

TRIPLE-S MANAGEMENT CORP
Form 10-Q
November 12, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 001-33865

TRIPLE-S MANAGEMENT CORPORATION

Puerto Rico 66-0555678
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1441 F.D. Roosevelt Avenue
San Juan, Puerto Rico 00920
(Address of principal executive offices) (Zip code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

<u>Title of each class</u>	<u>Outstanding at September 30, 2013</u>
Common Stock Class A, \$1.00 par value	2,377,689
Common Stock Class B, \$1.00 par value	25,090,375

TRIPLE-S MANAGEMENT CORPORATION

FORM 10-Q

For the Quarter Ended September 30, 2013

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Part I – Financial Information

Item 1. Financial Statements

Triple-S Management Corporation

Consolidated Balance Sheets (Unaudited)

(Dollar amounts in thousands, except per share data)

	September 30, 2013	December 31, 2012
Assets		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities	\$1,034,054	\$1,059,761
Equity securities	265,694	209,722
Securities held to maturity, at amortized cost:		
Fixed maturities	4,880	5,000
Policy loans	6,370	6,161
Cash and cash equivalents	81,764	89,564
Total investments and cash	1,392,762	1,370,208
Premiums and other receivables, net	285,052	292,197
Deferred policy acquisition costs and value of business acquired	171,760	168,657
Property and equipment, net	90,087	92,423
Deferred tax asset	38,327	33,548
Goodwill	27,766	27,766
Other assets	69,768	74,545
Total assets	\$2,075,522	\$2,059,344
Liabilities and Stockholders' Equity		
Claim liabilities	\$416,849	\$416,918
Liability for future policy benefits	293,310	276,570
Unearned premiums	90,256	95,860
Policyholder deposits	114,737	111,692
Liability to Federal Employees' Health Benefits Program (FEHBP)	10,337	21,353
Accounts payable and accrued liabilities	179,687	128,580
Deferred tax liability	23,172	32,934
Short-term borrowings	13,410	30,000
Long-term borrowings	89,796	101,271
Liability for pension benefits	78,701	82,019
Total liabilities	1,310,255	1,297,197
Stockholders' equity:		
Triple-S Management Corporation stockholders' equity		
Common stock Class A, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 2,377,689 and 9,042,809 at September 30, 2013 and December 31, 2012, respectively	2,378	9,043
Common stock Class B, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 25,090,375 and 19,321,944 shares at September 30, 2013 and December 31, 2012, respectively	25,090	19,322
Additional paid-in capital	129,669	144,677
Retained earnings	595,782	539,761

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Accumulated other comprehensive income	12,264	49,104
Total Triple-S Management Corporation stockholders' equity	765,183	761,907
Non-controlling interest in consolidated subsidiary	84	240
Total stockholders' equity	765,267	762,147
Total liabilities and stockholders' equity	\$2,075,522	\$2,059,344

See accompanying notes to unaudited consolidated financial statements.

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Triple-S Management Corporation

Consolidated Statements of Earnings (Unaudited)

(Dollar amounts in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Revenues:				
Premiums earned, net	\$547,874	\$565,607	\$1,653,870	\$1,695,157
Administrative service fees	22,450	27,181	78,103	82,473
Net investment income	11,363	11,595	34,749	34,349
Other operating revenues	1,239	1,206	3,638	3,358
Total operating revenues	582,926	605,589	1,770,360	1,815,337
Net realized investment gains (losses)	(144)	21	3,405	2,157
Other income, net	13,931	598	14,778	1,514
Total revenues	596,713	606,208	1,788,543	1,819,008
Benefits and expenses:				
Claims incurred	456,432	485,495	1,369,250	1,457,388
Operating expenses	116,156	104,604	351,246	309,378
Total operating costs	572,588	590,099	1,720,496	1,766,766
Interest expense	2,379	2,956	7,189	8,181
Total benefits and expenses	574,967	593,055	1,727,685	1,774,947
Income before taxes	21,746	13,153	60,858	44,061
Income tax expense (benefit):				
Current	5,636	1,344	14,867	8,116
Deferred	(2,494)	126	(9,874)	(254)
Total income taxes	3,142	1,470	4,993	7,862
Net income	18,604	11,683	55,865	36,199
Less: Net loss attributable to non-controlling interest	37	32	156	65
Net income attributable to Triple-S Management Corporation	\$18,641	\$11,715	\$56,021	\$36,264
Earnings per share attributable to Triple-S Management Corporation				
Basic net income per share	\$0.68	\$0.41	\$2.01	\$1.28
Diluted net income per share	\$0.68	\$0.41	\$2.01	\$1.27

See accompanying notes to unaudited consolidated financial statements.

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Triple-S Management Corporation

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollar amounts in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net income	\$18,604	\$11,683	\$55,865	\$36,199
Other comprehensive income (loss), net of tax:				
Net unrealized change in fair value of available for sale securities, net of taxes	(5,386)	14,838	(39,908)	35,008
Defined benefit pension plan:				
Actuarial loss, net	1,097	1,117	3,273	3,247
Prior service credit, net	(68)	(82)	(205)	(238)
Total other comprehensive income (loss), net of tax	(4,357)	15,873	(36,840)	38,017
Comprehensive income	14,247	27,556	19,025	74,216
Comprehensive loss attributable to non-controlling interest	37	32	156	65
Comprehensive income attributable to Triple-S Management Corporation	\$14,284	\$27,588	\$19,181	\$74,281

See accompanying notes to unaudited consolidated financial statements.

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Triple-S Management Corporation

Consolidated Statements of Stockholders' Equity (Unaudited)

(Dollar amounts in thousands, except per share data)

	2013	2012
Balance at January 1	\$761,907	\$676,959
Share-based compensation	2,351	1,876
Stock issued upon the exercise of stock options	315	3,001
Repurchase and retirement of common stock	(18,571)	(3,590)
Net current period change in comprehensive income	19,181	74,281
Total Triple-S Management Corporation stockholders' equity	765,183	752,527
Non-controlling interest in consolidated subsidiary	84	307
Balance at September 30	\$765,267	\$752,834

See accompanying notes to unaudited consolidated financial statements.

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Corporation

Consolidated Statements of Cash Flows (Unaudited)

(Dollar amounts in
thousands, except per
share data)

	Nine months ended September 30, 2013		2012
Cash flows from operating activities:			
Net income	\$ 55,865		\$ 36,199
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,804		17,989
Net amortization of investments	4,558		4,566
Provision for doubtful receivables, net	4,283		1,321
Deferred tax benefit	(9,874)		(254)
Net realized investment gain on sale of securities	(3,405)		(2,157)
Share-based compensation	2,351		1,876
(Increase) decrease in assets:			
Premium and other receivables, net	2,862		5,272
Deferred policy acquisition costs and value of business acquired	(3,103)		(8,340)
Other deferred taxes	9		200
Other assets	(934)		(4,364)
Increase (decrease) in liabilities:			
Claim liabilities	(69)		36,930
Liability for future policy benefits	16,740		16,362
Unearned premiums	(5,604)		(419)
Policyholder deposits	2,412		1,507
Liability to FEHBP	(11,016)		(2,097)
Accounts payable and accrued liabilities	29,196		7,503

Net cash provided by operating activities	102,075	112,094
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Triple-S Management Corporation
Consolidated Statements of Cash Flows (Unaudited)
(Dollar amounts in thousands, except per share data)

	Nine months ended September 30,	
	2013	2012
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	\$81,330	\$67,943
Fixed maturities matured/called	85,496	115,649
Equity securities sold	93,504	50,016
Securities held to maturity:		
Fixed maturities matured/called	1,127	11,080
Acquisition of investments:		
Securities available for sale:		
Fixed maturities	(205,373)	(278,533)
Equity securities	(132,109)	(78,135)
Securities held to maturity:		
Fixed maturities	(1,011)	(1,067)
Other investments	(823)	18
Net inflows (outflows) from policy loans	(209)	84
Acquisition of business, net of cash acquired of \$816 in the nine months ended September 30, 2012	-	(2,685)
Net capital expenditures	(8,934)	(8,756)
Net cash used in investing activities	(87,002)	(124,386)
Cash flows from financing activities:		
Change in outstanding checks in excess of bank balances	22,809	(3,332)
Net change in short-term borrowings	(16,590)	11,200
Repayments of long-term borrowings	(11,475)	(26,464)
Repurchase and retirement of common stock	(18,250)	(637)
Proceeds from exercise of stock options	-	316
Proceeds from policyholder deposits	8,112	32,946
Surrenders of policyholder deposits	(7,479)	(4,821)
Net cash (used in) provided by financing activities	(22,873)	9,208
Net decrease in cash and cash equivalents	(7,800)	(3,084)
Cash and cash equivalents:		
Beginning of period	89,564	71,834
End of period	\$81,764	\$68,750

See accompanying notes to unaudited consolidated financial statements.

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Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

(1)Basis of Presentation

The accompanying consolidated interim financial statements prepared by Triple-S Management Corporation and its subsidiaries are unaudited. In this filing, the “Corporation”, the “Company”, “TSM”, “we”, “us” and “our” refer to Triple-S Management Corporation and its subsidiaries. The consolidated interim financial statements do not include all of the information and the footnotes required by accounting principles generally accepted in the U.S. (GAAP) for complete financial statements. These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2012.

On May 16, 2013, the Corporation, in connection with a registered underwritten secondary public offering of its Class B common stock (the “Offering”), entered into an underwriting agreement (the “Underwriting Agreement”) with certain shareholders of the Corporation (the “Selling Shareholders”), pursuant to which the Selling Shareholders sold to the underwriters an aggregate of 6,210,423 shares (the “Shares”) of Class B common stock at a price of \$18.25 per share. The Shares included 810,055 shares of Class B common stock purchased pursuant to the over-allotment option granted to the Underwriters pursuant to the Underwriting Agreement. The Corporation purchased and retired 1,000,000 shares in the Offering at a price of \$18.25 per share. The Corporation did not receive any proceeds from the sale of the Shares by the Selling Shareholders.

In the opinion of management all adjustments necessary for a fair presentation of such consolidated interim financial statements have been included. The results of operations for the three months and nine months ended September 30, 2013 are not necessarily indicative of the results for the full year ending December 31, 2013.

(2)Recent Accounting Standards

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

In August 27, 2012 and October 1, 2012, the FASB issued guidance to make generally non-substantive technical corrections to certain codification topics, remove inconsistencies and outdated provisions, clarify the FASB’s intent and amend or delete various Securities and Exchange Commission (“SEC”) paragraphs. In particular, the updates consist of:

- Technical corrections and amendments as part of the FASB’s standing agenda to review and improve the Accounting Standards Codification,
- Conforming amendments related to fair value measurements, in accordance with Topic 820,

Reflect the issuance of the SEC's Staff Accounting Bulletin No. 114, Revisions and Rescissions of Portions of the Interpretative Guidance Included in the Codification of Staff Accounting Bulletins, and
Reflect the issuance of the SEC Final Rulemaking Release No. 33-9250, Technical Amendments to Commission Rules and Forms Related to the FASB's Accounting Standards Codification.

The Corporation adopted this guidance in January 1, 2013; there was no significant impact on our financial position or results of operations as a result of the adoption.

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Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

In February 5, 2013 the FASB issued guidance to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. In particular, the guidance requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. This guidance applies to all entities that issue financial statements that are presented in conformity with GAAP and that report items of other comprehensive income. The Corporation adopted this guidance in January 1, 2013; there was no significant impact on our financial position or results of operations as a result of the adoption.

In July 18, 2013, the FASB issued guidance regarding the presentation in the statement of financial position of an unrecognized tax benefit when a net operating loss carry-forward or a tax credit carry-forward exists. In particular, the guidance provides that an entity's unrecognized tax benefit, or a portion of its unrecognized tax benefit, should be presented in its financial statements as a reduction to a deferred tax asset for a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward, with one exception. That exception states that, to the extent a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance is effective for public companies for fiscal years and interim periods within such years beginning after December 15, 2013. We are currently evaluating the impact, if any, the adoption of this guidance will have on the financial position or results of operations.

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the nine months ended September 30, 2013 that could have a material impact on the Corporation's financial position, operating results or financials statement disclosures.

(3) Segment Information

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

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Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

The following tables summarize the operations by reportable segment for the three months and nine months ended September 30, 2013 and 2012:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Operating revenues:				
Managed Care:				
Premiums earned, net	\$491,046	\$508,152	\$1,483,456	\$1,531,703
Administrative service fees	22,450	27,181	78,103	82,473
Intersegment premiums /service fees	1,369	1,489	4,142	4,622
Net investment income	3,975	3,999	12,009	11,783
Total managed care	518,840	540,821	1,577,710	1,630,581
Life Insurance:				
Premiums earned, net	32,279	31,654	95,991	92,190
Intersegment premiums	88	107	304	302
Net investment income	5,303	5,207	16,317	15,304
Total life insurance	37,670	36,968		