM and the increase in the amortization expense of the policy deferred acquisition costs and value of business acquired created upon the acquisition of GA Life.

**Liquidity and Capital Resources**

*Cash Flows*

The Corporation maintains good liquidity measures due to the quality of its assets, the predictability of its liabilities, and the duration of its contracts. The liquidity of the Corporation is primarily derived from the operating cash flows of its insurance subsidiaries.

As of June 30, 2006 and December 31, 2005, the Corporation's cash and cash equivalents amounted to \$53.9 million and \$49.0 million, respectively. The sources of funds available to meet the requirements of the Corporation's operations include: cash provided from operations, maturities and sales of securities classified within the trading and available-for-sale portfolios, securities sold under repurchase agreements, and issuance of long and short-term debt. Management believes that the Corporation's net cash flows from operations are expected to sustain the operations for the next year and thereafter, as long as the operations continue showing positive results. In addition, the Corporation monitors its premium rates and claims incurred to maintain proper cash flows and has the ability to increase premium rates throughout the year in the monthly renewal process.

Cash Flows from Operations

Most of the cash flows from operating activities are generated from the insurance subsidiaries. The basic components of the cash flows from operations are premium collections, claims payments, payment of operating and acquisition expenses and proceeds from sales and maturities of investments in the trading portfolio.

Net cash flows provided by operating activities amounted to \$20.5 million and \$28.6 million for the six months ended June 30, 2006 and 2005, respectively, a decrease of \$8.1 million. This decrease in cash flows from operating activities is mainly attributed to the net effect of the following:

The amount of claims, losses and benefits paid for the six months ended June 30, 2006 reflect an increase of \$43.2 million when compared with the six months ended June 30, 2005. The increase in the amount of claims, losses and benefits paid is mostly the result of the segments' increased volume of business.

The payments to suppliers and employees increased by \$29.7 million when comparing the amount paid during the 2006 and 2005 periods. This increase is basically attributed to additional commission expense generated from the acquisition of new business and general operating expenses.

The net proceeds of investments in the trading portfolio decreased by \$28.0 million for the six months ended June 30, 2006, when compared to the six months ended June 30, 2005. The fluctuation when compared to the 2005 period is due to the sale of the corporate bonds portfolio in mid year 2005. The corporate bonds portfolio was considered as a trading portfolio.

Interest payments increased by \$2.5 million when comparing amounts paid during the 2006 and 2005 periods. This increase is attributed to the interest payments related to the two Senior

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Unsecured Notes issued by the Corporation during the last quarter of 2005 and the first quarter of 2006. For a detail of these Senior Unsecured Notes refer to section *Financing and Financing Capacity* of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Premiums collected increased by \$81.6 million when comparing collections during the six months ended June 30, 2006 with collections for the six months ended June 30, 2005. This increase is mostly related to the increased volume of business and increases in premium rates of the operating segments.

Interest received increased by \$7.3 million during the 2006 period. This increase is mostly related to the increase experienced in the Corporation's investments in fixed income securities during the 2006 period.

The amount of income tax paid during the 2006 period is \$6.0 million lower than the corresponding amount in the 2005 period. This decrease in the amount of income tax paid is principally due to a decrease in the taxable income between periods.

Any excess liquidity is available, among other things, to invest in high quality and diversified fixed income securities and, to a lesser degree, to invest in marketable equity securities.

**Cash Flows from Investing Activities**

The basic components of the cash flows from investing activities are derived from acquisitions and proceeds from sales and maturities of investments in the available-for-sale and held-to-maturity portfolios and capital expenditures. The Corporation monitors the duration of its investment portfolio and executes the purchases and sales of these investments with the objective of having adequate funds available to satisfy its maturing liabilities.

Net cash flows used in investing activities amounted to \$42.8 million and \$28.9 million for the six months ended June 30, 2006 and 2005, respectively, an increase of \$13.9 million. The increase in the cash used in investing activities during this period is attributed to the following:

During the 2006 period the Corporation completed the acquisition of 100% of the common stock of GA Life. This transaction had an acquisition cost of \$38.2 million, including \$10.4 million of acquired cash.

The amount of capital expenditures increased by \$4.1 million when comparing the 2006 and 2005 periods. This increase is principally due to incurred cost related to the renovation of one of Corporation's facilities in one building adjacent to its main offices and to expenses related to STS's acquisition of a new computer system to manage its insurance operations.

The Corporation had net a decrease of \$18.4 million in the net acquisition of investments during the 2006 period. During the six months ended June 30, 2006 and 2005 total acquisition of investments exceeded the proceeds from investments sold or matured by \$7.4 million and \$25.8 million, respectively.

**Cash Flows from Financing Activities**

Net cash flows provided by financing activities amounted to \$27.2 million and \$198 thousand for the six months ended June 30, 2006 and 2005, respectively. The increase of \$27.0 million when compared to the same period of the prior year is mainly due to the effect of following fluctuations:

During the six months ended June 30, 2006 the Corporation received the proceeds from the issuance of its 6.7% Senior Unsecured Notes amounting to \$35.0 million. No long-term debt was issued in the 2005 period.

The repayments of long-term debt decreased by \$1.5 million for the six months ended June 30, 2006 when compared to the payments made in the 2005 period. This fluctuation is due to a decrease in the repayment for one of the credit agreements, which amounted to \$1.0 million in 2006 and \$2.5 million in 2005.



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On January 13, 2006 the Corporation declared and paid dividends amounting to \$6.2 million. There was no dividend payment during the 2005 period.

Net proceeds from policyholder deposits decreased by \$3.3 million during the six month period ended June 30, 2006. This fluctuation is basically due to a decrease in the proceeds received from the fixed deferred annuity product.

*Financing and Financing Capacity*

The Corporation has significant short-term liquidity supporting its businesses. It also has available short-term borrowings from time to time to address timing differences between cash receipts and disbursements. These short-term borrowings are mostly in the form of securities sold under repurchase agreements. As of June 30, 2006, the Corporation had \$227.5 million in available credit on these agreements. There are no outstanding short-term borrowings as of June 30, 2006.

As of June 30, 2006 the Corporation has the following senior unsecured notes payable:

On September 30, 2004 TSI issued and sold \$50.0 million of its 6.3% senior unsecured notes due September 2019 (the 6.3% notes). The 6.3% notes are unconditionally guaranteed as to payment of principal, premium, if any, and interest by the Corporation. The notes were privately placed to various institutional accredited investors. The notes pay interest semiannually beginning on March 2005, until such principal becomes due and payable. These notes can be prepaid after five years at par, in total or partially, as determined by the Corporation.

On December 21, 2005 TSM issued and sold \$60.0 million of its 6.6% senior unsecured notes due December 2020 (the 6.6% notes). The 6.6% notes were privately placed to various institutional accredited investors. The notes pay interest each month beginning on January 2006, until such principal becomes due and payable. These notes can be prepaid after five years at par, in full or in part, as determined by the Corporation.

On January 23, 2006 the Corporation issued and sold \$35.0 million of its 6.7% senior unsecured notes payable due January 2021 (the 6.7% notes). The 6.7% notes were privately placed to various accredited institutional investors. The notes pay interest each month beginning on March 1, 2006, until such principal becomes due and payable. These notes can be prepaid after five years at par, in full or in part, as determined by the Corporation. The proceeds obtained from this issuance were used to finance the acquisition of 100% of the common stock of GA Life effective January 31, 2006.

Both the notes contain certain covenants with which TSI and the Corporation has complied with at June 30, 2006. In addition, the Corporation has two credit agreements with a commercial bank, FirstBank Puerto Rico. These credit agreements bear interest rates based on the London Interbank Offered Rate (LIBOR) plus a margin specified by the commercial bank at the time of the agreement. As of June 30, 2006, the two credit agreements have an outstanding balance of \$28.4 million and \$10.5 million, respectively. These credit agreements contain restrictive covenants, including, but not limited to, the granting of certain liens, limitations on acquisitions and limitations on changes in control. As of June 30, 2006, management believes the Corporation is in compliance with these covenants.

Further details regarding the senior unsecured notes and the credit agreements are incorporated by reference to Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations of the Corporation's Annual Report on Form 10-K as of and for the year ended December 31, 2005.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Corporation is exposed to certain market risks that are inherent in the Corporation's financial instruments, which arise from transactions entered into in the normal course of business. The Corporation has exposure to market risk mostly in its investment activities. For purposes of this disclosure, market

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risk is defined as the risk of loss resulting from changes in interest rates and equity prices. No material changes have occurred in the Corporation's exposure to financial market risks since December 31, 2005. A discussion of the Corporation's market risk as of December 31, 2005 is incorporated by reference to Item 7A Quantitative and Qualitative Disclosures about Market Risk of the Corporation's Annual Report on Form 10-K.

**Item 4. Controls and Procedures**

The Corporation's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Corporation's disclosure controls and procedures as of June 30, 2006. Based on that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective as of June 30, 2006. There were no significant changes in the Corporation's 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**

- (a) As of June 30, 2006, the Corporation is a defendant in various lawsuits arising out of the ordinary course of business. Management believes, based on the opinion of legal counsel, that the aggregate liabilities, if any, arising from such actions would not have a material adverse effect on the Corporation's consolidated financial position or results of operations.
- (b) Drs. Carlyle Benavent and Ibrahim Pérez (the plaintiffs) caused the initiation of an administrative proceeding before the Puerto Rico Insurance Commissioner (the Commissioner) against TSI and TSM alleging the illegality of the repurchase and subsequent sale of 1,582 shares of TSI's common stock due to the fact that the ultimate purchasers of said shares were selected on an improper and selective basis by the Corporation in violation of the Puerto Rico Insurance Code. The plaintiffs alleged that they were illegally excluded from participation in the sale of shares by TSI due to the illegally selective nature of the sale of shares and that, consequently, the sale of shares should be eliminated.

In December 1996, the Commissioner of Insurance issued an order to annul the sale of the 1,582 shares. TSI contested such order through an administrative and judicial review process. Consequently, the sale of 1,582 shares was cancelled and the purchase price was returned to each former stockholder. In the year 2000, the Commissioner of Insurance issued an order that, among other things, required that all corporate decisions undertaken by TSI through the vote of its stockholders of record, be ratified in a stockholders' meeting or in a subsequent referendum. In November 2000, TSM, as the sole stockholder of TSI, ratified all such decisions. Thereafter the plaintiffs filed a petition for review of the Commissioner's determination before the Puerto Rico Circuit Court of Appeals (the Court of Appeals). TSI and the Commissioner opposed such petition.

Pursuant to that review, on September 24, 2002, the Court of Appeals issued an order requiring the Commissioner to order that a meeting of shareholders be held to ratify TSI's corporate reorganization and the change of name of TSI from Seguros de Servicios de Salud de Puerto Rico, Inc. to Triple-S, Inc. The Court of Appeals based its decision on administrative and procedural issues directed at the Commissioner. Subsequently, the Commissioner, TSM and TSI filed a motion of reconsideration. On May 18, 2003, the Court of Appeals granted TSI's and TSM's Motion of Reconsideration and that the reorganization of TSI was approved by the stockholders.

On May 26, 2006, Plaintiff Ibrahim Pérez filed a motion requesting a voluntary dismissal of the case with prejudice arguing that the controversy had become moot. The Supreme Court granted the motion, and on June 30, 2006 issued a Judgment dismissing this case as requested by Plaintiff Pérez.

- (c) On September 4, 2003, José Sánchez and others filed a putative class action complaint against the Corporation, present and former directors of TSM and TSI, and others, in the United States District



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Court for the District of Puerto Rico, alleging violations under the Racketeer Influenced and Corrupt Organizations Act, better known as the RICO Act. The suit, among other allegations, alleges a scheme to defraud the plaintiffs by acquiring control of TSI through illegally capitalizing TSI and later converting it to a for-profit corporation and depriving the stockholders of their ownership rights. The plaintiffs base their later allegations on the supposed decisions of TSI's board of directors and stockholders, allegedly made in 1979, to operate with certain restrictions in order to turn TSI into a charitable corporation, basically forever. On March 4, 2005 the Court issued an Opinion and Order. In this Opinion and Order, of the twelve counts included in the complaint, eight counts were dismissed for failing to assert an actionable injury; six of them for lack of standing and two for failing to plead with sufficient particularity in compliance with the Rules. All shareholder allegations, including those described above, were dismissed in the Opinion and Order. The remaining four counts were found standing, in a limited way, in the Opinion and Order. The parties finished class certification discovery and fully briefed the issue of class certification. While waiting for the Court's decision on the issue of class certification, the Court *sua sponte*, issued an Order to Show Cause (OTC) to plaintiffs as to why the complaint should not be dismissed with prejudice. The Court's OTC is predicated on the parties' submissions about class certification. The Court then granted plaintiffs leave to file a sur-reply, which they did on April 21, 2006. In its OTC the Court indicated that it would decide first the sustainability of the complaint before deciding plaintiffs' request for class certification. On May 4, 2006, the Court issued an Opinion and Order, which entered a summary judgment in favor of all the defendants, and dismissing the case. Plaintiffs filed a notice of appeal before the United States Court of Appeals for the First Circuit. Recently, the Appeals Court notified the briefing schedule, and Plaintiffs have until August 21, 2006 to file their brief.

- (d) On April 24, 2002, Octavio Jordán, Agripino Lugo, Ramón Vidal, and others filed a suit against TSM, TSI and others in the Court of First Instance for San Juan, Superior Section, alleging, among other things, violations by the defendants of provisions of the Puerto Rico Insurance Code, anti-monopolistic practices, unfair business practices and damages in the amount of \$12.0 million. They also requested that TSM sell shares to them. After a preliminary review of the complaint, it appears that many of the allegations brought by the plaintiffs have been resolved in favor of TSM and TSI in previous cases brought by the same plaintiffs in the United States District Court for the District of Puerto Rico and by most of the plaintiffs in the local courts. The defendants, including TSM and TSI answered the complaint, filed a counterclaim and filed several motions to dismiss this claim. On February 18, 2005 the plaintiffs informed their intention to amend the complaint and the Court granted them 45 days to do so and 90 days to the defendants to file the corresponding motion to dismiss. On May 9, 2005 the plaintiffs amended the complaint and the defendants prepared the corresponding motions to dismiss this amended complaint. The plaintiffs amended the complaint to allege causes of action similar to those dismissed by the United States District Court for the District of Puerto Rico in the Sánchez case. Defendants moved to dismiss the amended complaint. Plaintiffs notified their opposition to some of the defendants' motion to dismiss, and the defendants filed the corresponding replies. On January 25, 2006, the court held a hearing to argue the dispositive motions. On March 16, 2006 the Court held another hearing to hear additional argument on the same motions. On July 6, 2006 the Court held the last of three hearings to hear arguments on the defendants' dispositive motions. The Court stayed all discovery until the motions are resolved.
- (e) On May 22, 2003 a putative class action suit was filed by Kenneth A. Thomas, M.D. and Michael Kutell, M.D., on behalf of themselves and all others similarly situated and the Connecticut State Medical Society against the Blue Cross and Blue Shield Association (BCBSA) and multiple other insurance companies including TSI. The case is pending before the U.S. District Court for the Southern District of Florida, Miami District.

The individual plaintiffs bring this action on behalf of themselves and a class of similarly situated physicians seeking redress for alleged illegal acts of the defendants, which they allege have resulted in a loss of their property and a detriment to their business, and for declaratory and injunctive relief to end those practices and prevent further losses. Plaintiffs alleged that the defendants, on their own and as part of a common scheme,

systematically deny, delay and diminish the payments due to doctors so that they are not paid in a timely manner for the covered, medically necessary services they render.

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

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

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 Court issued a 90-day stay to allow the parties to discuss their differences and come to amicable agreement. The stay expired on March 7, 2006. Upon the expiration of the stay, both plaintiffs and defendants agreed to request the Court to extend the stay until April 21, 2006. The stay expired and the parties informed the Court that they need additional time to iron out the details of an amicable solution. The Court has not reacted to the parties joint request. If the Court denies another stay, the parties will have to continue the proceedings where they were left before the issuance of the first stay. In the meantime, the Court issued an Agreed Order on the Preservation of Records. This order supersedes the parties existing record-keeping policies in regards to the documents and materials specified in the order. The purpose of the order is to avoid the disposition of documents that might be relevant for the case.

- (f) On December 8, 2003 a putative class action was filed by Jeffrey Solomon, MD and Orlando Armstrong, MD, on behalf of themselves and all other similarly situated and the American Podiatric Medical Association, Florida Chiropractic Association, California Podiatric Medical Association, Florida Podiatric Medical Association, Texas Podiatric Medical Association, and Independent Chiropractic Physicians, against the BCBSA and multiple other insurance companies, including TSI and all members of the BCBSA. The case is still pending before the United States District Court for the Southern District of Florida, Miami District.

The lawsuit challenges many of the same practices as the litigation described in the immediately preceding item.

Management believes that TSI was made a party to this litigation for the sole reason that TSI is associated with the BCBSA.

On June 25, 2004, plaintiffs amended the complaint but the allegations against TSI did not vary. 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 Court issued a 90-day stay to allow the parties to discuss their differences and come to an amicable agreement. The stay expired on March 7, 2006. Upon the expiration of the stay, both plaintiffs and defendants agreed to request the Court to extend the stay until April 21, 2006. The stay expired and the parties informed the Court that they need additional time to iron out the details of an amicable solution. The Court has not reacted to the parties joint request. If the Court denies another stay, the parties will have to continue the proceedings where they were left before the issuance of the first stay. In the meantime, the Court issued an Agreed Order on the Preservation of Records. This order supersedes the parties existing record-keeping policies in regards to the documents and materials specified in the order. The purpose of the order is to avoid the disposition of documents that might be relevant for the case.



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**Item IA. Risk Factors**

Other than as disclosed in Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations in the section Recent Developments Puerto Rico's Economy, no material change has occurred from risk factors previously disclosed by the Corporation in its Annual Report on Form 10-K for December 31, 2005.

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

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

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

The Eighth Annual Shareholders Meeting of the Corporation was held on April 30, 2006 (the Meeting). Six directors assigned to Group 2 were elected to serve until the 2009 annual meeting of the Corporation: Valeriano Alicea-Cruz, MD, José A. Álvarez-Gallardo, Luis A. Clavell-Rodríguez, MD, Porfirio E. Díaz-Torres, MD, Vicente J.

León-Irizarry, CPA, and Jesús R. Sánchez-Colón, DMD. The following directors were not up for reelection and continued to hold office after the meeting: Wilmer Rodríguez-Silva, MD, Mario S Belaval, Miguel Nazario-Franco, Adamina Soto-Martínez, CPA, Carmen Ana Culpeper, Arturo Córdova-López, MD, José Hawayek-Alemañy, MD, Manuel Figueroa-Collazo, PE, Phd, Wilfredo López-Hernández, MD, Juan E. Rodríguez-Díaz, Esq., Ramón M. Ruiz-Comas, CPA, Manuel Suárez-Méndez, PE, and Fernando J. Ysern-Borrás. MD. Fernando L. Longo-Rodríguez, MD was not eligible for reelection to continue as a member of the board of directors as his third and final term as a member of the board of directors expired on April 30, 2006, the date of the Meeting.

All candidates recommended by the board of directors were elected. Four directors were required to be physicians or dentists: Valeriano Alicea-Cruz, MD received 6,523 votes in favor; Luis A. Clavell-Rodríguez, MD received 6,547 votes in favor; Porfirio E. Díaz-Torres, MD received 6,522 votes in favor; and Jesús R. Sánchez-Colón, DMD received 6,521 votes in favor. Two directors were required to be representatives of the community: José A. Álvarez-Gallardo received 6,585 votes in favor and Vicente J. León-Irizarry, CPA received 6,542 votes in favor.

Proposal Number 2 was presented by the Board of Directors of the Corporation to approve the Amended and Restated Articles of Incorporation of the Corporation (other than Article FIFTH of the Articles of Incorporation). The affirmative vote of two-thirds of the common stock issued and outstanding entitled to vote on the record date was required to approve the Amended and Restated Articles. However, if Proposals 3 and 4 were not approved by the requisite shareholder vote, then the Amended and Restated Articles of Incorporation in Proposal 2 would not be effective.

The voting results for Proposal Number 2 were the following: 6,805 of all shares issued and outstanding entitled to vote exercised their right to vote either in person or by proxy at the Meeting. 6,623 (97.33%) voted to approve the Proposal; 113 (1.66%) voted not to approve the Proposal; 63 (0.93%) shares abstained from voting; and, 6 (0.09%) voted in blank. This Proposal was approved since it required the affirmative vote of two-thirds (2/3) or more of the issued and outstanding common shares entitled to vote on the record date for its approval, which would have been 5,564 shares.

Proposal Number 3 was presented by the Board of Directors of the Corporation to approve Article FIFTH of the Amended and Restated Articles of Incorporation of the Corporation to increase the aggregate number of authorized shares of common stock and authorize a new class of serial preferred stock. The affirmative vote of the majority of the common stock issued and outstanding entitled to vote on the record date was required to approve Article FIFTH of the Amended and Restated Articles. However, if Proposals 2 and 4 were not approved by the requisite shareholder vote, then the approval of Article FIFTH of the Amended and Restated Articles of Incorporation in this Proposal 3 would not be effective.



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The voting results for Proposal Number 3 were the following: 6,805 of all shares issued and outstanding entitled to vote exercised their right to vote either in person or by proxy at the Meeting. 6,657 (97.83%) voted to approve the Proposal; 95 (1.40%) voted not to approve the Proposal; 47 (0.69%) shares abstained from voting; and, 6 (0.09%) voted in blank. This Proposal was approved since it required the affirmative vote of the majority of the issued and outstanding common shares entitled to vote on the record date for its approval, which would have been 4,174 shares. Proposal Number 4 was presented by the Board of Directors of the Corporation to approve the elimination of Article SIXTH of the existing Articles of Incorporation that prohibits the ownership of our common stock by persons that are not physicians, dentists or certain limited healthcare institutions and provides that no current shareholder may own more than 21 shares of our common stock nor 5% or more of our shares of common stock. The affirmative vote of three-fourths of the shares of common stock issued and outstanding entitled to vote on the record date was required to approve the elimination of Article SIXTH of the existing Articles. However, if Proposals 2 and 3 were not approved by the requisite shareholder vote, then the elimination of Article SIXTH of the existing Articles in this Proposal 4 would not be effective.

The voting results for Proposal Number 4 were the following: 6,805 of all shares issued and outstanding entitled to vote exercised their right to vote either in person or by proxy at the Meeting. 6,583 (96.74%) voted to approve the Proposal; 171 (2.51%) voted not to approve the Proposal; 45 (0.66%) shares abstained from voting; and, 7 (0.10%) voted in blank. This Proposal was approved since it required the affirmative vote of three-fourths of the shares of common stock issued and outstanding entitled to vote on the record date for its approval, which would have been 6,260 shares.

Proposal Number 5 was presented by the Board of Directors of the Corporation to approve the Amended and Restated Bylaws of the Corporation. The affirmative vote of the majority of the shares of common stock entitled to vote present at the meeting is required to approve the Amended and Restated Bylaws.

The voting results for Proposal Number 5 were the following: 6,805 of all shares issued and outstanding entitled to vote exercised their right to vote either in person or by proxy at the Meeting. 6,605 (97.06%) voted to approve the Proposal; 104 (1.53%) voted not to approve the Proposal; 90 (1.32%) shares abstained from voting; and, 6 (0.09%) voted in blank. This Proposal was approved since it required the affirmative vote of the majority of the issued and outstanding common shares entitled to vote present at the meeting for its approval, which would have been 3,403 shares.

Proposal Number 6 was presented by the Board of Directors of the Corporation to approve the elimination of Section 4-1 of the Bylaws of the Corporation, including the limitation that no person may own 5% or more of our common stock. The affirmative vote of three-fourths of the shares of common stock issued and outstanding entitled to vote on the record date was required to approve the elimination of Section 4-1 of the Bylaws, including the limitation that no person may own 5% or more of our common stock. However, if Proposal 5 was not approved by the requisite shareholder vote, then the proposal in this Proposal 6 to eliminate Section 4-1 of the Bylaws, including the limitation that no person may own 5% or more of our common stock would not be effective.

The voting results for Proposal Number 6 were the following: 6,805 of all shares issued and outstanding entitled to vote exercised their right to vote either in person or by proxy at the Meeting. 6,547 (96.21%) voted to approve the Proposal; 135 (2.51%) voted not to approve the Proposal; 111 (1.63%) shares abstained from voting; and, 12 (0.18%) voted in blank. This Proposal was approved since it required the affirmative vote of three-fourths of the shares of common stock issued and outstanding entitled to vote on the record date for its approval, which would have been 6,260 shares.

Since all the proposals were approved by the requisite shareholder vote entitled to vote at the Meeting, the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws of the Corporation would become effective upon filing with the Department of State for the Commonwealth of Puerto Rico.

**Item 5. Other Information**

Not applicable.

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**Item 6. Exhibits**

(a) Exhibits:

- Exhibit 3(i) Amended and Restated Articles of Incorporation of Triple-S Management Corporation, incorporated herein by reference to Exhibit 3.1 of TSM's Current Report on Form 8-K filed by the Corporation on April 30, 2006. (File No. 0-49762)
- Exhibit 3 (ii) Amended and Restated Bylaws of Triple-S Management Corporation, incorporated herein by reference to Exhibit 3.2 of TSM's Current Report on Form 8-K filed by the Corporation on April 30, 2006. (File No. 0-49762)
- Exhibit 10.1 Extension to the Puerto Rico Health Insurance Contract for the Metro-North Health Region, dated July 18, 2006, between Triple-S, Inc. and the Puerto Rico Health Insurance Administration.
- Exhibit 10.2 Extension to the Puerto Rico Health Insurance Contract for the North Health Region, dated July 18, 2006, between Triple-S, Inc. and the Puerto Rico Health Insurance Administration.
- Exhibit 10.3 Extension to the Puerto Rico Health Insurance Contract for the South West Health Region, dated July 18, 2006, between Triple-S, Inc. and the Puerto Rico Health Insurance Administration.
- Exhibit 10.4 6.70% Senior Unsecured Notes Due January 2021 Note Purchase Agreement, dated January 23, 2006, between Triple-S Management Corporation and various institutional accredited investors (incorporated herein by reference to Exhibit 10.1 to TSM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (File No. 0-49762)).
- Exhibit 11 Statement re computation of per share earnings; an exhibit describing the computation of the earnings per share for the three months and six months ended June 30, 2006 and 2005 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.
- Exhibit 12 Statements re computation of ratios; an exhibit describing the computation of the loss ratio, expense ratio and combined ratio for the three months and six months ended June 30, 2006 and 2005 has been omitted as the detail necessary to determine the computation of the loss ratio, expense ratio and combined ratio can be clearly determined from the material contained in Part I of this Quarterly Report on Form 10-Q.
- Exhibit 31.1 Certification of the President and Chief Executive Officer required by Rule 13a-14(a)/15d-14(a).
- Exhibit 31.2 Certification of the Vice President of Finance and Chief Financial Officer required by Rule 13a-14(a)/15d-14(a).
- Exhibit 32.1 Certification of the President and Chief Executive Officer required pursuant to 18 U.S.C Section 1350.
- Exhibit 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.



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**SIGNATURES**

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

**Triple-S Management  
Corporation**  
Registrant

Date: August 11, 2006

By: /s/ Ramón M. Ruiz-Comas

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

Date: August 11, 2006

By: /s/ Juan J. Román

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

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