

TRIPLE-S MANAGEMENT CORP

Form 10-Q

May 12, 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 March 31, 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

Outstanding at March 31, 2006

Common Stock, \$40.00 par value

8,911

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FORM 10-Q
For the Quarter Ended March 31, 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)*

| | (Unaudited) March 31, 2006 | December 31, 2005 |
|--|----------------------------------|----------------------|
| ASSETS | | |
| Investments and cash: | | |
| Securities held for trading, at fair value: | | |
| Equity securities | \$ 81,550 | 78,215 |
| Securities available for sale, at fair value: | | |
| Fixed maturities | 715,337 | 515,174 |
| Equity securities | 53,331 | 51,810 |
| Securities held to maturity, at amortized cost: | | |
| Fixed maturities | 21,083 | 21,129 |
| Policy loans | 4,888 | |
| Cash and cash equivalents | 48,909 | 48,978 |
| Total investments and cash | 925,098 | 715,306 |
| Premiums and other receivables, net | 154,711 | 244,038 |
| Deferred policy acquisition costs and value of business acquired | 104,239 | 81,568 |
| Property and equipment, net | 38,544 | 34,709 |
| Net deferred tax asset | 498 | 2,151 |
| Other assets | 57,073 | 59,690 |
| Total assets | \$1,280,163 | 1,137,462 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Claim liabilities: | | |
| Claims processed and incomplete | \$ 147,069 | 139,694 |
| Unreported losses | 163,868 | 143,224 |
| Unpaid loss-adjustment expenses | 15,402 | 14,645 |
| Total claim liabilities | 326,339 | 297,563 |
| Future policy benefits | 168,457 | |
| Future policy benefits reserve related to funds withheld reinsurance | | 118,635 |
| Unearned premiums | 98,588 | 95,703 |
| Policyholder deposits | 54,384 | 41,738 |

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| | | |
|---|------------------------|---------------|
| Liability to Federal Employees Health Benefits Program | 8,097 | 4,356 |
| Accounts payable and accrued liabilities | 119,547 | 106,468 |
| Short-term borrowings | | 1,740 |
| Long-term borrowings | 185,317 | 150,590 |
| Additional minimum pension liability | 14,133 | 11,966 |
| Total liabilities | 974,862 | 828,759 |
| Stockholders' equity: | | |
| Common stock, \$40 par value. Authorized 12,500 shares; issued and outstanding 8,911 at March 31, 2006 and 8,904 at December 31, 2005 | 356 | 356 |
| Additional paid-in capital | 150,408 | 150,408 |
| Retained earnings | 166,114 | 162,964 |
| Accumulated other comprehensive loss | (11,577) | (5,025) |
| Total stockholders' equity | 305,301 | 308,703 |
| Total liabilities and stockholders' equity | \$1,280,163 | 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 ended March 31, 2006 and 2005

(Dollar amounts in thousands, except per share data)

| | Three months ended March 31, | |
|--|---|-------------|
| | 2006 | 2005 |
| REVENUE: | | |
| Premiums earned, net | \$382,104 | 333,389 |
| Amounts attributable to self-funded arrangements | 50,806 | 51,915 |
| Less amounts attributable to claims under self-funded arrangements | (47,377) | (48,540) |
| | 385,533 | 336,764 |
| Net investment income | 10,050 | 7,064 |
| Net realized investment gains | 528 | 3,314 |
| Net unrealized investment gain (loss) on trading securities | 2,556 | (5,793) |
| Other income, net | 1,199 | 632 |
| Total revenue | 399,866 | 341,981 |
| BENEFITS AND EXPENSES: | | |
| Claims incurred | 326,684 | 302,923 |
| Operating expenses, net of reimbursement for services | 57,730 | 43,766 |
| Interest expense | 3,394 | 1,788 |
| Total benefits and expenses | 387,808 | 348,477 |
| Income (loss) before taxes | 12,058 | (6,496) |
| INCOME TAX EXPENSE (BENEFIT): | | |
| Current | 2,636 | 1,221 |
| Deferred | 41 | (2,510) |
| Total income taxes | 2,677 | (1,289) |
| Net income (loss) | \$ 9,381 | (5,207) |
| Basic net income (loss) per share | \$ 1,053 | (585) |

See accompanying notes to unaudited consolidated financial statements.

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity and

Comprehensive Income (Unaudited)

For the three months

ended March 31, 2006 and 2005

(Dollar amounts in thousands, except per share data)

| | 2006 | 2005 |
|--|-------------------|-------------|
| BALANCE AT JANUARY 1 | \$ 308,703 | 301,433 |
| Dividends | (6,231) | |
| Comprehensive income (loss): | | |
| Net income (loss) | 9,381 | (5,207) |
| Net unrealized change in investment securities | (6,644) | (12,488) |
| Net change in fair value of cash flow hedges | 92 | 337 |
| Total comprehensive income (loss) | 2,829 | (17,358) |
| BALANCE AT MARCH 31 | \$ 305,301 | 284,075 |

See accompanying notes to unaudited consolidated financial statements.

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

For the three months ended March 31, 2006 and 2005

(Dollar amounts in thousands, except per share data)

| | Three months ended March 31, | |
|---|---|-------------|
| | 2006 | 2005 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Premiums collected | \$ 366,287 | 323,459 |
| Cash paid to suppliers and employees | (65,552) | (44,943) |
| Claims, losses and benefits paid | (305,380) | (276,277) |
| Interest received | 10,462 | 6,359 |
| Proceeds from trading securities sold or matured: | | |
| Fixed maturities sold | | 31,946 |
| Equity securities | 5,866 | 5,027 |
| Acquisitions of investments in trading portfolio: | | |
| Fixed maturities | | (14,463) |
| Equity securities | (5,762) | (5,116) |
| Interest paid | (3,161) | (1,509) |
| Expense reimbursement from Medicare | 1,155 | 3,003 |
| Net cash provided by operating activities | 3,915 | 27,486 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from investments sold or matured: | | |
| Securities available for sale: | | |
| Fixed maturities sold | 4,838 | 5,038 |
| Fixed maturities matured | 14,569 | 206 |
| Equity securities | 360 | 2,677 |
| Securities held to maturity: | | |
| Fixed maturities matured | 122 | 290 |
| Acquisitions of investments: | | |
| Securities available for sale: | | |
| Fixed maturities | (21,844) | (17,919) |
| Equity securities | | (2,821) |
| Securities held to maturity: | | |
| Fixed maturities | | (993) |
| Acquisition of business, net of \$10,403 of cash acquired | (27,793) | |
| Net disbursements for policy loans | (109) | |
| Capital expenditures | (3,780) | (1,338) |
| Proceeds from sale of property and equipment | 3 | 2 |
| Net cash used in investing activities | (33,634) | (14,858) |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | |
|---|------------------|----------|
| Change in outstanding checks in excess of bank balances | 2,569 | 8,700 |
| Payments of short-term borrowings | (8,652) | (17,125) |
| Proceeds from short-term borrowings | 6,912 | 17,125 |
| Payments of long-term borrowings | (273) | (273) |
| Proceeds from long-term borrowings | 35,000 | |
| Dividends | (6,231) | |
| Proceeds from policyholder deposits | 2,255 | 3,164 |
| Surrenders of policyholder deposits | (1,930) | (1,166) |
| Net cash provided by financing activities | 29,650 | 10,425 |
| Net (decrease) increase in cash and cash equivalents | (69) | 23,053 |
| Cash and cash equivalents at beginning of the period | 48,978 | 35,115 |
| Cash and cash equivalents at end of the period | \$ 48,909 | 58,168 |

See accompanying notes to unaudited consolidated financial statements.

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 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 ended March 31, 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

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

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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 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). 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 ended March 31, 2006 and 2005:

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

March 31, 2006

(Dollar amounts in thousands, except per share data)

(Unaudited)

Operating Segments

| | Health Insurance Commercial Program | Health Insurance Reform Program | Property and Casualty Insurance | Life and Disability Insurance | Other * | Total |
|--|---|---|--|--|----------------|--------------|
| THREE MONTHS ENDED MARCH 31, 2006 | | | | | | |
| Premiums earned, net | \$211,107 | 127,496 | 21,898 | 21,603 | | 382,104 |
| Amounts attributable to self-funded arrangements | 50,806 | | | | | 50,806 |
| Less: Amounts attributable to claims under self-funded arrangements | (47,377) | | | | | (47,377) |
| Intersegment premiums earned/service revenues | 1,398 | | 129 | 78 | 13,268 | 14,873 |
| | 215,934 | 127,496 | 22,027 | 21,681 | 13,268 | 400,406 |
| Net investment income | 3,755 | 801 | 2,364 | 3,010 | | 9,930 |
| Realized gain (loss) on sale of securities | 485 | 33 | (32) | 42 | | 528 |
| Unrealized gain on trading securities | 1,914 | | 552 | 90 | | 2,556 |
| Other | 1,063 | (4) | 54 | 69 | | 1,182 |
| Total revenue | \$223,151 | 128,326 | 24,965 | 24,892 | 13,268 | 414,602 |
| Net income | \$ 2,116 | 3,667 | 2,659 | 507 | 7 | 8,956 |
| Claims incurred | \$190,857 | 113,882 | 10,313 | 11,632 | | 326,684 |
| Operating expenses | \$ 28,401 | 9,240 | 11,642 | 11,390 | 12,984 | 73,657 |
| | \$ 760 | 157 | 107 | 135 | | 1,159 |

Depreciation expense,
included in operating
expenses

| | | | | | | |
|--------------------|----------|-------|-----|-------|-----|-------|
| Interest expense | \$ 1,240 | 324 | | 1,285 | | 2,849 |
| Income tax expense | \$ 537 | 1,213 | 351 | 78 | 277 | 2,456 |

* 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***

March 31, 2006

(Dollar amounts in thousands, except per share data)

(Unaudited)

Operating Segments

| | Health Insurance Commercial Program | Health Insurance Reform Program | Property and Casualty Insurance | Life and Disability Insurance | Other * | Total |
|---|---|---|--|--|----------------|--------------|
| THREE MONTHS ENDED MARCH 31, 2005 | | | | | | |
| Premiums earned, net | \$ 184,300 | 123,140 | 22,096 | 3,853 | | 333,389 |
| Amounts attributable to self-funded arrangements | 51,915 | | | | | 51,915 |
| Less: Amounts attributable to claims under self-funded arrangements | (48,540) | | | | | (48,540) |
| Intersegment premiums earned/service revenues | 1,076 | | | | 13,638 | 14,714 |
| Net investment income | 188,751 | 123,140 | 22,096 | 3,853 | 13,638 | 351,478 |
| Realized gain (loss) on sale of securities | 3,413 | 741 | 2,105 | 711 | | 6,970 |
| Unrealized loss on trading securities | 2,103 | (25) | 1,176 | 60 | | 3,314 |
| Other | (4,806) | | (793) | (194) | | (5,793) |
| | 188 | (5) | 338 | 62 | | 583 |
| Total revenue | \$ 189,649 | 123,851 | 24,922 | 4,492 | 13,638 | 356,552 |
| Net income (loss) | \$ (6,803) | (911) | 2,658 | (414) | 69 | (5,401) |
| Claims incurred | \$ 172,829 | 116,088 | 11,373 | 2,633 | | 302,923 |
| Operating expenses | \$ 24,240 | 8,914 | 10,341 | 1,982 | 13,405 | 58,882 |
| | \$ 644 | 181 | 107 | 39 | | 971 |

Depreciation expense,
included in operating
expenses

| | | | | | | |
|---------------------------------|------------|-------|-----|-----|-----|---------|
| Interest expense | \$ 1,058 | 204 | | 279 | | 1,541 |
| Income tax expense (benefit) | \$ (1,675) | (444) | 550 | 12 | 164 | (1,393) |

* 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.

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

March 31, 2006

(Dollar amounts in thousands, except per share data)

(Unaudited)

| | Operating Segments | | | | | |
|---|--|--|--|--|----------------|--------------|
| | Health Insurance Commercial Program | Health Insurance Reform Program | Property and Casualty Insurance | Life and Disability Insurance | Other * | Total |
| AS OF MARCH 31, 2006 | | | | | | |
| Segment assets | \$481,275 | 92,073 | 305,514 | 396,893 | 4,201 | 1,279,956 |
| Significant noncash item: Net change in unrealized gain on securities available for sale | \$ (1,832) | (355) | (877) | (3,512) | | (6,576) |
| AS OF DECEMBER 31, 2005 | | | | | | |
| Segment assets | \$459,288 | 82,685 | 307,228 | 271,615 | 4,310 | 1,125,126 |
| Significant noncash item: Net change in unrealized gain on securities available for sale | \$ (12,432) | (1,301) | (3,090) | (1,844) | | (18,667) |
| Net change in minimum pension 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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March 31, 2006

(Dollar amounts in thousands, except per share data)

(Unaudited)

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

| | Three months ended March 31, | |
|---|---|-------------|
| | 2006 | 2005 |
| TOTAL REVENUE | | |
| Total revenues for reportable segments | \$401,334 | 342,914 |
| Total revenues for other segments | 13,268 | 13,638 |
| | 414,602 | 356,552 |
| Elimination of intersegment premiums earned | (1,605) | (1,076) |
| Elimination of intersegment service revenues | (13,268) | (13,638) |
| Unallocated amount revenues from external sources | 137 | 143 |
| | (14,736) | (14,571) |
| Consolidated total revenue | \$399,866 | 341,981 |
| NET INCOME | | |
| Net income (loss) for reportable segments | \$ 8,949 | (5,470) |
| Net income for other segments | 7 | 69 |
| | 8,956 | (5,401) |
| Elimination of TSM charges: | | |
| Rent expense | 1,690 | 1,624 |
| Interest expense | 1,343 | 256 |
| Management fees | 680 | |
| | 3,713 | 1,880 |

Unallocated amounts related to TSM:

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| | | |
|--------------------------------------|----------|---------|
| General and administrative expenses | (1,316) | (1,222) |
| Income tax expense | (221) | (104) |
| Interest expense | (1,888) | (503) |
| Other revenues from external sources | 137 | 143 |
| | (3,288) | (1,686) |
| Consolidated net income (loss) | \$ 9,381 | (5,207) |

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

March 31, 2006

(Dollar amounts in thousands, except per share data)

(Unaudited)

RECONCILIATION OF REPORTABLE SEGMENT TOTALS WITH FINANCIAL STATEMENTS

| | Three months ended March 31, 2006 | | |
|----------------------|--|--------------------|---------------------|
| | Segment | Adjustments | Consolidated |
| | Totals | * | Totals |
| Claims incurred | \$326,684 | | 326,684 |
| Operating expenses | 73,657 | (15,927) | 57,730 |
| Depreciation expense | 1,159 | 283 | 1,442 |
| Interest expense | 2,849 | 545 | 3,394 |
| Income tax expense | 2,456 | 221 | 2,677 |

| | Three months ended March 31, 2005 | | |
|------------------------------|--|--------------------|---------------------|
| | Segment | Adjustments | Consolidated |
| | Totals | * | Totals |
| Claims incurred | \$302,923 | | 302,923 |
| Operating expenses | 58,882 | (15,116) | 43,766 |
| Depreciation expense | 971 | 277 | 1,248 |
| Interest expense | 1,541 | 247 | 1,788 |
| Income tax expense (benefit) | (1,393) | 104 | (1,289) |

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

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

March 31, 2006

(Dollar amounts in thousands, except per share data)

(Unaudited)

RECONCILIATION OF REPORTABLE SEGMENT TOTALS WITH FINANCIAL STATEMENTS

| | March 31, 2006 | December 31, 2005 |
|--|---------------------------|------------------------------|
| ASSETS | | |
| Total assets for reportable segments | \$1,275,755 | 1,120,816 |
| Total assets for other segments | 4,201 | 4,310 |
| | 1,279,956 | 1,125,126 |
| Elimination entries intersegment receivables and others | (38,456) | (28,705) |
| Unallocated amounts related to TSM: | | |
| Parent cash, cash equivalents and investments | 11,376 | 11,054 |
| Parent net property and equipment | 24,479 | 24,760 |
| Parent other assets | 2,808 | 5,227 |
| | 38,663 | 41,041 |
| Consolidated assets | \$1,280,163 | 1,137,462 |

OTHER SIGNIFICANT ITEMS

| | As of March 31, 2006 | | |
|--|--------------------------------|--------------------|---------------------|
| | Segment | Adjustments | Consolidated |
| | Totals | * | Totals |
| Significant noncash item net change in unrealized gain on securities available for sale | \$(6,576) | (68) | (6,644) |
| | | | |
| | As of December 31, 2005 | | |
| | Segment | Adjustments | Consolidated |
| | Totals | * | Totals |
| Significant noncash items: | | | |
| Net change in unrealized gain on securities available for sale | \$(18,667) | (165) | (18,832) |

| | | | |
|---|---------|------|---------|
| Net change in minimum pension liability | (2,719) | (69) | (2,788) |
|---|---------|------|---------|

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

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

March 31, 2006

(Dollar amounts in thousands) (Unaudited)**(4) Investment in Securities**

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

| | | March 31, 2006 | | |
|---------------------|-------------------|---------------------|----------------------|----------------------------|
| | | Gross | Gross | |
| | Amortized cost | unrealized gains | unrealized losses | Estimated fair value |
| Trading securities: | | | | |
| Equity securities | \$70,176 | 13,323 | (1,949) | 81,550 |

| | | March 31, 2006 | | |
|--------------------------------|-------------------|---------------------|----------------------|----------------------------|
| | | Gross | Gross | |
| | Amortized cost | unrealized gains | unrealized losses | Estimated fair value |
| Securities available for sale: | | | | |
| Fixed maturities | \$732,732 | 536 | (17,931) | 715,337 |
| Equity securities | 40,658 | 14,575 | (1,902) | 53,331 |
| | \$773,390 | 15,111 | (19,833) | 768,668 |

| | | March 31, 2006 | | |
|------------------------------|-------------------|---------------------|----------------------|----------------------------|
| | | Gross | Gross | |
| | Amortized cost | unrealized gains | unrealized losses | Estimated fair value |
| Securities held to maturity: | | | | |
| Fixed maturities | \$21,083 | 297 | (971) | 20,409 |

| | | December 31, 2005 | | |
|--|-------------------|---------------------|----------------------|----------------------------|
| | | Gross | Gross | |
| | Amortized cost | unrealized gains | unrealized losses | Estimated fair value |

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

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March 31, 2006

(Dollar amounts in thousands, except per share data)

(Unaudited)

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

Investment in securities at March 31, 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 (9.6%) and obligations of the government of Puerto Rico and its instrumentalities (6.0%). The remaining 22.4% of the investment portfolio is comprised of equity securities and mutual funds.

The Corporation regularly monitors the difference between the cost and estimated fair value of investments. For investments with a fair value below cost, the process includes evaluating the length of time and the extent to which cost exceeds fair value, the prospects and financial condition of the issuer, and the Corporation's intent and ability to retain the investment to allow for recovery in fair value, among other factors. This process is not exact and further requires consideration of risks such as credit and interest rate risks. Consequently, if an investment's cost exceeds its fair value solely due to changes in interest rates, impairment may not be appropriate. If after monitoring and analyzing, the Corporation determines that a decline in the estimated fair value of any available-for-sale or held-to-maturity security below cost is other than temporary, the carrying amount of the security is reduced to its fair value. The impairment is charged to operations and a new cost basis for the security is established. During the three months ended March 31, 2006 the Corporation recognized an other-than-temporary impairment amounting to \$388 on one of its equity securities classified as available for sale.

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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(Unaudited)

(5) Premiums and Other Receivables

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

| | March 31, 2006 | December 31, 2005 |
|--|---------------------------|------------------------------|
| Premiums | \$ 75,834 | 53,391 |
| Self-funded group receivables | 22,108 | 21,620 |
| FEHBP | 11,747 | 9,491 |
| Accrued interest | 8,051 | 5,074 |
| Agents balances | 3,049 | |
| Funds withheld reinsurance receivable | | 118,635 |
| Reinsurance recoverable | 35,086 | 33,915 |
| Other | 12,392 | 14,152 |
| | 168,267 | 256,278 |
| Less allowance for doubtful receivables: | | |
| Premiums | 8,365 | 7,792 |
| Other | 5,191 | 4,448 |
| | 13,556 | 12,240 |
| Total premiums and other receivables | \$ 154,711 | 244,038 |

(6) Claim Liabilities

The activity in the total claim liabilities for the three months ended March 31, 2006 and 2005 is as follows:

| | Three months ended March 31, 2006 | 2005 |
|--|--|----------------|
| Claim liabilities at beginning of period | \$ 297,563 | 279,325 |
| Reinsurance recoverable on claim liabilities | (28,720) | (26,555) |
| Net claim liabilities at beginning of period | 268,843 | 252,770 |
| Claim liabilities acquired from GA Life | 8,771 | |

Incurred claims and loss-adjustment expenses:

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| | | |
|--|----------------------|-------------|
| Current period insured events | 316,804 | 297,517 |
| Prior period insured events | 4,460 | 5,406 |
| Total | 321,264 | 302,923 |
| Payments of losses and loss-adjustment expenses: | | |
| Current period insured events | 167,711 | 137,351 |
| Prior period insured events | 133,859 | 138,995 |
| Total | 301,570 | 276,346 |
| Net claim liabilities at end of period | 297,308 | 279,347 |
| Reinsurance recoverable on claim liabilities | 29,031 | 25,285 |
| Claim liabilities at end of period | \$326,339 | 304,632 |

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 amount in the incurred claims and loss-adjustment expenses for prior period insured events for the three months ended

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(Unaudited)

March 31, 2006 and 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 March 31, 2006 and December 31, 2005 is as follows:

| | March 31, 2006 | December 31, 2005 |
|--|---------------------------|------------------------------|
| 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 5.87% and 5.71% at March 31, 2006 and December 31, 2005, respectively) | \$ 11,500 | 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 5.63% and 5.29% at March 31, 2006 and December 31, 2005, respectively) | 28,817 | 29,090 |
| Total long-term borrowings | \$185,317 | 150,590 |

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. 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 are as follows:

| | Unrealized | Minimum | | Accumulated other |
|-----------------------------|--------------------------------|------------------------------|---------------------------------|---------------------------------|
| | gains on securities | pension liability | Cash flow hedges | comprehensive income |
| BALANCE AT JANUARY 1 | \$ 3,217 | (8,613) | 371 | (5,025) |
| Net current period change | (6,644) | | 92 | (6,552) |

| | | | | |
|----------------------------|------------------|----------------|------------|-----------------|
| BALANCE AT MARCH 31 | \$(3,427) | (8,613) | 463 | (11,577) |
|----------------------------|------------------|----------------|------------|-----------------|

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(Dollar amounts in thousands)

(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 ended March 31, 2006 and 2005 were as follows:

| | Three months ended March 31, | |
|--|---|-------------|
| | 2006 | 2005 |
| Components of net periodic benefit cost: | | |
| Service cost | \$1,370 | 1,143 |
| Interest cost | 1,175 | 1,030 |
| Expected return on assets | (991) | (843) |
| Amortization of prior service cost | 12 | 12 |
| Amortization of actuarial loss | 602 | 490 |
| Net periodic benefit cost | \$2,168 | 1,832 |

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 March 31, 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.

The following table sets forth the computation of basic net income (loss) per share for the three months ended March 31, 2006 and 2005:

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(Dollar amounts in thousands, except per share data)

(Unaudited)

| | Three months ended March 31, | |
|---|---|-------------|
| | 2006 | 2005 |
| Numerator for basic earnings per share: | | |
| Net income (loss) available to stockholders | \$9,381 | (5,207) |
| Denominator for basic earnings per share: | | |
| Weighted average of outstanding common shares | 8,906 | 8,904 |
| Basic net income (loss) per share | \$1,053 | (585) |

(12) Contingencies

- (a) As of March 31, 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 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 that TSI had repurchased from the estate of deceased stockholders. 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 a pronouncement providing further clarification of the content and effect of the order. This order also 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. Furthermore, on November 19, 2000, TSM held a special stockholders' meeting, where a ratification of these decisions was undertaken except for the resolution related to the approval of the reorganization of TSI and its subsidiaries. This resolution did not reach the two thirds majority required by the order because the number of shares that were present and represented at the meeting was below such amount (total shares present and represented in the stockholders' meeting was 64%). As stipulated in the order, TSM began the process to conduct a referendum among its stockholders in order to ratify such resolution. The process was later suspended because upon further review of the scope of the order, the Commissioner of Insurance issued an opinion in a letter dated January 8, 2002 which indicated that the ratification of the corporate reorganization

was not required.

In another letter dated March 14, 2002, the Commissioner of Insurance stated that the ratification of the corporate reorganization was not required and that TSI had complied with the Commissioner's order of December 6, 1996 related to the corporate reorganization. Thereafter, the plaintiffs filed a petition for review of the Commissioner's determination before the Puerto Rico Circuit Court of Appeals. Such petition was opposed by TSI and by the Commissioner of Insurance.

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Pursuant to that review, on September 24, 2002, the Puerto Rico Circuit Court of Appeals issued an order requiring the Commissioner of Insurance 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 Puerto Rico Circuit Court of Appeals based its decision on administrative and procedural issues directed at the Commissioner of Insurance. The Commissioner of Insurance filed a motion of reconsideration with the Puerto Rico Circuit Court of Appeals on October 11, 2002. TSM and TSI also filed a motion of reconsideration.

On October 25, 2002, the Puerto Rico Circuit Court of Appeals dismissed the Commissioner of Insurance's Motion for Reconsideration and ordered the plaintiffs to reply to TSI's Motion of Reconsideration.

On May 18, 2003, the Puerto Rico Circuit Court of Appeals granted TSI's and TSM's Motion of Reconsideration. The Puerto Rico Circuit Court of Appeals held that the Commissioner of Insurance had the authority to waive the celebration of a referendum to ratify TSI's reorganization and that therefore the reorganization of TSI, inasmuch as the 1,582 shares annulled were not decisive, was approved by the stockholders.

On June 26, 2003, the plaintiffs presented a writ of certiorari before the Supreme Court of Puerto Rico. TSI and TSM filed a motion opposing the issuance of the writ. The writ was issued by the Supreme Court on August 22, 2003 when it ordered the Puerto Rico Circuit Court of Appeals to transmit the record of the case. On December 1, 2003, the plaintiffs filed a motion submitting their case on the basis of their original petition. TSI and TSM filed its brief on December 30, 2003, while the Commissioner of Insurance, in turn, filed a separate brief on December 31, 2003. On June 24, 2004 the Supreme Court of Puerto Rico ordered the plaintiffs to file a brief in support of their allegations. The case is still pending before the Supreme Court of Puerto Rico. It is the opinion of the management and its legal counsels that the corporate reorganization as approved is in full force and effect.

- (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. In addition, the defendants are evaluating the dismissal of the surviving claims. 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

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21, 2006. In its OTC the Court indicated that it will decide first the sustainability of the complaint before deciding plaintiffs' request for class certification. The parties are in anticipation of the Court's ruling on the OTC. On May 4, 2006, the Court issued an Opinion and Order which entered a summary judgment in favor of the Corporation and the case was dismissed by the Court. The plaintiffs have ten (10) business days to file for reconsideration with the Court, they may also request additional findings from the Court, and/or they have thirty (30) days to appeal the judgment to the United States Court of Appeals for the First Circuit.

- (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 are preparing 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 have 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. The Court set a final hearing for July 6, 2006.
- (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

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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.

(12) Acquisition

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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 |
| Total assets acquired | 243,220 |
| Total liabilities assumed | 205,024 |
| Net assets acquired | \$ 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 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.

| | Three months ended March 31, | |
|---------------|---|-------------|
| | 2006 | 2005 |
| Total revenue | \$407,149 | 363,240 |

| | | |
|-----------------------------------|-----------------|---------|
| Net income | \$ 9,698 | (3,667) |
| Basic net income (loss) per share | \$ 1,089 | (412) |

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(13) 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:

| | Three months ended March 31, | |
|---|---|-------------|
| | 2006 | 2005 |
| Net income (loss) | \$ 9,381 | (5,207) |
| Adjustments to reconcile net income to net cash provided by operating expenses: | | |
| Depreciation and amortization | 1,442 | 1,248 |
| Amortization of investment discounts | 245 | 194 |
| Accretion in value of securities | (182) | (106) |
| Increase (decrease) in provision for doubtful receivables | 451 | (100) |
| Increase (decrease) in net deferred taxes | 41 | (2,506) |
| Gain on sale of securities | (528) | (3,314) |
| Unrealized gain (loss) of trading securities | (2,556) | 5,793 |
| Proceeds from trading securities sold: | | |
| Fixed maturities | | 31,946 |
| Equity securities | 5,866 | 5,027 |
| Acquisition of securities in trading portfolio: | | |
| Fixed maturities | | (14,463) |
| Equity securities | (5,762) | (5,116) |
| Loss on sale of property and equipment | | (2) |
| (Increase) decrease in assets: | | |
| Premiums receivable | (23,969) | (11,081) |
| Accrued interest receivable | 349 | (793) |
| Agents balances | (94) | |
| Reinsurance receivable | (348) | 1,339 |
| Other receivables | 1,782 | 2,717 |
| Deferred policy acquisition costs | (698) | 460 |
| Prepaid income tax | 2,555 | |
| Other assets | 762 | (769) |
| Increase (decrease) in liabilities: | | |
| Claims processed and incomplete | 2,661 | 3,705 |
| Unreported losses | 16,475 | 21,271 |
| Unpaid loss-adjustment expenses | 457 | 331 |
| Future policy benefits | 2,059 | |
| Unearned premiums | 585 | (3,393) |
| Policyholder deposits | 416 | 279 |
| Liability to FEHBP | 3,741 | 988 |

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| | | |
|---|----------|---------|
| Accounts payable and accrued liabilities | (11,216) | (2,179) |
| Income tax payable | | 1,217 |
| Net cash provided by operating activities | \$ 3,915 | 27,486 |

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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 ended March 31, 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.

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 has announced a lack of current budgetary funds to complete this fiscal year ending June 30, 2006 and that the legislative branch has not authorized a budget loan from the Government Development Bank. Due to this situation, the government is in a partial temporary shut-down since May 1, 2006 until the executive and legislative branches reach an agreement as to how to provide the necessary funds to cover expenses. Although the request of the government is a loan, both the legislative and executive branches have been discussing a number of possibilities to raise additional funds, including additional taxes and a tax reform based on consumption.

As disclosed in Item 1A Risk Factors of the Annual Report on Form 10-K as of December 31, 2005, the Corporation has a large concentration of its business in the government's healthcare reform program, which comprise the Corporation's Health Insurance Reform segment. Total premiums generated from the Health Insurance Reform segment represented 32.1% of the Corporation's consolidated total premiums during the three months ended March 31, 2006. Until the legislative and executive branches of the government can agree over issues of budget and tax reform, the government could implement measures that would delay the payments to its vendors and service providers and/or cancel certain contracts. If this situation is resolved before June 30, 2006, the government expects to be able to pay its debtors as usual. The government has informed that they expect to be able to pay 80% of the Healthcare Reform premiums billed during the time it takes to resolve this situation; the remaining amount is expected to be paid during July 2006. If the government determines to cancel the healthcare reform contracts, it could adversely affect the Corporation's operating results, significantly decreasing its volume of premiums, claims and operating expenses. The cancellation of the reform contracts could result in an increase in costs due to the need to downsize some of the operations of the Health Insurance Reform segment.

Various rating agencies have placed the rating of the government's debt on a watchlist for possible ratings downgrade. If this happens, the rating of some of the Corporation's investment in obligations of the government of Puerto Rico and its instrumentalities will be affected. As of March 31, 2006 the Corporation has \$52.4 million invested in obligations of the government of Puerto Rico and its instrumentalities. On May 8, 2006, one rating agency downgraded to non-investment grade some of the debt issues of the government. As of March 31, 2006, approximately \$46.0 million of the Corporation's investment in obligations of the government of Puerto Rico and its instrumentalities are now considered non-investment grade by this rating agency.

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 along with SVTS form the Corporation's Life and Disability Insurance segment. During 2006, TSM expects to merge the operations of GA Life with those of SVTS after receiving required regulatory approvals. 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 pre-acquisition entities and comparable basis information for the three months ended March 31, 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 investors with a more meaningful comparison to the current period due to the acquisition of GA Life. Comparable basis is not calculated in

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accordance with GAAP 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.

Consolidated

| | Three months ended March 31, 2005 | | |
|--|--|----------------|-------------------------|
| <i>(Dollar amounts in thousands)</i> | TSM | GA Life | Comparable Basis |
| REVENUE: | | | |
| Premiums earned, net | \$ 333,389 | 12,294 | 345,683 |
| Amounts attributable to self-funded arrangements | 51,915 | | 51,915 |
| Less amounts attributable to claims under self-funded arrangements | (48,540) | | (48,540) |
| | 336,764 | 12,294 | 349,058 |
| Net investment income | 7,064 | 1,958 | 9,022 |
| Net realized investment gains (losses) | 3,314 | (375) | 2,939 |
| Net unrealized investment loss on trading securities | (5,793) | | (5,793) |
| Other income, net | 632 | | 632 |
| Total revenue | 341,981 | 13,877 | 355,858 |
| BENEFITS AND EXPENSES: | | | |
| Claims incurred | 302,923 | 6,718 | 309,641 |
| Operating expenses, net of reimbursement for services | 43,766 | 5,455 | 49,221 |
| Interest expense | 1,788 | | 1,788 |
| Total benefits and expenses | 348,477 | 12,173 | 360,650 |
| Income (loss) before taxes | (6,496) | 1,704 | (4,792) |
| INCOME TAX EXPENSE (BENEFIT): | | | |
| Current | 1,221 | 123 | 1,344 |
| Deferred | (2,510) | (396) | (2,906) |
| Total income taxes | (1,289) | (273) | (1,562) |
| Net income (loss) | \$ (5,207) | 1,977 | (3,230) |
| Basic net loss per share | \$ (585) | | (363) |

Life and Disability Insurance Segment

| | Three months ended March 31, 2005 | | |
|---|--|----------------|-------------------------|
| <i>(Dollar amounts in thousands)</i> | SVTS | GA Life | Comparable Basis |
| Net earned premiums and commission income: | | | |
| Earned premiums | | | |

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| | | | |
|-----------------------------------|-----------------|---------------|---------------|
| Life | \$ 2,202 | 9,806 | 12,008 |
| Disability | 3,354 | 26 | 3,380 |
| Cancer and other dreaded diseases | 213 | 2,781 | 2,994 |
| Total earned premiums | 5,769 | 12,613 | 18,382 |
| Earned premiums ceded | (2,023) | (319) | (2,342) |
| Net earned premiums | 3,746 | 12,294 | 16,040 |
| Commission income on reinsurance | 107 | | 107 |
| Net premiums earned | \$ 3,853 | 12,294 | 16,147 |
| Claims incurred | \$ 2,633 | 6,718 | 9,351 |
| Operating expenses | 1,982 | 5,455 | 7,437 |
| Total underwriting costs | \$ 4,615 | 12,173 | 16,788 |
| Underwriting income (loss) | \$ (762) | 121 | (641) |

Table of Contents**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 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.

| (dollar amounts in thousands) | Three months ended March 31, | | |
|--|------------------------------|---------|-----------------------|
| | 2006 | 2005 | Comparable Basis 2005 |
| Consolidated earned premiums, net and fee revenue | \$385,533 | 336,764 | 349,058 |
| Consolidated claims incurred | \$326,684 | 302,923 | 309,641 |
| Consolidated operating expenses | 57,730 | 43,766 | 49,221 |
| Consolidated operating costs | \$384,414 | 346,689 | 358,862 |
| Consolidated loss ratio | 84.7% | 90.0% | 88.7% |
| Consolidated expense ratio | 15.0% | 13.0% | 14.1% |
| Consolidated combined ratio | 99.7% | 103.0% | 102.8% |
| Consolidated net investment income | \$ 10,050 | 7,064 | 9,022 |
| Consolidated realized gain on sale of securities | 528 | 3,314 | 2,939 |
| Consolidated unrealized gain (loss) on trading securities | 2,556 | (5,793) | (5,793) |
| Total consolidated net investment income | \$ 13,134 | 4,585 | 6,168 |
| Consolidated interest expense | \$ 3,394 | 1,788 | 1,788 |
| Consolidated income tax expense (benefit) | \$ 2,677 | (1,289) | (1,562) |
| Consolidated net income (loss) | \$ 9,381 | (5,207) | (3,230) |

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Consolidated earned premiums, net and fee revenue for the three months ended March 31, 2006 presented an increase of \$48.8 million, or 14.5%, when compared to the consolidated earned premiums, net and fee revenue for the three months ended March 31, 2005. On a comparable basis the consolidated earned premiums, net and fee revenue increased by \$36.5 million, or 10.4%. The fluctuation on a comparable basis is attributed to the following:

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The earned premiums, net and fee revenue corresponding to the Health Insurance Commercial segment increased by \$27.2 million, or 14.4%, 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 premium rates of 4.0%.

The earned premiums, net of the Health Insurance Healthcare Reform segment presented an increase of \$4.4 million, or 3.5% during this period. This increase is the result of a 5.8% increase in premium rates effective August 1, 2005, net of decrease in average enrollment.

On a comparable basis, in the 2006 period the earned premiums, net of the Life and Disability Insurance segment increased by \$5.5 million, or 34.3%. The increase in the earned premiums net of this segment is due to the following:

- 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 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.
- On a comparable basis, the earned premiums of the segment's individual life and cancer and other dreaded diseases lines of business increased by \$714 thousand, or 7.3%, and \$639 thousand, or 21.3%, respectively.

Consolidated claims incurred for the three months ended March 31, 2006 increased by \$23.8 million, or 7.8%, when compared to the claims incurred for the three months ended March 31, 2005. On a comparable basis, the consolidated claims incurred increased by \$17.0 million, or 5.5%. The fluctuation on a comparable basis is mostly due to the increase in the claims incurred of the Health Insurance Commercial segment during the 2006 period. The claims incurred for this particular segment during the 2006 period presented an increase of \$18.0 million, or 10.4%, when compared to the 2005 period. This fluctuation is mostly the result of the segment's increased volume of business in the Medicare Advantage business.

The consolidated loss ratio reflected a decrease of 5.3 percentage points during the 2006 period. The decrease, on a comparable basis, of the consolidated loss ratio was 4.0 percentage points. This decrease is mostly driven by the Health Insurance Commercial segment's growing Medicare Advantage business, which has a lower loss ratio experience as compared to the loss ratio of the other rated contracts business.

Consolidated operating expenses for the three months ended March 31, 2006 increased by \$14.0 million, or 31.9%, when compared to the operating expenses for the three months ended March 31, 2005. On a comparable basis, the consolidated operating expenses increased by \$8.5 million, or 17.3%. 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 2006 quarter reflects expenses related to the launching of the new Medicare Advantage policies of the Health Insurance Commercial segment, *Medicare Platino* and *FarmaMed*. The consolidated expense ratio on a comparable basis presented an increased of 0.9 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 (loss) on trading securities is related to investments held by the segments in equity securities and corporate bonds. The unrealized gain of \$2.6 million experienced during the 2006 period is attributed to gains 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

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to simulate the Russell 1000 Growth Index and the Russell 1000 Value Index. All of these indexes experienced positive returns in the 2006 quarter.

The consolidated interest expense presented an increase of \$1.6 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 2006 period. On 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 \$1.4 million.

The consolidated income tax expense for the three months period ended March 31, 2006 increased by \$4.0 million when compared to the same period of the prior year. The consolidated income tax expense on a comparable basis presented an increase of \$4.2 million. This increase is mostly due to an increase in the taxable income when comparing the 2006 to the 2005 periods.

Health Insurance Commercial Program Operating Results

| | Three months ended March 31, | |
|---|---|-------------|
| (dollar amounts in thousands) | 2006 | 2005 |
| Average enrollment: | | |
| Corporate accounts | 298,626 | 306,308 |
| Self-funded employers | 151,970 | 151,315 |
| Individual accounts | 77,478 | 83,290 |
| Federal employees | 47,966 | 50,154 |
| Local government employees | 31,630 | 36,562 |
| Medicare Advantage | 18,876 | 986 |
| Total enrollment | 626,546 | 628,615 |
| Earned premiums | \$211,845 | 185,057 |
| Amounts attributable to self-funded arrangements | 51,466 | 52,234 |
| Less: Amounts attributable to claims under self-funded arrangements | (47,377) | (48,540) |
| Earned premiums and fee revenue | \$215,934 | 188,751 |
| Claims incurred | \$190,857 | 172,829 |
| Operating expenses | 28,401 | 24,240 |
| Total underwriting costs | \$219,258 | 197,069 |
| Underwriting loss | \$ (3,324) | (8,318) |
| Loss ratio | 88.4% | 91.6% |
| Expense ratio | 13.2% | 12.8% |
| Combined ratio | 101.5% | 104.4% |

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Earned premiums and fee revenue for the three months ended March 31, 2006 increased by \$27.2 million, or 14.4%, when compared to the earned premiums and fee revenue for the three months ended March 31, 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 \$28.3 million, from \$3.1 million in the 2005 period to \$31.4 million in 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 17,890 members upon

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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 \$900 thousand. This decrease is the combined effect of a decrease in the average enrollment of 20,614 members, or 4.3% and an average increase in premium rates of 4.0%. The segment maintained its contract renewal ratio of over 90% during the first quarter of 2006. The decrease in average enrollment is primarily noted in the individual and local government employees as a result of qualifying enrollees selecting Medicare Advantage policies. The average enrollment of the individual and local government employees business decreased by 5,812, or 7.0%, and 4,932, or 13.5%, respectively, during the 2006 period.

Claims incurred in the 2006 period presented an increase of \$18.0 million, or 10.4%, 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 \$23.5 million during the 2006 period. The increase in the Medicare Advantage claims incurred was offset by a decrease of \$5.4 million in the claims incurred in the rated contracts lines of business. The decrease in the claims incurred in the rated contracts lines of business was mostly attributed to the decreased average enrollment of these businesses in the 2006 period, as well as to the result of pharmacy cost containment initiatives implemented during the year 2005. The segment's loss ratio decreased 3.2 percentage points during 2006 is mainly due to the fact that the loss ratio experience for the growing Medicare Advantage business during this period is lower than the loss ratio of the other rated contracts business and cost containment initiatives.

Operating expenses for the three months ended March 31, 2006 increased by \$4.2 million, or 17.2%, when compared to the three months ended March 31, 2005. The segment's expense ratio increased 0.4 percentage points in the same period. These fluctuations are primarily attributed to advertising and sales costs incurred in 2006 related to the launching of the *Medicare Platino* and *FarmaMed* policies, as well as to increases in payroll and related expenses and technology related costs consistent with corporate business initiatives.

Health Insurance Healthcare Reform Program Operating Results

| | Three months ended March 31, | |
|-----------------------------------|---|-------------|
| (dollar amounts in thousands) | 2006 | 2005 |
| Average enrollment: | | |
| North area | 227,386 | 232,977 |
| Metro-north area | 210,887 | 215,707 |
| Southwest area | 158,281 | 162,573 |
| | 596,554 | 611,257 |
| Earned premiums | \$127,496 | 123,140 |
| Claims incurred | \$113,882 | 116,088 |
| Operating expenses | 9,240 | 8,914 |
| Total underwriting costs | \$123,122 | 125,002 |
| Underwriting income (loss) | \$ 4,374 | (1,862) |

| | | |
|-----------------------|--------------|--------|
| Loss ratio | 89.3% | 94.3% |
| Expense ratio | 7.2% | 7.2% |
| Combined ratio | 96.6% | 101.5% |

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

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Earned premiums for the three months ended March 31, 2006 increased by \$4.4 million, or 3.5%, when compared to the earned premiums for the same period of last year. This increase is mostly the result of the following:

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

The segment's average enrollment during the 2006 quarter decreased by 14,703 members, or 2.4%, 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 (*Medicare Platino*).

Claims incurred during the three months ended March 31, 2006 presented a decrease of \$2.2 million, or 1.9%, when compared to the 2005 period. The loss ratio presented a decrease of 5.0 percentage points when comparing the 2006 and 2005 periods. These fluctuations result mostly from the fact that the 2005 period includes an unfavorable development of the reserves of approximately \$7.0 million; this unfavorable development is due to higher than expected utilization of services during that period. The loss ratio for the 2005 period, excluding the effect of this unfavorable development of the reserves, is similar to the loss ratio for the 2006 period.

Operating expenses presented an increase of \$326 thousand, or 3.7%, when comparing the 2006 and 2005 periods. The expense ratio did not change during the 2006 period. This fluctuation is due to the normal inflationary effect in operational costs.

Property and Casualty Insurance Operating Results

| | Three months ended March 31, | |
|-------------------------------------|---|---------------|
| (dollar amounts in thousands) | 2006 | 2005 |
| Premiums written: | | |
| Commercial multiperil | \$ 13,170 | 12,984 |
| Dwelling | 6,190 | 6,221 |
| Auto physical damage | 6,010 | 4,995 |
| Commercial auto liability | 4,050 | 3,679 |
| Other liability | 1,893 | 2,325 |
| Medical malpractice | 951 | 1,101 |
| All other | 2,469 | 2,462 |
| Total premiums written | 34,733 | 33,767 |
| Premiums ceded | (13,729) | (14,475) |
| Change in unearned premiums | 1,023 | 2,804 |
| Net premiums earned | \$ 22,027 | 22,096 |
| Claims incurred | \$ 10,313 | 11,373 |
| Operating expenses | 11,642 | 10,341 |
| Total underwriting costs | \$ 21,955 | 21,714 |
| Underwriting income | \$ 72 | 382 |
| Loss ratio | 46.8% | 51.5% |
| Expense ratio | 52.9% | 46.8% |

| | | |
|-----------------------|--------------|-------|
| Combined ratio | 99.7% | 98.3% |
|-----------------------|--------------|-------|

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Total premiums written for the three months period ended March 31, 2006 increased by \$966 thousand, or 2.9%, when compared to the three months period ended March 31, 2005. This increase is mostly reflected

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in the premiums written for auto physical damage and commercial auto liability policies, which experienced an increase in premiums of \$1.0 million, or 20.3%, and of \$371 thousand, or 10.1%, during this period, respectively. The segment is focusing its writings efforts to increase the auto insurance business.

Premiums ceded to reinsurers during the 2006 period presented a decrease of \$746 thousand, or 5.2%, when compared to the 2005 period. The ratio of premiums ceded to premiums written reflect a decrease of 3.4 percentage points, from 42.9% in the 2005 period to 39.5% in the 2006 period. This decrease is primarily due to a change in the segment's transfer of risk to reinsurers. In 2006, the ceding risk transfer percentages for the commercial lines quota share arrangements decreased from 42.5% to 41.0%. The effect of the decrease in the ceding risk transfer percentages for the commercial lines quota share arrangements was mitigated by an increase in the ceding risk transfer percentages for the personal lines quota share arrangements from 10.0% to 13.8%.

Claims incurred reflect a reduction of \$1.1 million, or 9.3% when compared to the 2005 period. The loss ratio experienced a decrease of 4.7 percentage points during the 2006 quarter when compared to the same quarter of the prior year. This fluctuation is mostly attributed the segment's emphasis on quality underwriting which has resulted in better loss experience for this segment, particularly in the commercial multi-peril and auto physical damage lines of business.

The operating expenses for the three months ended March 31, 2006 increased by \$1.3 million, or 12.6%, when compared to the operating expenses for the three months ended March 31, 2005. The expense ratio increased by 6.1 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 in effect in this first quarter of 2006 were 2.5 percentage points higher than those in the 2005 period.

Life and Disability Insurance Operating Results

| (dollar amounts in thousands) | Three months ended March 31, | | |
|---|------------------------------|---------|-----------------------|
| | 2006 | 2005 | Comparable Basis 2005 |
| Net earned premiums and commission income: | | | |
| Earned premiums: | | | |
| Life | \$12,543 | 2,202 | 12,008 |
| Disability | 3,182 | 3,354 | 3,380 |
| Cancer and other dreaded diseases | 3,633 | 213 | 2,994 |
| Total earned premiums | 19,358 | 5,769 | 18,382 |
| Earned premiums ceded | (2,243) | (2,023) | (2,342) |
| Assumed earned premiums | 4,413 | | |
| Net earned premiums | 21,528 | 3,746 | 16,040 |
| Commission income on reinsurance | 153 | 107 | 107 |
| Net premiums earned | \$21,681 | 3,853 | 16,147 |
| Claims incurred | \$11,632 | 2,633 | 9,351 |
| Operating expenses | 11,390 | 1,982 | 7,437 |
| Total underwriting costs | \$23,022 | 4,615 | 16,788 |

| | | | |
|--------------------------|-------------------|--------|--------|
| Underwriting loss | \$ (1,341) | (762) | (641) |
| Loss ratio | 53.7% | 68.3% | 57.9% |
| Expense ratio | 52.5% | 51.4% | 46.1% |
| Combined ratio | 106.2% | 119.8% | 104.0% |

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

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Premiums earned for the segment increased by \$13.6 million, or 235.6% in the 2006 period. On a comparable basis premiums earned increased by \$976 thousand, or 5.3%, mostly as a result of the following fluctuations:

The premiums earned of the individual life line of business on a comparable basis increased by \$714 thousand, or 7.3%, in the 2006 period. This fluctuation is mainly the result of increases in the ordinary life and the monthly debit ordinary (MDO) premiums of 12.0% and 5.0%, respectively. The increase in premiums earned of the ordinary life and MDO business is principally due to new sales made during the 2006 period.

The premiums earned of the cancer and other dreaded diseases on a comparable basis increased by \$639 thousand, or 21.3%, in the 2006 period. This increase is primarily attributed to the growth in the sales of the new cancer products that the segment began selling during the last quarter of the year 2004.

The premiums earned on a comparable basis for the group life and group disability lines of business had a combined decrease of \$377 thousand, or 6.7%, when compared to the three months ended March 31, 2005. This fluctuation is primarily due to a disciplined underwriting of groups where premiums have been significantly adjusted to reflect expected losses 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 shares 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.

The claims incurred of the segment increased by \$9.0 million, or 341.8%, in the 2006 period. On a comparable basis the claims incurred of the segment increased by \$2.3 million, or 24.4%. The 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. An increase of \$311 thousand, or 4.6%, in the ordinary life claims incurred was offset by a \$322 thousand, or 12.2%, decrease in the claims incurred of the group life and disability business. The decrease in the claims incurred of the group life and disability business results from the improved claims experience on these lines, following the terminations during the past three quarters of high loss ratio groups during their renewal process. The segment's close monitoring of claims experience during each group's renewal process has resulted in the improvement of the overall loss ratio from 57.9% in the 2005 period (on a comparable basis) to 53.7% in the 2006 period.

The operating expenses increased by \$9.4 million, or 474.7% in the 2006 period. On a comparable basis operating expenses presented an increase of \$4.0 million, or 53.2%. The expense ratio on a comparable basis presented an increase of 6.4 percentage points. Of the total increase in operating expenses, \$1.2 million is related to the segment's 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 increases in commission expense and payroll and related expenses.

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.

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As of March 31, 2006 and December 31, 2005, the Corporation's cash and cash equivalents amounted to \$48.9 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 its 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 \$3.9 million and \$27.5 million for the three months ended March 31, 2006 and 2005, respectively, a decrease of \$23.6 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 three months ended March 31, 2006 reflect an increase of \$29.1 million when compared with the three months ended March 31, 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 \$20.6 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 \$17.3 million for the three months ended March 31, 2006, when compared to the three months ended March 31, 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.

Premiums collected increased by \$42.8 million when comparing collections during the three months ended March 31, 2006 with collections for the three months ended March 31, 2004. This increase is mostly related to the increased volume of business and increases in premium rates of the operating segments.

Interest received increased by \$4.1 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.

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 \$33.6 million and \$14.9 million for the three months ended March 31, 2006 and 2005, respectively, an increase of \$18.7 million. The increase in the cash flows used in investing activities during this period is attributed to the following:

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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, net of \$10.4 million of acquired cash.

The amount of capital expenditures increased by \$2.4 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 decrease of \$11.6 million in the net acquisition of investments during the 2006 period. During the three months ended March 31, 2006 and 2005 total acquisition of investments exceeded the proceeds from investments sold or matured by \$1.9 million and \$13.5 million, respectively.

Cash Flows from Financing Activities

Net cash flows provided by financing activities amounted to \$29.6 million and \$10.4 million for the three months ended March 31, 2006 and 2005, respectively. The increase of \$19.2 million when compared to the same period of the prior year is mainly due to the effect of following fluctuations:

During the three months ended March 31, 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.

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

The change in outstanding checks in excess of bank balances reflects a decrease of \$6.1 million during the three months ended March 31, 2006 compared to the 2005 period. The amount of checks in excess of bank balances represents a timing difference between the issuance of checks and the cash balance in the bank account at one point in time.

In the 2006 period the payments of short-term borrowings exceeded proceeds from short-term borrowings by \$1.7 million. In the 2005 period the short-term borrowings activity did not result in net borrowings or payments. Short-term borrowings are used to address timing differences between cash receipts and disbursements.

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 March 31, 2006, the Corporation had \$227.5 million in available credit on these agreements. There are no outstanding short-term borrowings as of March 31, 2006.

As of March 31, 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. Most of the proceeds obtained from this issuance were used to repay \$37.0 million of short-term borrowings made by TSI. The remaining proceeds were used for general business purposes.

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

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part, as determined by the Corporation. The proceeds obtained from this issuance were used to pay the initial ceding commission to GA Life on the effective date of the coinsurance funds withheld reinsurance agreement. Both the 6.3% and the 6.6% notes contain certain covenants with which TSI and the Corporation have complied with at March 31, 2006.

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.

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 March 31, 2006, the two credit agreements have an outstanding balance of \$28.8 million and \$11.5 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 March 31, 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 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 March 31, 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 March 31, 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 March 31, 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.

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- (b) Drs. Carlyle Benavent and Ibrahim Pérez (the plaintiffs) caused the initiation of an administrative proceeding before the Puerto Rico Insurance 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 that TSI had repurchased from the estate of deceased stockholders. 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 a pronouncement providing further clarification of the content and effect of the order. This order also 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. Furthermore, on November 19, 2000, TSM held a special stockholders' meeting, where a ratification of these decisions was undertaken except for the resolution related to the approval of the reorganization of TSI and its subsidiaries. This resolution did not reach the two thirds majority required by the order because the number of shares that were present and represented at the meeting was below such amount (total shares present and represented in the stockholders' meeting was 64%). As stipulated in the order, TSM began the process to conduct a referendum among its stockholders in order to ratify such resolution. The process was later suspended because upon further review of the scope of the order, the Commissioner of Insurance issued an opinion in a letter dated January 8, 2002 which indicated that the ratification of the corporate reorganization was not required.

In another letter dated March 14, 2002, the Commissioner of Insurance stated that the ratification of the corporate reorganization was not required and that TSI had complied with the Commissioner's order of December 6, 1996 related to the corporate reorganization. Thereafter, the plaintiffs filed a petition for review of the Commissioner's determination before the Puerto Rico Circuit Court of Appeals. Such petition was opposed by TSI and by the Commissioner of Insurance.

Pursuant to that review, on September 24, 2002, the Puerto Rico Circuit Court of Appeals issued an order requiring the Commissioner of Insurance 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 Puerto Rico Circuit Court of Appeals based its decision on administrative and procedural issues directed at the Commissioner of Insurance. The Commissioner of Insurance filed a motion of reconsideration with the Puerto Rico Circuit Court of Appeals on October 11, 2002. TSM and TSI also filed a motion of reconsideration.

On October 25, 2002, the Puerto Rico Circuit Court of Appeals dismissed the Commissioner of Insurance's Motion for Reconsideration and ordered the plaintiffs to reply to TSI's Motion of Reconsideration.

On May 18, 2003, the Puerto Rico Circuit Court of Appeals granted TSI's and TSM's Motion of Reconsideration. The Puerto Rico Circuit Court of Appeals held that the Commissioner of Insurance had the authority to waive the celebration of a referendum to ratify TSI's reorganization and that therefore the reorganization of TSI, inasmuch as the 1,582 shares annulled were not decisive, was approved by the stockholders.

On June 26, 2003, the plaintiffs presented a writ of certiorari before the Supreme Court of Puerto Rico. TSI and TSM filed a motion opposing the issuance of the writ. The writ was issued by the Supreme Court on August 22, 2003 when it ordered the Puerto Rico Circuit Court of Appeals to transmit the record of the case. On December 1, 2003, the plaintiffs filed a motion submitting their case on the basis of their original petition. TSI and TSM filed

its brief on December 30, 2003, while the Commissioner of Insurance, in turn, filed a separate brief on December 31, 2003. On June 24, 2004

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the Supreme Court of Puerto Rico ordered the plaintiffs to file a brief in support of their allegations. The case is still pending before the Supreme Court of Puerto Rico. It is the opinion of the management and its legal counsels that the corporate reorganization as approved is in full force and effect.

- (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 will decide first the sustainability of the complaint before deciding plaintiffs' request for class certification. The parties are in anticipation of the Court's ruling on the OTC. On May 4, 2006, the Court issued an Opinion and Order which entered a summary judgment in favor of the Corporation and the case was dismissed by the Court. The plaintiffs have ten (10) business days to file for reconsideration with the Court, they may also request additional findings from the Court, and/or they have thirty (30) days to appeal the judgment to the United States Court of Appeals for the First Circuit.
- (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 are preparing 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 have 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. The Court set a final hearing for July 6, 2006.
- (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.

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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.

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

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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.

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

On February 5, 2006, the Corporation held the continuation of its Seventh Annual Meeting of Shareholders (the Meeting), which commenced on April 24, 2005. During the meeting, shareholders had to vote on four resolutions that were presented by the Board of Directors and a shareholder.

Resolution Number 3 was presented by the Board of Directors of the Corporation to amend Article Eighth of the Articles of Incorporation and Articles 4-2 and 4-3 of the Bylaws to allow the transfer of shares to any physician or dentist of one or more common shares during his/her lifetime or upon his/her death, if no kind of payment, service, obligation, or other inducement had been or was to be provided or rendered, and if said physician or dentist complied with the Articles of Incorporation limit requirement of twenty-one (21) common shares. This resolution required the affirmative vote of two-thirds (2/3) or more of the issued and outstanding common shares with the right to vote for its approval.

The voting results for Resolution Number 3 were the following: 6,014 of the issued and outstanding common shares with the right to vote of the Corporation exercised their right to vote either in person or by proxy at the Meeting; 4,927 (81.9%) voted to approve the Resolution; 864 (14.4%) voted not to approve the Resolution; 203 (3.4%) shares abstained from voting; and, 20 (0.3%) voted in blank. This Resolution was not approved since it required the affirmative vote of two-thirds (2/3) or more of the issued and outstanding common shares with the right to vote for its approval, which would have been 5,936 shares.

Resolution Number 4 was presented by the Board of Directors of the Corporation to amend and renumber Articles Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, and Thirteenth of the Articles of Incorporation to establish that the authorized capital of the Corporation would be divided into two classes of common shares:

(1) Voting Common Shares, which would have been the common shares authorized by the Corporation since its establishment, in other words, the existing common shares, and (2) Non-Voting Common Shares, which would have not been available for purchase, since they would only be issued so that one or more of the voting common shares of a shareholder could have been exchanged, upon his/her death, for an equal amount of non-voting common shares for the benefit of his/her heirs or surviving spouse when they were not physicians or dentists, subject to, among other requirements to be complied with, the twenty-one (21) common shares per person limit. In addition, this Resolution included revisions of some provisions in order to improve or correct the text or language of the Articles of Incorporation. This resolution required three-fourths (3/4) or more of the issued and outstanding common shares with the right to vote for its approval.

The voting results for Resolution Number 4 were the following: 6,028 of the issued and outstanding common shares with the right to vote of the Corporation exercised their right to vote either in person or by

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proxy at the Meeting; 5,053 (83.8%) voted to approve the Resolution; and, 803 (13.3%) voted not to approve the Resolution; 172 (2.9%) shares abstained from voting. This Resolution was not approved since it required the affirmative vote of three-fourths (3/4) or more of the issued and outstanding common shares with the right to vote for its approval, which would have been 6,678 shares.

Resolution Number 5 was presented by the Board of Directors of the Corporation to amend Chapters 1, 2, 3, 4, 5, 6, 7, 8, 9, and 10 of the By-laws of the Corporation to establish that the authorized capital of Triple-S Management Corporation would be divided into two classes of common shares: (1) Voting Common Shares, which would have been the common shares authorized by the Corporation since its establishment, in other words, the existing common shares, and (2) Non-Voting Common Shares, which would have not been available for purchase, since they would only be issued so that one or more of the voting common shares of a shareholder could have been exchanged, upon his/her death, for an equal amount of non-voting common shares for the benefit of his/her heirs or surviving spouse when they were not physicians or dentists, subject to, among other requirements to be complied with, the twenty-one (21) common shares per person limit. In addition, this Resolution included the revisions of some provisions in order to improve or correct the text or language of the By-laws. This resolution required three-fourths (3/4) or more of the issued and outstanding common shares with the right to vote for its approval.

The voting results for Resolution Number 5 were the following: 6,010 of the issued and outstanding common shares with the right to vote of the Corporation exercised their right to vote either in person or by proxy at the Meeting; 5,136 (85.5%) voted to approve the Resolution; 727 (12.1%) voted not to approve the Resolution; and, 147 (2.4%) shares abstained from voting. This Resolution was not approved since it required the affirmative vote of three-fourths (3/4) or more of the issued and outstanding common shares with the right to vote for its approval, which would have been 6,678 shares.

Resolution Number 6 was presented by Leslie H. López Vélez, DDS, shareholder of the Corporation, to amend Articles Sixth, Seventh, and Thirteenth of the Articles of Incorporation and Articles 4-1 and 9-1 of the Bylaws of Triple-S Management Corporation in order to reduce from three-fourths (3/4) to two-thirds (2/3) the amount of issued and outstanding common shares with the right to vote required to approve certain amendments to Article Sixth of the Articles of Incorporation and Article 4-1 of the Bylaws. This resolution required three-fourths (3/4) or more of the issued and outstanding common shares with the right to vote for its approval.

The voting results for Resolution Number 6 were the following: 6,004 of the issued and outstanding common shares with the right to vote of the Corporation exercised their right to vote either in person or by proxy at the Meeting; 4,737 (78.9%) voted to approve the Resolution; 1,072 (17.9%) voted not to approve the Resolution; 189 (3.1%) shares abstained from voting; and, 6 (0.1%) voted in blank. This Resolution was not approved since it required the affirmative vote of three-fourths (3/4) or more of the issued and outstanding common shares with the right to vote for its approval, which would have been 6,678 shares.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

(a) Exhibits:

Exhibit 10.1 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.

Exhibit 11 Statement re computation of per share earnings; an exhibit describing the computation of the earnings per share for the three months ended March 31, 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 ended March 31, 2006 and 2005 has been

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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.

SIGNATURES

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

Triple-S Management Corporation

Registrant

Date: May 12, 2006

By: /s/ Ramón M. Ruiz-Comas

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

Date: May 12, 2006

By: /s/ Juan J. Román

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