TRIPLE-S MANAGEMENT CORP
Form S-1
April 27, 2007

**As filed with the Securities and Exchange Commission on April 27, 2007**
**Registration No. 333-_______**

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

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FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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**TRIPLE-S MANAGEMENT CORPORATION**
(Exact Name of Registrant as Specified in Its Charter)

| Puerto Rico | 6324 | 66-0555678 |
|---|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification Number) |

1441 F.D. Roosevelt Avenue
San Juan, Puerto Rico, 00920
(787) 749-4949
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

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**Ramón M. Ruiz-Comas**
**President and Chief Executive Officer**
1441 F.D. Roosevelt Avenue
San Juan, Puerto Rico, 00920
(787) 749-4949
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

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**Approximate date of commencement of proposed sale to the public**: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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**CALCULATION OF REGISTRATION FEE**

| Title Of Each Class Of Securities To Be Registered | Proposed Maximum Aggregate Offering Price (1)(2) | Amount Of Registration Fee |
|---|---|---|
| Class B Common Stock, par value $1.00 per share | $250,000,000 | $7,675 |

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

(2) Includes shares issuable to holders of Class B Common Stock without separate consideration in future periods pursuant to certain anti-dilution rights of the shares of Class B Common Stock.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED APRIL 27, 2007

Shares

Class B Common Stock

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Prior to this offering, there has been no public market for our common stock. The initial public offering price of our Class B shares is expected to be between $ and $ per share. We intend to apply to list our Class B shares on the New York Stock Exchange under the symbol "GTS."

We are selling shares and the selling shareholders are selling shares. We are not offering or listing our shares of Class A common stock. Upon completion of this offering, assuming the underwriters fully exercise the option to purchase additional shares described below, of our Class B shares, representing % of our share capital, will be held by the public and Class A shares, representing % of our share capital, will be held by our current shareholders. We will not receive any of the proceeds from the sale of shares by the selling shareholders.

Our amended and restated articles of incorporation prohibit any institutional investor from owning 10% or more of our outstanding voting securities, any noninstitutional investor from owning 5% or more of our outstanding voting securities and any person or entity from owning equity securities representing a 20% or more ownership interest in our company. These ownership restrictions will apply to the shares sold in this offering. See "Description of Capital Stock" on page 117 for a more detailed discussion of these restrictions.

The underwriters have an option to purchase up to and additional shares from us and the selling shareholders, respectively, to cover over-allotments of shares.

**Investing in our Class B common stock involves risks. See "Risk Factors" on page 9.**

| | **Price to Public** | **Underwriting Discounts and Commissions** | **Proceeds to Triple-S Management Corporation** | **Proceeds to the Selling shareholders** |
|---|---|---|---|---|
| Per Share | $ | $ | $ | $ |
| Total | $ | $ | $ | $ |

Delivery of the shares of Class B common stock will be made on or about , 2007.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

*Joint Book Running Managers*

**Credit Suisse** **UBS Investment Bank**

The date of this prospectus is ..

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**You should rely only on the information contained in this prospectus or to which we have referred you. We have not authorized anyone to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus may only be used where it is legal to sell these securities. The information in this prospectus may only be accurate on the date of this prospectus.**

**Puerto Rico insurance laws require the prior approval of the Commissioner of Insurance of the Commonwealth of Puerto Rico (the Commissioner of Insurance) for (1) any offer to acquire or sell any issued and outstanding voting securities of Triple-S Management Corporation or any of its insurance subsidiaries that constitutes 10% or more of our or our subsidiary’s stock, and (2) any solicitation or receipt of funds in exchange for the issuance of new shares of our or our insurance subsidiaries’ capital stock. See “Description of Capital Stock.”**

**Dealer Prospectus Delivery Obligation**

**Until , 2007 (25 days after the commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.**

## PROSPECTUS SUMMARY

*In this prospectus, "Triple-S", "TSM", the "Company", the "Corporation", "we", "us", and "our" refer to Triple-S Management Corporation, a Commonwealth of Puerto Rico corporation, and, as the context requires, its subsidiaries. References to "shares" or "common stock" refer collectively to our Class A common stock and Class B common stock, unless the context indicates otherwise. All per share amounts in this prospectus have been restated to reflect the 3,000 for one stock split of our common stock to be effected by us on May 1, 2007. This summary highlights information contained elsewhere in this prospectus and may not contain all of the information that may be important to you. You should read this entire prospectus carefully, including the information set forth in "Risk Factors", before making an investment decision.*

### Our Company

We are the largest managed care company in Puerto Rico, serving approximately one million members across all regions, and hold a leading market position covering approximately 25% of the population. We have the exclusive right to use the Blue Shield name and mark throughout Puerto Rico and have over 45 years of experience in the managed care industry. We offer a broad portfolio of managed care and related products in the commercial, Medicare and Puerto Rico Health Reform (similar to Medicaid) markets.

We serve a full range of customer segments, from corporate accounts, federal and local government employees and individuals to Medicare recipients and Puerto Rico Health Reform (the Reform) enrollees, with a wide range of managed care products. We market our managed care products through both an extensive network of independent agents and brokers located throughout Puerto Rico as well as an internal salaried sales force.

We also offer complementary products and services, including life insurance, accident and disability insurance, and property and casualty insurance. As a result of our acquisition of Great American Life Assurance Company of Puerto Rico (GA Life) in January 2006, we are the leading provider of life insurance policies in Puerto Rico.

In the year ended December 31, 2006, we generated total revenue of approximately $1.6 billion, of which approximately 88% was derived from our managed care businesses and 12% from our life insurance and property and casualty insurance businesses.

#### *Our Competitive Strengths*

**Strong Brand Recognition and Reputation in Puerto Rico.** We believe that the strength of the Triple-S brand, which we have built through our longstanding presence in Puerto Rico and our exclusive license to use the Blue Shield mark, gives us a significant competitive advantage. With an operating history of over 45 years, Triple-S is the second largest locally-owned company and one of the most widely recognized brands in Puerto Rico based on several studies conducted in recent years. We have a loyal customer base, with an average yearly customer retention rate of over 90% in our corporate accounts business since 2003. In addition, we believe that our participation in the Blue Cross Blue Shield Association's BlueCard® PPO program, which provides our members with coverage for medical attention throughout the United States, provides a strong competitive advantage because the primary travel destination of Puerto Rico residents is the continental United States.

**Leading Market Positions with Broad Range of Managed Care Products.** We are the largest managed care company in Puerto Rico in terms of market share, with approximately 25% of the market (in terms of premiums written) as of December 31, 2006. We enjoy leading market positions in many customer segments, including corporate accounts, Medicare Supplement, federal government employees and individual accounts. We offer customized managed care products including health maintenance organizations (HMOs) to our Medicare Advantage and Reform customers and preferred provider organizations (PPOs) on both a fully insured and self-funded basis to our commercial customers, and as a result believe that we have the most comprehensive range of managed care products in Puerto Rico.

**Broad Provider Networks.** We believe we have the broadest geographic coverage of any managed care insurer in Puerto Rico, including hospital and physician networks consisting of some of the most well-recognized physicians and hospitals in Puerto Rico. This is particularly important to large corporate accounts, which typically require that a single insurer cover all of their employees. For example, we believe that a number of corporate clients have contracted with us because we offer an island-wide provider network, as well as access to U.S. providers through the BlueCard program. We maintain strong provider relationships in all of our markets.

**Commitment to Quality Care.** We have demonstrated our commitment to quality care, implementing a number of disease management and health education programs, including programs that target asthma, diabetes, heart failure, hypertension and selected nutrition-related conditions, as well as a prenatal program and a medication therapy management program. We have had a contract with McKesson Health Solutions since 1998 pursuant to which they provide to us 24 hour nurse triage (for all of our customer sectors) and utilization management program services for the Reform segment, Medicare Advantage programs and certain commercial customers.

**Strong Complementary Businesses.** To enhance our relationships with managed care customers, we offer life, disability, and property and casualty insurance products designed to complement the sale of our managed care products and services. As a result of our acquisition of GA Life in January 2006, we are the leading provider of life insurance policies in Puerto Rico. Our broad range of managed care and complementary products provides us with significant opportunities to develop additional points of distribution, particularly among the insurance agencies of Puerto Rico-based financial institutions. In addition, approximately 45% of the sales agents employed by us are licensed to sell both life insurance and managed care products.

**Proven and Experienced Management Team.** We have been a market leader in managed care in Puerto Rico for over 45 years and believe that the extensive experience of our management team provides us with a strong competitive advantage. We also have a strong record of management continuity, which has allowed for efficiency of operations and retention of valuable knowledge. Our senior management team has an average of 13 years of experience at Triple-S.

***Our Strategy***

**Expand Operating Margins and Realize Operating Efficiencies.** Our managed care business was exempt from Puerto Rico income taxes from 1979 until 2003, and was operated as if it was a not-for-profit until that time, as required by the terms of the exemption. Accordingly, beginning in 2004, we increased our efforts to manage medical costs and generate profits as a for-profit managed care company. Even more recently, in anticipation of becoming a public company and to compete more effectively, we have begun to implement or, in some cases, expect to implement, a number of initiatives to reduce utilization and reduce overall medical costs. Some of these initiatives include:

- re-pricing unprofitable customer contracts or permitting such contracts to lapse;
- refining our provider network;
- expanding existing Reform sector disease management programs to other sectors, such as commercial and Medicare;
- implementing radiology benefits management initiatives to reduce spending on high-tech imaging; and
- refining our pharmacy network.

We believe that increased scale in each of our segments will provide efficiencies and greater opportunities to sustain profitable growth.

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**Grow Medicare Advantage Business.** We intend to leverage our brand recognition to further penetrate the Medicare Advantage (a managed care program available to Medicare beneficiaries) market. We entered the Medicare Advantage market in 2005 and as of December 31, 2006 had a market share of approximately 7.0% of the Medicare Advantage market in Puerto Rico. As of December 31, 2006, Puerto Rico had over 600,000 persons eligible for Medicare. Puerto Rico is a particularly attractive growth opportunity, as the population over the age of 65 is expected to grow at an average of 2.4% per annum between 2005 and 2010, as compared to 1.7% in the continental U.S., according to the Puerto Rico Planning Board and U.S. Census Bureau. We believe our Medicare Advantage business will continue to grow, driven by the following:

- Leveraging our position in the Reform business to expand our Medicare Advantage coverage of dual-eligibles (individuals who qualify for both Medicare and Reform benefits). Approximately 31% of Medicare beneficiaries in Puerto Rico are considered dual-eligibles.

- Targeting the conversion of Medicare Supplement members (members with Medicare coverage who purchase supplemental coverage to pay for Medicare deductibles and co-insurance and additional non-Medicare covered benefits) to the more comprehensive benefits structure offered by, and higher revenue generating, Medicare Advantage products. We introduced for the January 2007 enrollment period a variety of new Medicare Advantage products and benefits, including an integrated prescription drug plan and a commercial Medicare Advantage HMO product. In addition, we expect to grow our Medicare Advantage business through the conversion of Medicare Part D prescription drug plan members to Medicare Advantage products.

**Develop New Products to Attract and Retain Customers.** We intend to leverage our strong brand recognition and extensive history to drive profitable growth by introducing new products to the Puerto Rico market. Our particular focus is on the commercial sector within our managed care segment, where we intend to introduce new products such as reduced benefits packages targeted at part-time employees, a new preferred provider network targeted at low salary industries and the uninsured, various new products for individual markets, a lower cost limited provider network and other new group products. We believe that such new products will also help us to retain existing customers by meeting their evolving needs for managed care products. We believe that Puerto Rico is a highly cost-effective market in which to introduce new products because of its dense population.

**Pursue Cross-Selling and Related Opportunities.** To expand our relationships with our managed care customers, we intend to capitalize on cross-selling opportunities by taking advantage of our leading brand name and using our internal and external sales forces to sell both managed care and complementary products such as life, disability, and property and casualty insurance. Only 13 of our 30 largest corporate customers currently purchase both managed care and complementary products from us. We believe that our acquisition of GA Life, through which we acquired individual life insurance products and a substantial sales force, will allow us to further capitalize on cross-selling opportunities. We have established relationships with leading financial institutions in Puerto Rico which we believe will allow us to develop our business opportunities in property and casualty and life insurance products through these institutions' agency operations.

**Disciplined Acquisition Strategy.** We believe that profitable growth, both organic and through acquisitions, is an important part of our business. Increased scale can allow us to improve operating margins, while maintaining competitive prices for our products. We believe that we have the ability to efficiently integrate acquisitions, as evidenced by our successful integration of GA Life. We intend to focus on acquiring managed care plans that expand our product offering. We also may seek to expand our business outside Puerto Rico in the Caribbean or the continental United States, with a particular focus on Hispanic communities, although we currently are not able to sell our managed care products in these areas under the Blue Shield name and will not be able to do so in any area in which a licensee already operates. In addition, we believe that Puerto Rico's Reform managed care model is similar to that of many U.S. states' Medicaid programs. We may seek to leverage our expertise in the Reform business by expanding into the U.S. Medicaid managed care market via a joint venture with a U.S. managed care company or an acquisition.

***History and Corporate Information***

We have been owned since our founding in 1959 by doctors and dentists that are or were providers in our managed care networks. We were incorporated under the laws of Puerto Rico in January 1999 as part of a reorganization pursuant to which our current holding company structure was created. The purpose of the reorganization was to increase our flexibility, as holding companies are not insurance companies within the meaning of the Puerto Rico Insurance Code and are therefore generally not directly subject to the limitations applicable to insurance companies.

We operate our managed care business through our subsidiary Triple-S, Inc. (TSI), our life insurance business through our subsidiary GA Life and our property and casualty insurance business through our subsidiary Seguros Triple-S, Inc. (STS). Each of our operating subsidiaries is a regulated entity under the laws of Puerto Rico.

Our principal offices are located at 1441 F.D. Roosevelt Avenue, San Juan, Puerto Rico and our telephone number is (787) 749-4949. Our website address is www.ssspr.com. The information contained therein is not incorporated by reference in this prospectus.

## THE OFFERING

| | |
|---|---|
| Common stock offered by | |
| Us | shares of Class B common stock |
| Selling shareholders | shares of Class B common stock |
| Total | shares of Class B common stock |
| Over-allotment option | |
| Us | shares of Class B common stock |
| Selling shareholders | shares of Class B common stock |
| Total | shares of Class B common stock |
| Common stock to be outstanding after this offering | shares ( shares if the over-allotment option is exercised in full), consisting of shares of Class A common stock and shares of Class B common stock ( shares of Class A common stock and shares of Class B common stock if the over-allotment option is exercised in full) |
| Use of Proceeds | We estimate that our proceeds from this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, will be approximately $ million, assuming the shares of Class B common stock are offered at $ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus. We intend to use the net proceeds from this offering to repay a portion of our outstanding indebtedness, and for general corporate purposes, including working capital and possible acquisitions and investments. We will not receive any proceeds from the sale of shares by the selling shareholders. See "Use of Proceeds." |
| Proposed New York Stock Exchange Symbol | "GTS" |

Unless otherwise indicated, the information in this prospectus:

- assumes an initial public offering price of $ per share (the midpoint of the price range set forth on the front cover of this prospectus);
- reflects the 3,000 for one stock split to be effected by us on May 1, 2007, all of which will become Class A common stock upon consummation of this offering, with the exception of the shares to be sold in this offering, which will become Class B shares;
- assumes no exercise of the underwriters' option to purchase up to and additional shares from us and the selling shareholders, respectively, to cover over-allotments.

***Risk Factors***

Investing in our common stock involves substantial risk. Please read "Risk Factors" beginning on page 9 for a discussion of certain factors you should consider in evaluating an investment in our common stock.

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***Anti-Dilution Protections***

For a period of five years from the completion of this offering, subject to extension or shortening under certain circumstances, each holder of our Class B shares will benefit from anti-dilution protections provided in our amended and restated articles of incorporation, pursuant to which each holder of Class B shares will be entitled to receive, upon any issuance of our shares to certain potential claimants at a price or prices below the then prevailing market price, such number of additional Class B shares as is necessary to maintain the approximate market value of such holder's investments in us as of the date immediately prior to the first public announcement of the proposed issuance of shares to such claimants. See "Risk Factors - Risks Relating to Our Capital Stock" and "Description of Capital Stock." We believe that these protections should be sufficient to prevent dilution of the Class B shares resulting from the issuance of shares to claimants at a price or prices below the then prevailing market prices, but cannot provide assurances that the protections will be effective in all potential scenarios.

## SUMMARY CONSOLIDATED FINANCIAL AND ADDITIONAL DATA

The table below provides a summary of our historical consolidated financial data for each of the three years in the period ended December 31, 2006. We derived the statement of earnings data for the three years in the period ended December 31, 2006, and the balance sheet data as of December 31, 2006 and 2005 from our audited consolidated financial statements included elsewhere in this prospectus.

You should read this summary consolidated financial data together with "Selected Consolidated Financial and Additional Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and accompanying notes included elsewhere in this prospectus.

Until October 31, 2006, we had contracts with the government of the Commonwealth of Puerto Rico (the government of Puerto Rico) to be the Reform insurance carrier for three of the eight geographical areas into which Puerto Rico is divided for purposes of the Reform. In October 2006, we were informed that the new contract to serve one of these regions, Metro-North, had been awarded to another managed care company effective November 1, 2006. The contracts for the other two regions were renewed for an additional one-year period. The premiums earned, net and operating income related to the operations of the Metro-North region for the year ended December 31, 2006 amounted to $161.6 million and $5.4 million, respectively, and $200.9 million and $3.5 million, respectively, for the year ended December 31, 2005.

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| ***(Dollars in millions, except per share data)*** | **2006[1]** | | **2005** | | **2004** | |
| **Statement of Earnings Data** | | | | | | |
| Revenues: | | | | | | |
| Premiums earned, net | $ | 1,511.6 | $ | 1,380.2 | $ | 1,299.0 |
| Administrative service fees | | 14.1 | | 14.4 | | 9.2 |
| Net investment income | | 42.7 | | 29.1 | | 26.8 |
| Total operating revenues | | 1,568.4 | | 1,423.7 | | 1,335.0 |
| Net realized investment gains | | 0.8 | | 7.2 | | 11.0 |
| Net unrealized investment gain (loss) on trading securities | | 7.7 | | (4.7) | | 3.0 |
| Other income, net | | 2.3 | | 3.7 | | 3.4 |
| Total revenues | | 1,579.2 | | 1,429.9 | | 1,352.4 |
| Benefits and expenses: | | | | | | |
| Claims incurred | | 1,259.0 | | 1,208.3 | | 1,115.8 |
| Operating expenses | | 236.1 | | 181.7 | | 171.9 |
| Total operating costs | | 1,495.1 | | 1,390.0 | | 1,287.7 |
| Interest expense | | 16.6 | | 7.6 | | 4.6 |
| Total benefits and expenses | | 1,511.7 | | 1,397.6 | | 1,292.3 |
| Income before taxes | | 67.5 | | 32.3 | | 60.1 |
| Income tax expense | | 13.0 | | 3.9 | | 14.3 |
| Net income | $ | 54.5 | $ | $28.4 | $ | $45.8 |
| Weighted average number of shares outstanding | | 8,911 | | 8,904 | | 8,919 |
| Weighted average number of shares outstanding giving effect to 3,000-for-one stock split | | 26,733,000 | | 26,712,000 | | 26,757,000 |
| Basic net income per share | $ | 6,120 | $ | 3,193 | $ | 5,135 |
| | $ | 2.04 | $ | 1.06 | $ | 1.71 |

| | |
|---|---|
| Basic net income per share giving effect to 3,000-for-one stock split | |

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| *(Dollars in millions, except per share data)* | **As of December 31,** | | |
|---|---|---|---|
| | **2006**(1) | **2005** | **2004** |
| **Balance Sheet Data** | | | |
| Cash and cash equivalents | $81.3 | $49.0 | $35.1 |
| Total assets | 1,345.5 | 1,137.5 | 919.7 |
| Long-term borrowings | 183.1 | 150.6 | 95.8 |
| Total shareholders' equity | 342.6 | 308.7 | 301.4 |

| | **Year Ended December 31,** | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| **Additional Managed Care Data** (2) | | | |
| Medical loss ratio | 87.6% | 90.3% | 88.3% |
| Operating expense ratio | 11.5% | 10.8% | 10.8% |
| Medical membership (period-end) | 979,506 | 1,252,649 | 1,236,108 |

(1) On January 31, 2006, we completed the acquisition of GA Life. The results of operations and financial condition of GA Life are included in this table for the period following the effective date of the acquisition. See note 3 to the audited consolidated financial statements included elsewhere herein.

(2) Does not reflect inter-segment eliminations.

## RISK FACTORS

*You should carefully consider the following risks and all other information set forth in this prospectus before investing. These risks and other factors could materially affect our business, results of operations or financial condition and cause the trading price of our common stock to decline. You could lose part or all of your investment.*

***Risks Relating to our Capital Stock***

**Certain of our current and former providers may bring materially dilutive claims against us.**

Beginning with our founding in 1959 and until 1994, we encouraged, and at times required, the doctors and dentists that comprised our provider network to acquire our shares. Between approximately 1985 and 1994, our predecessor managed care subsidiary, Seguros de Servicios de Salud de Puerto Rico, Inc. (SSS) generally entered into an agreement with each new physician or dentist who joined our provider network to sell the provider shares of SSS at a future date (each a share acquisition agreement). These agreements were necessary because there were not enough authorized shares of SSS available during this period and afterwards for issuance to all new providers. Each share acquisition agreement committed SSS to sell, and each new provider to purchase, five $40-par-value shares of SSS at $40 per share after SSS had increased its authorized share capital in compliance with the Puerto Rico Insurance Code and was in a position to issue new shares. Despite repeated efforts in the 1990s, SSS was not successful in obtaining shareholder approval to increase its share capital, other than in connection with our reorganization in 1999, when SSS was merged into a newly-formed entity having authorized capital of 25,000 $40-par-value shares, or twice the number of authorized shares of SSS. SSS's shareholders and the Commissioner of Insurance did not, however, authorize the issuance of the newly formed entity's shares to providers or any other third party. In addition, subsequent to the reorganization, TSM's shareholders did not approve attempts to increase TSM's share capital in 2002 and 2003.

Notwithstanding the fact that TSI and its predecessor, SSS, were never in a position to issue new shares to providers as contemplated by the share acquisition agreements because shareholder approval for such issuance was never obtained, and the fact that SSS on several occasions in the 1990s offered providers the opportunity to purchase shares of its treasury stock and such offers were accepted by very few providers, providers who entered into share acquisition agreements may claim that the share acquisition agreements entitle them to acquire shares of TSI or TSM at a subscription price equivalent to that provided for in the share acquisition agreements. SSS entered into share acquisition agreements with approximately 3,000 providers, the substantial majority of whom never came to own shares of SSS. Such share acquisition agreements provide for the purchase and sale of approximately 15,000 shares of SSS. Were TSI or TSM required to issue a significant number of shares in respect of these agreements, the interest of our existing shareholders would be substantially diluted. As of the date of this prospectus, although no judicial claims of this nature have been commenced, we have received inquiries with respect to at least approximately 500 shares (or 1,500,000 shares if effect were given to the potential claims in respect of such 500 shares were multiplied on the same basis as the 3,000 -for -one stock split to be effected on May 1, 2007) under share acquisition agreements.

Management has been advised by Puerto Rico counsel that, on the basis of a reasoned analysis, while the matter is not free from doubt and there are no applicable controlling precedents, we should prevail if litigation of these claims were to be commenced by providers because, among other defenses, the condition precedent to SSS's obligations under the share acquisition agreements never occurred, and any obligation it or its subsidiaries or predecessors may have had under the share acquisition agreements should be understood to have expired prior to our corporate reorganization, which took effect in 1999, although the share acquisition agreements do not expressly provide for any expiration.

Management believes we should prevail in litigation if any judicial claims are commenced with respect to these matters; however, we cannot predict the outcome of any such litigation, including with respect to the magnitude of any claims that may be asserted by any plaintiff, and the interests of our shareholders could be materially diluted to the extent that claims under the share acquisition agreements are successful. The Class B shares we are offering with this prospectus include anti-dilution protections designed to offset the dilutive effect of the issuance of shares in respect of such claims at below market prices on the Class B of shares during a period of up to five or more years from the date that this offering is completed. See "Description of Capital Stock."

**Heirs of certain of our former shareholders may bring materially dilutive claims against us.**

For much of our history, TSM and its predecessor entities have restricted the ownership or transferability of their shares, including by reserving to TSM or its predecessors a right of first refusal with respect to share transfers and by limiting ownership of such shares to physicians and dentists. In addition, TSM and its predecessors, consistent with the requirements of their bylaws, have sought to repurchase shares of deceased shareholders at the amount originally paid for such shares by those shareholders. Nonetheless, we anticipate that some former shareholders' heirs who were not eligible to own or be transferred shares because they were not physicians or dentists at the time of their purported inheritance ("non-medical heirs"), may claim an entitlement to TSM shares or to damages in respect to the repurchased shares notwithstanding applicable transfer and ownership restrictions. Our records indicate that there may be as many as approximately 450 non-medical heirs who may claim to have inherited up to 3,500 shares (or 10,500,000 shares, after giving effect to the 3,000 for one stock split to be effected by us on May 1, 2007), although no judicial claims in this regard have ever been initiated. As of the date of this prospectus, we have received inquiries from non-medical heirs with respect to approximately 420 shares (or 1,260,000 shares, after giving effect to the 3,000 for one stock split to be effected by us on May 1, 2007).

Management believes that we should generally prevail against any such claims if brought; however, management cannot predict the outcome of any eventual litigation regarding these non-medical heirs. The interests of our existing shareholders could be materially diluted to the extent that any such claims are successful. The Class B shares we are offering with this prospectus include anti-dilution protections designed to offset the dilutive effect of the issuance of any shares in respect of such claims at below market prices on the Class B shares during a period of five years from the date that this offering is completed. See "Description of Capital Stock."

**The dual class structure may not successfully protect against significant dilution of your Class B shares.**

We designed the dual class structure of capital stock described in "Description of Capital Stock" to maintain the value of the ownership interest in TSM represented by the Class B shares immediately prior to the announcement of any proposed issuance of shares that we are required to issue with respect to a claim against us under any share acquisition agreement or by a non-medical heir. We believe that this mechanism will effectively protect investors in our Class B shares against any potential dilution from the issuance of any shares in respect of such claims at below market prices, but we cannot assure you that this mechanism will be effective under all circumstances. While we expect to prevail against any such claims brought against us and, to the extent that we do not prevail, would expect to issue Class A shares in respect of any such claim, there can be no assurance that the claimants in any such lawsuit will not seek to acquire Class B shares. The issuance of a significant number of Class B shares, if followed by a material further issuance of shares to separate claimants, could impair the effectiveness of the anti-dilution protections of the Class B shares. In addition, we cannot assure you that the anti-dilution protections afforded our Class B shares will not be challenged by share acquisition providers and/or non-medical heir claimants to the extent that these protections limit the percentage ownership of TSM that may be acquired by such claimants. We believe that such a challenge should not prevail, but cannot provide any assurances of the outcome.

In the event that claimants seek to acquire shares of our managed care subsidiary, TSI, we will not be able to prevent dilution of the value of the indirect ownership of the net assets of TSI represented by the Class B shares to the extent that such claimants are awarded a number of shares at less than fair value that dilutes TSM's interest in TSI to a percentage lower than the percentage of Class B shareholder ownership of TSM. Finally, the anti-dilution protection afforded by the dual class structure may cease to be of further effect five years following completion of this offering, at which time all remaining Class A shares may, at the discretion of our board of directors, be converted into Class B shares even if we have not resolved all claims against us by such time.

***Risks Relating to our Business***

**Our inability to contain managed care costs may adversely affect our business and profitability.**

Substantially all of our managed care revenue is generated by premiums consisting of monthly payments per member that are established by contracts with our commercial customers, the government of Puerto Rico (for our Reform program) or the Centers for Medicare and Medicaid Services (CMS) (for our Medicare Advantage plans), all of which are typically renewable on an annual basis. If our medical expenses exceed our estimates, except in very limited circumstances or as a result of risk score adjustments for member acuity, we will be unable to increase the premiums we receive under these contracts during the then-current terms. As a result, our profitability in any year depends, to a significant degree, on our ability to adequately predict and effectively manage our medical expenses related to the provision of managed care services through underwriting criteria, medical management, product design and negotiation of favorable provider contracts with hospitals, physicians and other health care providers. The aging of the population and other demographic characteristics and advances in medical technology continue to contribute to rising health care costs. Government-imposed limitations on Medicare and Reform reimbursement have also caused the private sector to bear a greater share of increasing health care costs. Also, we have in the past and may in the future enter into new lines of business in which it may be difficult to estimate anticipated costs. Numerous factors affecting the cost of managed care, including changes in health care practices, inflation, new technologies such as genetic laboratory screening for diseases including breast cancer, the cost of prescription drugs, clusters of high cost cases, changes in the regulatory environment including the implementation of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), as well as others, may adversely affect our ability to predict and manage managed care costs, as well as our business, financial condition and results of operations.

**Our inability to implement increases in premium rates on a timely basis may adversely affect our business and profitability.**

In addition to the challenge of managing managed care costs, we face pressure to contain premium rates. Our customers may move to a competitor at the time of policy renewal to obtain more favorable premiums. Future Medicare and Reform premium rate levels may be affected by continuing government efforts to contain medical expense or other federal budgetary constraints. In particular, the government of Puerto Rico has adopted several measures to control Reform expenditures, such as closer and continuous scrutiny of participants' eligibility, redesign of benefits, co-payments, deductibles, and requiring the establishment of disease management programs. Changes in the Medicare and Reform program, including with respect to funding, may lead to reductions in the amount of reimbursement, elimination of coverage for certain benefits, or reductions in the number of persons enrolled in or eligible for Medicare and the Reform. A limitation on our ability to increase or maintain our premium levels could adversely affect our business, financial condition and results of operations.

**Our profitability may be adversely affected if we are unable to maintain our current provider agreements and to enter into other appropriate agreements.**

Our profitability is dependent upon our ability to contract on favorable terms with hospitals, physicians and other managed care providers. We face heavy competition from other managed care plans to enter into contracts with hospitals, physicians and other providers in our provider networks. Consolidation in our industry, both on the provider side and on the managed care side, only exacerbates this competition. Currently certain providers are pressing for legislation that would allow providers to negotiate service fees by group. The failure to maintain or to secure new cost-effective managed care provider contracts may result in a loss in membership or higher medical costs. In addition, our inability to contract with providers could adversely affect our business.

**A reduction in the enrollment in our managed care programs could have an adverse effect on our business and profitability.**

A reduction in the number of enrollees in our managed care programs could adversely affect our business, financial condition and results of operations. Factors that could contribute to a reduction in enrollment include: failure to obtain new customers or retain existing customers; premium increases and benefit changes; our exit from a specific market; reductions in workforce by existing customers; negative publicity and news coverage; failure to maintain the Blue Shield license; reductions in the number of persons enrolled in or eligible for Medicare or the Reform; and any general economic downturn that results in business failures.

**We are dependent on a small number of government contracts to generate a significant amount of the revenues of our managed care business.**

Our managed care business participates in government contracts that generate a significant amount of our consolidated premiums earned, net, as follows:



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· *Reform Program.* We participate in the government of Puerto Rico Health Reform to provide health coverage to medically indigent citizens in Puerto Rico. Our results of operations have depended to a significant extent on our participation in the Reform program. During each of 2006, 2005 and 2004, the Reform program has accounted for 30.2%, 37.0% and 37.3%, respectively, of our consolidated premiums earned, net. During these periods, we were the sole Reform provider in three of the eight Reform regions in Puerto Rico. Since we obtained our first Reform contract in 1995, we have been the sole provider for two to three regions each year. The contract for each geographical area is subject to termination in the event of any non-compliance by our managed care subsidiary which is not corrected or cured to the satisfaction of the government entity overseeing the Reform, or on 90 days' prior written notice in the event that the government determines that there is an insufficiency of funds to finance the Reform. These contracts have one-year terms and expire on September 30 of each year. Upon the expiration of the contract for a geographical area, the government of Puerto Rico usually commences an open bidding process for such area. In October 2006, we were informed that the new contract to serve one of these regions, Metro-North, had been awarded to another managed care company effective November 1, 2006. During each of 2006, 2005 and 2004, this region accounted for 10.7%, 14.6% and 14.2%, respectively, of our consolidated premiums earned, net and 7.3%, 10.3% and 9.3%, respectively, of our consolidated operating income. We intend to continue to participate in the Reform program, but we may not be able to retain the right to service a particular geographical area in which we currently operate after the expiration of our current or any future contracts.

· *Medicare Advantage:* We provide services through our Medicare Advantage health plans pursuant to a limited number of contracts with CMS. These contracts generally have terms of one year and must be renewed each year. Each of our contracts with CMS is terminable for cause if we breach a material provision of the contract or violate relevant laws or regulations. If we are unable to renew, or to successfully re-bid or compete for any of these contracts, or if any of these contracts are terminated, our business would be materially impaired. Contracts with CMS represented 11.3% of our consolidated premiums earned, net and 45.9% of our consolidated operating income during 2006 and may in the future represent a greater percentage of our results.

· *Commercial:* Our managed care subsidiary is a qualified contractor to provide managed care coverage to federal government employees within Puerto Rico. Such coverage is provided pursuant to a contract with the U.S. Office of Personnel Management (OPM) that is subject to termination in the event of noncompliance not corrected to the satisfaction of the OPM. During 2006, 2005, and 2004, premiums generated under this contract represented 7.5%, 8.2% and 8.3% of our consolidated premiums earned, net, respectively, and 1.2%, 2.4% and 1.6% of our consolidated operating income, respectively.

If any of these contracts is terminated for any reason, including by reason of any noncompliance by us, or not renewed or replaced by a comparable contract, our premiums would be materially adversely affected. The further loss or non-renewal of either of our Reform contracts could have a material adverse effect on our operating results and could result in the downsizing of certain personnel, the cancellation of lease agreements of certain premises and of certain contracts, and severance payments, among others.

**A change in our managed care product mix may impact our profitability.**

Our managed care products that involve greater potential risk, such as fully insured arrangements, generally tend to be more profitable than administrative services only (ASO) products and those managed care products where employer groups retain the risk, such as self-funded financial arrangements. There has been a trend in recent years among our commercial customers of moving from fully-insured plans to ASO, or self-funded, arrangements. In addition, the government of Puerto Rico began a pilot project in 2003 for the Reform in one of the eight geographical areas under which it contracted services on an ASO basis for certain members instead of contracting on a fully insured basis. This project was subsequently extended to the Metro-North region, which was served by us until October 31, 2006. There can be no assurance that the government will not implement such a program in areas served by us. As of December 31, 2006, 83.9% of our managed care customers had fully insured arrangements and 16.1% had ASO arrangements, as compared to approximately 87.8% and 12.2%, respectively, as of December 31,

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2005. Unfavorable changes in the relative profitability or customer participation among our various products could have a material adverse effect on our business, financial condition, and results of operations.

**Our failure to accurately estimate incurred but not reported claims would affect our reported financial results.**

A portion of the claim liabilities recorded by our insurance segments represents an estimate of amounts needed to pay and adjust anticipated claims with respect to insured events that have occurred, including events that have not yet been reported to us. These amounts are based on estimates of the ultimate expected cost of claims and on actuarial estimation techniques. Judgment is required in actuarial estimation to ascertain the relevance of historical payment and claim settlement patterns under each segment's current facts and circumstances. Accordingly, the ultimate liability may be in excess of or less than the amount provided. We regularly compare prior period liabilities to re-estimated claim liabilities based on subsequent claims development; any difference between these amounts is adjusted in the operations of the period determined. Additional information on how each reportable segment determines its claim liabilities, and the variables considered in the development of this amount, is included elsewhere in this prospectus under "Management's Discussion and Analysis of Financial Condition and Results of Operation — Critical Accounting Policies and Estimates." Actual experience will likely differ from assumed experience, and to the extent the actual claims experience is less favorable than estimates based on our underlying assumptions, our incurred losses would increase and future earnings could be adversely affected.

**The termination or modification of our license agreements to use the Blue Shield name and mark could have an adverse effect on our business, financial condition and results of operations.**

We are a party to license agreements with the Blue Cross Blue Shield Association (BCBSA) which entitle us to the exclusive use of the Blue Shield name and mark in Puerto Rico. We believe that the Blue Shield name and mark are valuable identifiers of our products and services in the marketplace. The termination of these license agreements or changes in the terms and conditions of these license agreements could adversely affect our business, financial condition and results of operations.

Our license agreements with the BCBSA contain certain requirements and restrictions regarding our operations and our use of the Blue Shield name and mark. Failure to comply with any of these requirements and restrictions could result in a termination of the license agreements. The standards under the license agreements may be modified in certain instances by the BCBSA. For example, from time to time there have been proposals considered by the BCBSA to modify the terms of the license agreements to restrict various potential business activities of licensees. These proposals have included, among other things, a limitation on the ability of a licensee to permit its provider networks to contract with insurance carriers or other entities not holding a Blue Cross or Blue Shield license. To the extent that such amendments to the license agreements are adopted in the future, they could have a material adverse effect on our future expansion plans or results of operations.

Upon any event causing termination of the license agreements, we would no longer have the right to use the Blue Shield name and mark in Puerto Rico. Furthermore, the BCBSA would be free to issue a license to use the Blue Shield name and mark in Puerto Rico to another entity. Events that could cause the termination of a license agreement with the BCBSA include failure to comply with minimum capital requirements imposed by the BCBSA, a change of control or violation of the BCBSA ownership limitations on our capital stock, impending financial insolvency and the appointment of a trustee or receiver or the commencement of any action against a licensee seeking its dissolution. Accordingly, termination of the license agreements could have a material adverse effect on our business, financial condition and results of operations.

In addition, the BCBSA requires us to comply with certain specified levels of risk based capital (RBC). RBC is designed to identify weakly capitalized companies by comparing each company's adjusted surplus to its required surplus (the RBC ratio). Although we are currently in compliance with these requirements, we may be unable to continue to comply in the future. Failure to comply with these requirements could result in the revocation or loss of our BCBSA license.

Upon termination of a license agreement, the BCBSA would impose a “Re-establishment Fee” upon us, which would allow the BCBSA to “re-establish” a Blue Shield presence in the vacated service area with another managed care company. Through December 31, 2006 the fee is set at $83.41 per licensed enrollee. If the re-establishment fee was applied to our total Blue Shield enrollees, we would be assessed approximately $81.7 million by the BCBSA.

See “Business—Blue Shield License” for more information.

**Our ability to manage our exposure to underwriting risks in our life insurance and property and casualty insurance businesses depends on the availability and cost of reinsurance coverage.**

Reinsurance is the practice of transferring part of an insurance company’s liability and premium under an insurance policy to another insurance company. We use reinsurance arrangements to limit and manage the amount of risk we retain, to stabilize our underwriting results and to increase our underwriting capacity. In 2006, 41.3%, or $65.7 million, of the premiums written in the property and casualty insurance segment and 10.6%, or $9.7 million, of the premiums written in the life insurance segment were ceded to reinsurers. The availability and cost of reinsurance is subject to changing market conditions and may vary significantly over time. Any decrease in the amount of our reinsurance coverage will increase our risk of loss. We may be unable to maintain our desired reinsurance coverage or to obtain other reinsurance coverage in adequate amounts and at favorable rates. If we are unable to renew our expiring coverage or obtain new coverage, it will be difficult for us to manage our underwriting risks and operate our business profitably.

It is also possible that the losses we experience on insured risks for which we have obtained reinsurance will exceed the coverage limits of the reinsurance. If the amount of our reinsurance coverage is insufficient, our insurance losses could increase substantially.

**If our reinsurers do not pay our claims or do not pay them in a timely manner, we may incur losses.**

We are subject to loss and credit risk with respect to the reinsurers with whom we deal because buying reinsurance does not relieve us of our liability to policyholders. In accordance with general industry practices, our property and casualty and life insurance subsidiaries annually purchase reinsurance to lessen the impact of large unforeseen losses and mitigate sudden and unpredictable changes in our net income and shareholders equity. In the event that all or any of the reinsurance companies are unable to meet their obligations under existing reinsurance agreements or pay on a timely basis, we will continue to be liable to our policyholders notwithstanding such defaults or delays. If our reinsurers are not capable of fulfilling their financial obligations to us, our insurance losses would increase, which would negatively affect our financial condition and results of operations.

**A downgrade in our A.M. Best rating or our inability to increase our A.M. Best rating could affect our ability to write new business or renew our existing business in our property and casualty segment.**

Ratings assigned by A.M. Best are an important factor influencing the competitive position of the property and casualty insurance companies in Puerto Rico. In July 2006, as a result of the additional indebtedness we incurred in connection with the acquisition of GA Life, A.M. Best maintained our property and casualty insurance subsidiary’s rating of A- (the fourth highest of A.M. Best’s 16 financial strength ratings) but changed the outlook to negative. A.M. Best ratings represent independent opinions of financial strength and ability to meet obligations to policyholders and are not directed toward the protection of investors. Financial strength ratings are used by brokers and customers as a means of assessing the financial strength and quality of insurers. A.M. Best reviews its ratings periodically and we may not be able to maintain our current ratings in the future. A downgrade of our property and casualty subsidiary’s rating could severely limit or prevent us from writing desirable property business or from renewing our existing business. The lines of business that property and casualty subsidiary writes and the market in which it operates are particularly sensitive to changes in A.M. Best financial strength ratings.

**Significant competition could negatively affect our ability to maintain or increase our profitability.**

***Managed Care***

The managed care industry in Puerto Rico is very competitive. If we are unable to compete effectively while appropriately pricing the business subscribed, our business and financial condition could be materially affected. Competition in the insurance industry is based on many factors, including premiums charged, services provided,

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speed of claim payments and reputation. This competitive environment has produced and will likely continue to produce significant pressures on the profitability of managed care companies. In addition, the managed care market in Puerto Rico, other than the Medicare Advantage market, is mature. According to the U.S. Census Bureau, Puerto Rico's population grew by 0.4% between July 2004 and 2005, less than half the national population rate growth of 0.9% during the same period. As a result, in order to increase our profitability we must increase our membership in the new Medicare Advantage program, increase market share in the commercial sector, improve our operating profit margins, make acquisitions or expand geographically. In Puerto Rico, several new managed care plans and other entities have been awarded contracts for Medicare Advantage or stand-alone Medicare prescription drug plans and entered that market in 2006. We anticipate that these other plans will aggressively market their benefits to our current and our prospective members. Although we believe that we market an attractive offering, there are no assurances that we will be able to compete successfully with these other plans for new members, or that our current members will not choose to terminate their relationship with us and enroll in these other plans. The recently adopted Tax Relief and Health Care Act of 2006 allows Medicare beneficiaries to enroll throughout the year only in Medicare Advantage plans that do not offer Part D prescription drug coverage. Since we do offer such coverage, we can only enroll new Medicare Advantage members between November 15 and December 31 each year, thus placing us at a competitive disadvantage.

Concentration in our industry also has created an increasingly competitive environment, both for customers and for potential acquisition targets, which may make it difficult for us to grow our business. Some of our competitors are larger and have greater financial and other resources than we do. We may have difficulty competing with larger managed care companies, which can create downward price pressures on premium rates. We may not be able to compete successfully against current and future competitors. In addition, our rights under the BCBSA license only extend to the use of the "Blue Shield" mark in Puerto Rico. The exclusive right to use the "Blue Cross" mark in Puerto Rico is currently held by a relatively small company.

Future legislation at the federal and local levels also may result in increased competition in our market. While we do not anticipate that any of the current legislative proposals of which we are aware would increase the competition we face, future legislative proposals, if enacted, might do so.

***Complementary Products***

The property and casualty insurance market in Puerto Rico is extremely competitive. Due to the relatively low level of economic growth in Puerto Rico, there are few new sources of business in this segment. As a result, property and casualty insurance companies compete for the same accounts through aggressive pricing, more favorable policy terms and better quality of services. We also face heavy competition in the life insurance market.

We believe these trends will continue. There can be no assurance that these competitive pressures will not adversely affect our business, financial condition and results of operations.

**As a holding company, we are largely dependent on rental payments, dividends and other payments from our subsidiaries, although the ability of our regulated subsidiaries to pay dividends or make other payments to us is subject to the regulations of the Commissioner of Insurance, including maintenance of minimum levels of capital, as well as covenant restrictions in their indebtedness.**

We are a holding company whose assets include, among other things, all of the outstanding shares of common stock of our subsidiaries, including our regulated insurance subsidiaries. We principally rely on rental income and dividends from our subsidiaries to fund our debt service, dividend payments and operating expenses, although our subsidiaries do not declare dividends every year. We also benefit to a lesser extent from income on our investment portfolio.

Our insurance subsidiaries are subject to the regulations of the Commissioner of Insurance. These regulations, among other things, require insurance companies to maintain certain levels of capital which range by type of insurance from $1.0 million to $3.0 million, thereby restricting the amount of earnings that can be distributed. Our subsidiaries' ability to make any payments to us will also depend on their earnings, the terms of their indebtedness, if any, business and other legal restrictions. Furthermore, creditors of our subsidiaries have a superior claim to such subsidiaries' assets. Our subsidiaries may not be able to pay dividends or otherwise contribute or distribute funds to us in an amount sufficient for us to meet our financial obligations. In addition, from time to time, we may find it necessary to provide financial assistance, either through subordinated loans or capital infusions to our subsidiaries.

In addition, we are subject to RBC requirements by the BCBSA. See "— The termination or modification of our license agreements to use the Blue Shield name and mark could have an adverse effect on our business, financial condition and results of operations."

**Our results may fluctuate as a result of many factors, including cyclical changes in the insurance industry.**

Results of companies in the insurance industry, and particularly the property and casualty insurance industry, historically have been subject to significant fluctuations and uncertainties. The industry's profitability can be affected significantly by:

- rising levels of actual costs that are not known by companies at the time they price their products;
- volatile and unpredictable developments, including man-made and natural catastrophes;
- changes in reserves resulting from the general claims and legal environments as different types of claims arise and judicial interpretations relating to the scope of insurers' liability develop; and
- fluctuations in interest rates, inflationary pressures and other changes in the investment environment, which affect returns on invested capital.

Historically, the financial performance of the insurance industry has fluctuated in cyclical periods of low premium rates and excess underwriting capacity resulting from increased competition, followed by periods of high premium rates and a shortage of underwriting capacity resulting from decreased competition. Fluctuations in underwriting capacity, demand and competition, and the impact on us of the other factors identified above, could have a negative impact on our results of operations and financial condition. We believe that underwriting capacity and price competition in the current market is increasing. This additional underwriting capacity may result in increased competition from other insurers seeking to expand the kinds or amounts of business they write or cause some insurers to seek to maintain market share at the expense of underwriting discipline. We may not be able to retain or attract customers in the future at prices we consider adequate.

**If we do not effectively manage the growth of our operations we may not be able to achieve our profitability targets.**

Our growth strategy includes enhancing our market share in Puerto Rico, entering new geographic markets, introducing new insurance products and programs, further developing our relationships with independent agencies or brokers and pursuing acquisition opportunities. Our strategy is subject to various risks, including risks associated with our ability to:

- identify profitable new geographic markets to enter;
- operate in new geographic areas, as we have very limited experience operating outside Puerto Rico;
- obtain licenses in new geographic areas in which we wish to market and sell our products;
- successfully implement our underwriting, pricing, claims management and product strategies over a larger operating region;
- properly design and price new and existing products and programs and reinsurance facilities for markets in which we have no direct experience;

- identify, train and retain qualified employees;
- identify, recruit and integrate new independent agencies and brokers and expand the range of Triple-S products carried by our existing agents and brokers;
- develop a network of physicians, hospitals and other managed care providers that meets our requirements and those of applicable regulators; and

· augment our internal monitoring and control systems as we expand our business.

We also may encounter difficulties in the implementation of our growth strategies. For instance, our BCBSA license entitles us to use the Blue Shield name only in Puerto Rico. We currently are not able to use the Blue Shield name in areas outside Puerto Rico. In addition, we may enter into markets or product lines in which we have little or no prior experience. For example, we plan to expand our operations outside Puerto Rico and to expand our property and casualty insurance segment through the establishment of an auto preferred rate insurance company, which will write personal auto policies at discounted rates.

Any such risks or difficulties could limit our ability to implement our growth strategies or result in diversion of senior management time and adversely affect our financial results.

**We may be subject to regulatory and investigative proceedings, which may find that our policies, procedures and contracts do not fully comply with complex and changing healthcare regulations.**

The Commissioner of Insurance, as well as other Federal and Puerto Rico government authorities, including but not limited to CMS, the Office of the Inspector General of the U.S. Department of Health and Human Services, the Office of Civil Rights, the U.S. Department of Justice, and the Office of Personnel Management, regularly make inquiries and conduct audits concerning our compliance with applicable insurance and other laws and regulations. We may become the subject of regulatory or other investigations or proceedings brought by these authorities, and our compliance with and interpretation of applicable laws and regulations may be challenged. In addition, our regulatory compliance may also be challenged by private citizens under the “whistleblower provisions” of applicable laws. The defense of any such challenge could result in substantial cost and a diversion of management’s time and attention. Thus, any such challenge could have a material adverse effect on our business, regardless of whether it ultimately is successful. If we fail to comply with any applicable laws, or a determination is made that we have failed to comply with these laws, our financial condition and results of operations could be adversely affected.

An adverse review, audit or an investigation could result in one or more of the following:

· recoupment of amounts we have been paid pursuant to our government contracts;

· mandated changes in our business practices;

· imposition of significant civil or criminal penalties, fines or other sanctions on us and/or our key employees;

· loss of our right to participate in Medicare, the Reform or other federal or local programs;

· damage to our reputation;

· increased difficulty in marketing our products and services;

· inability to obtain approval for future services or geographic expansions; and

· loss of one or more of our licenses to act as an insurance company, preferred provider or managed care organization or other licensed entity or to otherwise provide a service.

Our failure to maintain an effective corporate compliance program may increase our exposure to civil damages and penalties, criminal sanctions and administrative remedies, such as program exclusion, resulting from an adverse review. Any adverse review, audit or investigation could reduce our revenue and profitability and otherwise adversely affect our operating results.

**As a Medicare Advantage program participant, we are subject to complex regulations. If we fail to comply with these regulations, we may be exposed to criminal sanctions and significant civil penalties, and our Medicare Advantage contracts may be terminated.**

The laws and regulations governing Medicare Advantage program participants are complex, subject to interpretation and can expose us to penalties for non-compliance. If we fail to comply with these laws and regulations, we could be subject to criminal fines, civil penalties or other sanctions, including the termination of our Medicare Advantage contracts.

**The revised rate calculation system for Medicare Advantage established by the Medicare Modernization Act (MMA) could reduce our profitability.**

Effective January 1, 2006, a revised rate calculation system based on a competitive bidding process was instituted for Medicare Advantage managed care plans, including our Medicare Selecto and Medicare Optimo plans. The statutory payment rate was relabeled as the benchmark amount, and plans submit competitive bids that reflect the costs they expect to incur in providing the base Medicare benefits. If the accepted bid is less than the benchmark, Medicare pays the plan its bid plus a rebate of 75% of the amount by which the benchmark exceeds the bid. However, these rebates can only be used to enhance benefits or lower premiums and co-pays for plan members. If the bid is greater than the benchmark, the plan will be required to charge a premium to enrollees equal to the difference between the bid and the benchmark, which could affect our ability to attract enrollees. CMS reviews the methodology and assumptions used in bidding with respect to medical and administrative costs, profitability and other factors. CMS could challenge such methodology or assumptions or seek to cap or limit plan profitability.

Furthermore, the Deficit Reduction Act of 2005 (DRA) signed by the President on February 8, 2006, directs CMS to conduct an analysis of fee-for-service provider (a provider who receives payment for services based on actual services provided to Medicare beneficiaries and a contractually mandated or CMS-mandated fee schedule) and Medicare Advantage plan treatment and coding practices (methods of documenting medical services provided to and diagnoses of members) and to incorporate any identified differences into benchmark calculations no later than 2008. This revised rate calculation system established by the MMA and amended by the DRA is likely to eventually result in reduced Medicare Advantage payment rates, which could reduce our revenues and cause our profitability to decline. We may also face the risk of reduced or insufficient government funding and we may need to terminate our Medicare Advantage contracts with respect to unprofitable markets, which may have a material adverse effect on our financial position, results of operations or cash flows. In addition, as a result of the competitive bidding process, we may in the future be required to reduce benefits or charge our members an additional premium in order to maintain our current level of profitability, either of which could make our health plans less attractive to members and adversely affect our membership.

**CMS's risk adjustment payment system and budget neutrality factors make our revenue and profitability difficult to predict and could result in material retroactive adjustments to our results of operations.**

CMS has implemented a risk adjustment payment system for Medicare health plans to improve the accuracy of payments and establish incentives for Medicare plans to enroll and treat less healthy Medicare beneficiaries. CMS is phasing in this payment methodology with a risk adjustment model that bases a portion of the total CMS reimbursement payments on various clinical and demographic factors including hospital inpatient diagnoses, diagnosis data from ambulatory treatment settings, including hospital outpatient facilities and physician visits, gender, age and Medicaid eligibility. CMS requires that all managed care companies capture, collect and submit the necessary diagnosis code information to CMS twice a year for reconciliation with CMS's internal database. As part of the phase-in, during 2003, risk adjusted payments accounted for 10% of Medicare health plan payments, with the remaining 90% being reimbursed in accordance with the traditional CMS demographic rate books. The portion of risk adjusted payments was increased to 30% in 2004, 50% in 2005 and 75% in 2006, and has increased to 100% in 2007. As a result of this process, it is difficult to predict with certainty our future revenue or profitability. In addition, our own risk scores for any period may result in favorable or unfavorable adjustments to the payments we receive from CMS and our Medicare premium revenue. There can be no assurance that our contracting physicians and hospitals will be successful in improving the accuracy of recording diagnosis code information, which has an impact on our risk scores.

Payments to Medicare Advantage plans are also adjusted by a "budget neutrality" factor that was implemented in 2003 by Congress and CMS to prevent health plan payments from being reduced overall while, at the same time, directing risk adjusted payments to plans with more chronically ill enrollees. In general, this adjustment has favorably impacted payments to all Medicare Advantage plans. The President's budget for 2005 assumed the phasing out of the budget neutrality adjustments over a five year period from 2007 through 2011. On December 21, 2005, the U.S. Senate passed legislation that reduces federal funding for Medicare Advantage plans by approximately $6.2 billion over five years. Among other changes, the legislation provides for an accelerated phase out of budget neutrality for risk adjustment of payments made to Medicare Advantage plans. The U.S. House of Representatives has passed similar legislation but must approve the final version of the Senate legislation before the legislation can go to the President for signature. These legislative changes may change payments to Medicare Advantage plans in general.

In addition, the Medicare Payment Advisory Commission (MedPac), an independent federal body established to advise Congress on issues concerning the Medicare program, in its report to Congress issued on March 1, 2007, has noted that in 2006 the federal government spent 12% more to provide coverage to Medicare beneficiaries who are covered through a private Medicare Advantage plan than through the traditional Medicare program. As a result, MedPac has recommended that Congress gradually lower rates paid to Medicare Advantage plans to ensure financial neutrality with the traditional Medicare program. A U.S. House of Representatives subcommittee is holding hearings to consider this issue. We cannot predict if, when or to what degree Congress may act on the MedPac recommendation, but any reduction in the Medicare Advantage rates could have an adverse effect on our revenue, financial position, results of operations or cash flow.

**If during the open enrollment season our Medicare Advantage members enroll in another Medicare Advantage plan, they will be automatically disenrolled from our plan, possibly without our immediate knowledge.**

Pursuant to the MMA, members enrolled in one insurer's Medicare Advantage program will be automatically unenrolled from that program if they enroll in another insurer's Medicare Advantage program. If our members enroll in another insurer's Medicare Advantage program during the open enrollment season, we may not discover that such member has been unenrolled from our program until such time as we fail to receive reimbursement from the CMS in respect of such member, which may occur several months after the end of the open season. As a result, we may discover that a member has unenrolled from our program after we have already provided services to such individual. Our profitability would be reduced as a result of such failure to receive payment from CMS if we had made related payments to providers and were unable to recoup such payments from them.

**We face intense competition to attract and retain employees and independent agents and brokers.**

We are dependent on retaining existing employees, attracting and retaining additional qualified employees to meet current and future needs and achieving productivity gains. Our life insurance subsidiary, GA Life, has historically experienced a very high level of turnover in its home service agents, through which it places a majority of its premiums, and we expect this trend to continue. Our inability to retain existing employees or attract additional employees could have a material adverse effect on our business, financial condition and results of operations.

In addition, in order to market our products effectively, we must continue to recruit, retain and establish relationships with qualified independent agents and brokers. We may not be able to recruit, retain and establish relationships with agents and brokers. Independent agents and brokers are typically not exclusively dedicated to us and may frequently also market our competitors' managed care products. We face intense competition for the services and allegiance of independent agents and brokers. If such agents and brokers do not help us to maintain our current customer accounts or establish new accounts, our business and profitability could be adversely affected.

**Our investment portfolios are subject to varying economic and market conditions.**

We have exposure to market risk in our investment activities. The market values of our investments vary from time to time depending on economic and market conditions. Fixed maturity securities expose us to interest rate risk. Equity securities expose us to equity price risk. Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. These and other factors also affect the equity securities owned by us. The outlook of our investment portfolio depends on the future direction of interest rates, fluctuations in the equity securities market and in the amount of cash flows available for investment. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Quantitative and Qualitative Disclosures About Market Risk" for an analysis of our exposure to interest and equity price risks and the procedures in place to manage these risks. Our investment portfolios may lose money in future periods, which could have a material adverse effect on our financial condition.

In addition, our insurance subsidiaries are subject to local laws and regulations that require diversification of our investment portfolios and limit the amount of investments in certain riskier investment categories, such as below-investment-grade fixed income securities, mortgage loans, real estate and equity investments, amonst others, which could generate higher returns on our investments. If we fail to comply with these laws and regulations, any investments exceeding regulatory limitations would be treated as non-admitted assets for purposes of measuring statutory surplus and risk-based capital, and, in some instances, we may be required to sell those investments.

**The geographic concentration of our business in Puerto Rico may subject us to economic downturns in the region.**

Substantially all of our business activity is with insureds located throughout Puerto Rico, and as such, we are subject to the risks associated with the Puerto Rico economy. For example, in April 2006 the government of Puerto Rico announced a possible lack of budgetary funds to complete the fiscal year ended June 30, 2006, which caused various rating agencies to downgrade the government's debt and led to a two-week government shutdown. In order to solve the lack of budgetary funds, the government approved certain fiscal and tax reforms in order to raise additional funds for future fiscal years. The Puerto Rico government, however, recently announced a possible lack of budgetary funds to complete the fiscal year ending June 30, 2007 of approximately $600 million. Although the Puerto Rico government has proposed certain measures to resolve this insufficiency, there can be no assurance that similar events will not occur in the future, which may adversely affect the economy of Puerto Rico.

A number of key economic indicators suggest that the Puerto Rico economy is suffering a slowdown, as a result of, among other things, the persistent high levels of oil prices, the current trend in short-term interest rates, the depreciation of the dollar (which affects the value of imports from foreign countries, which account for approximately 50% of total imports to Puerto Rico) and the deceleration of public investment due to the current fiscal situation in Puerto Rico.

If economic conditions in Puerto Rico deteriorate, we may experience a reduction in existing and new business, which could have a material adverse effect on our business, financial condition and results of operations.

**We may not be able to retain our executive officers and significant employees, and the loss of any one or more of these officers and their expertise could adversely affect our business.**

Our operations are highly dependent on the efforts of our senior executives, each of whom has been instrumental in developing our business strategy and forging our business relationships. While we believe that we could find replacements, the loss of the leadership, knowledge and experience of our executive officers could adversely affect our business. Replacing many of our executive officers might be difficult or take an extended period of time because a limited number of individuals in the industries in which we operate have the breadth and depth of skills and experience necessary to operate and expand successfully a business such as ours. We do not currently maintain key-man life insurance on any of our executive officers.

**The success of our business depends on developing and maintaining effective information systems.**

Our business and operations may be harmed if we do not maintain our information systems and the integrity of our proprietary information. We are materially dependent on our information systems for all aspects of our business operations, including monitoring utilization and other factors, supporting our managed care management techniques, processing provider claims and providing data to our regulators, and our ability to compete depends on our ability to continue to adapt technology on a timely and cost-effective basis. Malfunctions in our information systems, communication and energy disruptions, security breaches or the failure to maintain effective and up-to-date information systems could disrupt our business operations, alienate customers, contribute to customer and provider disputes, result in regulatory violations and possible liability, increase administrative expenses or lead to other adverse consequences. The use of patient data by all of our businesses is regulated at federal and local levels. These laws and rules change frequently and developments require adjustments or modifications to our technology infrastructure.

Our information systems and applications require continual maintenance, upgrading and enhancement to meet our operational needs. If we are unable to maintain or expand our systems, we could suffer from, among other things, operational disruptions, such as the inability to pay claims or to make claims payments on a timely basis, loss of members, difficulty in attracting new members, regulatory problems and increases in administrative expenses. We recently completed a system conversion process related to our property and casualty insurance business. We started the implementation of this system in April 2005 and completed it on October 1, 2006 at an estimated cost of $4 million. In addition, we recently selected Quality Care Solutions, Inc. (QCSI) to assess and implement new core business applications for our managed care segment. We expect the assessment to be completed in 2007, at which point we plan to convert our managed care systems over time by line of business, with the first line of business expected to be converted in the first half of 2009. We expect the managed care conversion process to be completed by 2012 at a total cost of approximately $40 million. If we are unsuccessful in implementing these improvements in a timely manner or if these improvements do not meet our customers' requirements, we may not be able to recoup these costs and expenses and effectively compete in our industry.

Our business requires the secure transmission of confidential information over public networks. Advances in computer capabilities, new discoveries in the field of cryptography or other event or developments could result in compromises or breaches of our security system and patient data stored in our information systems. Anyone who circumvents our security measures could misappropriate our confidential information or cause interruptions in services or operations. The Internet is a public network and data is sent over this network from many sources. In the past, computer viruses or software programs that disable or impair computers have been distributed and have rapidly spread over the Internet. Computer viruses could be introduced into our systems, or those of our providers or regulators, which could disrupt our operations, or make our systems inaccessible to our providers or regulators. We may be required to expend significant capital and other resources to protect against the threat of security breaches or to alleviate problems caused by breaches. Because of the confidential health information we store and transmit, security breaches could expose us to a risk of regulatory action, litigation, possible liability and loss. Our security measures may be inadequate to prevent security breaches, and our business operations would be adversely affected by cancellation of contracts and loss of members if they are not prevented.

**We are required to evaluate our internal control over financial reporting under Section 404 of Sarbanes Oxley, and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.**

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), beginning with our Annual Report on Form 10-K for the fiscal year ending December 31, 2007, we will be required to furnish a report by our management on our internal control over financial reporting. Such a report will contain, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a framework for companies to assess and improve their internal control systems. The Public Company Accounting Oversight Board's Auditing Standard No. 2 provides the professional standards and related performance guidance for auditors to attest to, and report on, management's assessment of the effectiveness of internal control over financial reporting under Sarbanes-Oxley Section 404. Management's assessment of internal control over financial reporting requires management to make subjective judgments and some of the judgments will be in areas that may be open to interpretation and therefore the report may be uniquely difficult to prepare. We are still performing the system and process documentation and evaluation needed to comply with Sarbanes-Oxley Section 404, which is both costly and challenging.

During this process, if our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert such internal control is effective. If we are unable to assert that our internal control over financial reporting is effective as of December 31, 2007, or if our auditors are unable to attest that our management's report is fairly stated or they are unable to express an opinion on the effectiveness of our internal controls as of December 31, 2008, we could lose investor confidence in the accuracy and completeness of our financial reports.

We cannot be certain as to the timing of completion of our evaluation, testing and any required remediation. If we are not able to complete our assessment under Sarbanes-Oxley Section 404 in a timely manner, we would be unable to conclude that our internal control over financial reporting is effective as of December 31, 2007.

**We face risks related to litigation.**

We are, or may be in the future, a party to a variety of legal actions that affect any business, such as employment and employment discrimination-related suits, employee benefit claims, breach of contract actions, tort claims and intellectual property-related litigation. In addition, because of the nature of our business, we may be subject to a variety of legal actions relating to our business operations, including the design, management and offering of our products and services. These could include:

- claims relating to the denial of managed care benefits;
- medical malpractice actions;
- allegations of anti-competitive and unfair business activities;
- provider disputes over compensation and termination of provider contracts;
- disputes related to self-funded business;
- disputes over co-payment calculations;
- claims related to the failure to disclose certain business practices;
- claims relating to customer audits and contract performance; and
- claims by regulatory agencies or whistleblowers for regulatory non-compliance, including but not limited to fraud.

We are a defendant in various lawsuits, including a class action, some of which involve claims for substantial and/or indeterminate amounts and the outcome of which is unpredictable. While we are defending these suits vigorously, we will incur expenses in the defense of these suits. Any adverse judgment against us resulting in such damage awards could have an adverse effect on our cash flows, results of operations and financial condition. See "Business — Legal Proceedings."

**Large-scale natural disasters may have a material adverse effect on our business, financial condition and results of operations.**

Puerto Rico has historically been at a relatively high risk of natural disasters such as hurricanes and earthquakes. If Puerto Rico were to experience a large-scale natural disaster, claims incurred by our property and casualty insurance segment would likely increase and our properties may incur substantial damage, which could have a material adverse effect on our business, financial condition and results of operations.

**Covenants in our credit agreements and note purchase agreements may restrict our operations.**

We are a party to two secured loans with a commercial bank in an aggregate amount of $61.0 million, of which we had a total outstanding balance of $27.6 million and $10.5 million, respectively, as of December 31, 2006. Also, we have an aggregate of $145.0 million of senior unsecured notes, consisting of $50.0 million aggregate principal amount of 6.30% notes due 2019, $60.0 million aggregate principal amount of 6.60% notes due 2020 and $35.0

million aggregate principal amount of 6.70% notes due 2021 (collectively, the notes). The credit agreements and the note purchase agreements governing the notes contain covenants that restrict, among other things, the granting of certain liens, limitations on acquisitions and limitations on changes in control. These covenants could restrict our operations. In addition, if we fail to make any required payment under our credit agreements or note purchase agreements governing the notes or to comply with any of the covenants included therein, we would be in default and the lenders or holders of our debt, as the case may be, could cause all of our outstanding debt obligations under our credit agreements or note purchase agreements to become immediately due and payable, together with accrued and unpaid interest and, in the case of the credit agreements, cease to make further extensions of credit. If the indebtedness under our credit agreements or note purchase agreements is accelerated, we may be unable to repay or finance the amounts due and our business may be materially adversely affected.

**We may incur additional indebtedness in the future. Covenants related to such indebtedness could also adversely affect our ability to pursue desirable business opportunities.**

We may incur additional indebtedness in the future. Our debt service obligations may require us to use a portion of our cash flow to pay interest and principal on debt instead of for other corporate purposes, including funding future expansion. If our cash flow and capital resources are insufficient to service our debt obligations, we may be forced to seek extraordinary dividends from our subsidiaries, sell assets, seek additional equity or debt capital or restructure our debt. However, these measures might be prohibited by applicable regulatory requirements or unsuccessful or inadequate in permitting us to meet scheduled debt service obligations.

We may also incur future debt obligations that might subject us to restrictive covenants that could affect our financial and operational flexibility. Our breach or failure to comply with any of these covenants could result in a default under our credit agreements and note purchase agreements and the acceleration of amounts due thereunder. Indebtedness could also limit our ability to pursue desirable business opportunities, and may affect our ability to maintain an investment grade rating for our indebtedness.

**We expect to pursue acquisitions in the future.**

We may acquire additional companies if consistent with our strategic plan for growth. The following are some of the risks associated with acquisitions that could have a material adverse effect on our business, financial condition and results of operations:

- disruption of on-going business operations, distraction of management, diversion of resources and difficulty in maintaining current business standards, controls and procedures;

- difficulty in integrating information technology of acquired entity and unanticipated expenses related to such integration;

- difficulty in the integration of the new company’s accounting, financial reporting, management, information, human resources and other administrative systems and the lack of control if such integration is delayed or not implemented;

- difficulty in the implementation of controls, procedures and policies appropriate for filers with the Securities and Exchange Commission at companies that prior to acquisition lacked such controls, policies and procedures;

- potential unknown liabilities associated with the acquired company;

- failure of acquired businesses to achieve anticipated revenues, earnings or cash flow;

- dilutive issuances of equity securities and incurrence of additional debt to finance acquisitions;
- other acquisition-related expenses, including amortization of intangible assets and write-offs; and
- competition with other firms, some of which may have greater financial and other resources, to acquire attractive companies.

In addition, we may not successfully realize the intended benefits of any acquisition or investment.

***Risks Relating to Taxation***

**If the Company is considered to be a controlled foreign corporation under the related person insurance income rules for U.S. federal income tax purposes, U.S. persons that own the Company's Class B shares could be subject to adverse tax consequences.**

The Company does not expect that it will be considered a controlled foreign corporation under the related person insurance income rules (a RPII CFC) for U.S. federal income tax purposes. However, because RPII CFC status depends in part upon the correlation between an insurance company's shareholders and such company's insurance customers and the extent of such company's insurance business outside its country of incorporation, there can be no assurance that the Company will not be a RPII CFC in any taxable year. The Company does not intend to monitor whether or not it generates RPII or becomes an RPII CFC. If the Company were a RPII CFC in any taxable year, certain adverse tax consequences could apply to U.S. persons that own the Company's Class B shares. Please read the section called "Certain United States Federal Income Tax Considerations—Related Person Insurance Income Rules."

**If the Company is considered to be a passive foreign investment company for U.S. federal income tax purposes, U.S. persons that own the Company's Class B shares could be subject to adverse tax consequences.**

The Company does not expect that it will be considered a "passive foreign investment company" (a PFIC) for U.S. federal income tax purposes. However, since PFIC status depends upon the composition of a company's income and assets and the market value of its assets (including, among others, less than 25 percent owned equity investments and the Company's ability to use the proceeds from this offering in a timely fashion) from time to time, there can be no assurance that the Company will not be considered a PFIC for any taxable year. The Company's belief that it is not a PFIC is based, in part, on the fact that the PFIC rules include provisions intended to provide an exception for bona fide insurance companies predominately engaged in an insurance business. However, the scope of this exception is not entirely clear and there are no administrative pronouncements, judicial decisions or Treasury regulations that provide guidance as to the application of the PFIC rules to insurance companies. If the Company were treated as a PFIC for any taxable year, certain adverse consequences could apply to certain U.S. persons that own the Company's Class B shares. Please read the section called "Certain United States Federal Income Tax Considerations—Passive Foreign Investment Company Rules."

***Risks Relating to the Regulation of Our Industry***

**Changes in governmental regulations, or the application thereof, may adversely affect our business, financial condition and results of operations.**

Our business is subject to changing Federal and local legal, legislative and regulatory environments, including general business regulations and laws relating to taxation, privacy, data protection and pricing. See "Regulation." In addition, our insurance subsidiaries are subject to the regulations of the Commissioner of Insurance. Some of the more significant proposed regulatory changes that may affect our business are:

- initiatives to increase healthcare regulation, including efforts to expand the tort liability of health plans;
- local government plans and initiatives, and
- Medicare and Reform reform legislation.

The U.S. Congress is developing legislation aimed at patient protection, including proposed laws that could expose insurance companies to damages, and in some cases punitive damages, for certain coverage determinations including the denial of benefits or delay in providing benefits to members. Similar legislation has been proposed in Puerto Rico. A U.S. House of Representatives subcommittee is also considering a MedPac recommendation to lower Medicare Advantage rates to ensure financial neutrality with the traditional Medicare program.

Regulations imposed by the Commissioner of Insurance, among other things, influence how our insurance subsidiaries conduct business and how we and they solicit subscriptions for shares of capital stock, and place limitations on investments and dividends. Possible penalties for violations of such regulations include fines, orders to cease or change practices or behavior and possible suspension or termination of licenses. The regulatory powers of the Commissioner of Insurance are designed to protect policyholders, not shareholders. While we cannot predict the terms of future regulation, the enactment of new legislation could affect the cost or demand of insurance policies, limit our ability to obtain rate increases in those cases where rates are regulated, otherwise restrict our operations, limit the expansion of our business, limit our ability to issue shares of common stock, expose us to expanded liability or impose additional compliance requirements. In addition, we may incur additional operating expenses in order to comply with new legislation and may be required to revise the ways in which we conduct our business.

Future regulatory actions by the Commissioner of Insurance or other governmental agencies could have a material adverse effect on the profitability or marketability of our business, financial condition and results of operations.

**If we are deemed to have violated the insurance company change of control provisions in Puerto Rico insurance laws, we may suffer adverse consequences.**

We are subject to change of control statutes applicable to insurance companies. These statutes regulate, among other things, the acquisition of control of an insurance company or a holding company of an insurance company. Under these statutes, no person may make an offer to acquire or to sell the issued and outstanding voting stock of an insurance company, which constitutes 10% or more of the issued and outstanding stock of an insurance company, or of the total stock issued and outstanding of a holding company of an insurance company, or solicit or receive funds in exchange for the issuance of new shares of our or our insurance subsidiaries' capital stock, without the prior approval of the Commissioner of Insurance. Our amended and restated articles of incorporation (the articles) prohibit any institutional investor from owning 10% or more of our voting power and any person that is not an institutional investor from owning 5% or more of our voting power. We cannot, however, assure you that ownership of our securities will remain below these thresholds. To the extent that a person, including an institutional investor, acquires shares in excess of these limits, our articles provide that we will have the power to take certain actions, including refusing to give effect to a transfer or instituting proceedings to enjoin or rescind a transfer, in order to avoid a violation of the ownership limitation in the articles. If the Commissioner of Insurance determines that a change of control has occurred, we could be subject to fines and penalties, and in some instances the Commissioner of Insurance would have the discretion to revoke our operating licenses.

We are also subject to change of control limitations pursuant to our BCBSA license agreements. The BCBSA ownership limits restrict beneficial ownership of our voting capital stock to less than 10% for an institutional investor and less than 5% for a noninstitutional investor, both as defined in our articles. In addition, no person may beneficially own shares of our common stock or other equity securities, or a combination thereof, representing a 20% or more ownership interest, whether voting or non-voting, in our company. This provision in our articles cannot be changed without the prior approval of the BCBSA and the vote of holders of at least 75% of our common stock. See "Description of Capital Stock."

**Our insurance subsidiaries are subject to minimum capital requirements. Our failure to meet these standards could subject us to regulatory actions.**

Puerto Rico insurance laws and the regulations promulgated by the Commissioner of Insurance, among other things, require insurance companies to maintain certain levels of capital, thereby restricting the amount of earnings that can be distributed by our insurance subsidiaries to us. Although we are currently in compliance with these requirements, there can be no assurance that we will continue to comply in the future. Failure to maintain required levels of capital or to otherwise comply with the reporting requirements of the Commissioner of Insurance could subject our insurance subsidiaries to corrective action, including government supervision or liquidation, or require us to provide financial assistance, either through subordinated loans or capital infusions, to our subsidiaries to ensure they maintain their minimum statutory capital requirements.

We are also subject to minimum capital requirements pursuant to our BCBSA license agreements. See "—The termination or modification of our license agreements to use the Blue Shield name and mark could have an adverse effect on our business, financial condition and results of operations."

**We are required to comply with laws governing the transmission, security and privacy of health information.**

Certain implementing regulations of HIPAA require us to comply with standards regarding the formats for electronic transmission, and the privacy and security of certain health information within our company and with third parties, such as managed care providers, business associates and our members. These rules also provide access rights and other rights for health plan beneficiaries with respect to their health information. These regulations include standards for certain electronic transactions, including encounter and claims information, health plan eligibility and payment information. Compliance with HIPAA is enforced by the Department of Health and Human Service's Office for Civil Rights for privacy, CMS for security and electronic transactions, and by the Department of Justice for criminal violations. Further, the Gramm-Leach-Bliley Act imposes certain privacy and security requirements on insurers that may apply to certain aspects of our business as well.

We continue to implement and revise our health information policies and procedures to monitor and ensure our compliance with these laws and regulations. Furthermore, Puerto Rico's ability to promulgate its own laws and regulations (including those issued in response to the Gramm-Leach-Bliley Act), such as Act No. 194 of August 25, 2000, also known as the Patient's Rights and Responsibilities Act, including those more stringent than HIPAA, and uncertainty regarding many aspects of such state requirements, make compliance with applicable health information laws more difficult. For these reasons, our total compliance costs may increase in the future.

***Risks Relating to this Offering***

**There has been no prior public market for our common stock, and we cannot assure you that an active trading market in our stock will develop or be sustained.**

Prior to this offering, there has been no public market for our common stock. We cannot assure you that an active trading market in our Class B common stock will develop or be sustained after this offering. Although we intend to apply to list our Class B common stock on the New York Stock Exchange, we do not know whether investors will find our Class B common stock to be an attractive investment or whether firms will be interested in making a market for our stock. Consequently, you may not be able to resell your shares above the initial public offering price and may suffer a loss on your investment.

**You will incur immediate and substantial dilution in the net tangible book value of the Class B common stock you purchase in this offering.**

Purchasers of Class B common stock in this offering will suffer an immediate and substantial dilution in net tangible book value per share. Dilution is the amount by which the offering price per share paid by the purchasers of Class B common stock will exceed the net tangible book value per share of common stock after the offering. After giving effect to the sale by us of shares of Class B common stock at an assumed initial public offering price of $ per share, the mid-point of the range shown on the cover of this prospectus, and our payment of estimated underwriting discounts and commissions and estimated offering expenses, our net tangible book value as of December 31, 2006 would have been $ million, or $ per share of common stock. This represents an immediate increase in net tangible book value to existing shareholders of $ per Class A share and an immediate dilution to new investors of $ per Class B share. For a more detailed description of these matters, see "Dilution."

**Future sales of our Class B common stock, or the perception that such future sales may occur, may have an adverse impact on its market price.**

Sales of a substantial number of shares of our common stock in the public market following this offering, or the perception that large sales could occur, could cause the market price of our Class B common stock to decline. Either of these limit our future ability to raise capital through an offering of equity securities. After completion of this offering, there will be shares of Class B common stock and shares of Class A common stock issued and outstanding, or shares of Class B common stock and shares of Class A common stock if the underwriters exercise their over-allotment option in full. Approximately % of our Class A common stock will be subject to contractual lockup restrictions for one year following our initial public offering. Thereafter, such shares will become freely tradable without restriction or further registration under the Securities Act by persons other than our "affiliates" within the meaning of Rule 144 under the Securities Act, although such shares will continue not to be listed on the New York Stock Exchange (NYSE) and will not be fungible with our listed Class B shares. In addition, one year after our initial public offering, our board of directors may, at its discretion, cause approximately half of our Class A shares to be converted to Class B shares in connection with an underwritten public secondary offering. On the fifth anniversary of this initial public offering, [or such earlier date after the one-year anniversary of the initial public offering as all claims with respect to which anti-dilution protections are afforded to Class B shares have been resolved], all of our Class A shares may at the discretion of our board of directors be converted to Class B shares. For a description of shares eligible for sale in the public market, see "Shares Eligible for Future Sale."

**The initial public offering price of our Class B common stock may not be indicative of the market price of our Class B common stock after this offering and our stock price could be highly volatile.**

The initial public offering price of our Class B common stock is based on numerous factors and may not be indicative of the market price of our Class B common stock after this offering. These factors include:

- variations in actual or anticipated operating results;
- changes in or failure to meet earnings estimates of securities analysts;
- market conditions in the managed care industry;
- regulatory actions and general economic and stock market conditions; and
- the availability for sale, or sales, of a significant number of shares of our Class B common stock in the public market.

These and other factors may have a significant effect on the market price of our Class B common stock after this offering. Accordingly, the market price of our Class B common stock may decline below the initial public offering price.

**Puerto Rico insurance laws and regulations and provisions of our articles and bylaws could delay, deter or prevent a takeover attempt that shareholders might consider to be in their best interests and may make it more difficult to replace members of our board of directors and have the effect of entrenching management.**

Puerto Rico insurance laws and the regulations promulgated thereunder, and our articles and bylaws may delay, defer, prevent or render more difficult a takeover attempt that our shareholders might consider to be in their best interests. For instance, they may prevent our shareholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging takeover attempts in the future.

Our license agreements with the BCBSA require that our articles contain certain provisions, including ownership limitations. See "—If we are deemed to have violated the insurance company change of control provisions in Puerto Rico insurance laws, we may suffer adverse consequences."

Other provisions included in our articles and bylaws may also have anti-takeover effects and may delay, defer or prevent a takeover attempt that our shareholders might consider to be in their best interests. In particular, our articles and bylaws:

- permit our board of directors to issue one or more series of preferred stock;
- divide our board of directors into three classes serving staggered three-year terms;

- limit the ability of shareholders to remove directors;
- impose restrictions on shareholders' ability to fill vacancies on our board of directors;
- impose advance notice requirements for shareholder proposals and nominations of directors to be considered at meetings of shareholders; and
- impose restrictions on shareholders' ability to amend our articles and bylaws.

See also "—If we are deemed to have violated the insurance company change of control provisions in Puerto Rico insurance laws, we may suffer adverse consequences."

Puerto Rico insurance laws and the regulations promulgated by the Commissioner of Insurance may also delay, defer, prevent or render more difficult a takeover attempt that our shareholders might consider to be in their best interests. For instance, the Commissioner of Insurance must review any merger, consolidation or new issue of shares of capital stock of an insurer or its parent company and make a determination as to the fairness of the transaction. Also, a director of an insurer must meet certain requirements imposed by Puerto Rico insurance laws.

These voting and other restrictions may operate to make it more difficult to replace members of our board of directors and may have the effect of entrenching management regardless of their performance.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, as such term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include information about possible or assumed future sales, results of operations, developments, regulatory approvals or other circumstances and may be found in the sections of this prospectus entitled “Risk Factors”, “Business—Company Overview”, “—Industry Overview”, and “—Our St “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this prospectus. Statements that use the terms “believe”, “expect”, “plan”, “intend”, “estimate”, “anticipate”, “project”, “may”, “ “should” and similar expressions, whether in the positive or negative, are intended to identify forward-looking statements.

All forward-looking statements in this prospectus reflect our current views about future events and are based on assumptions and subject to risks and uncertainties. Consequently, actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including all the risks discussed in “Risk Factors” and elsewhere in this prospectus.

In addition, we operate in a highly competitive, constantly changing environment that is significantly influenced by very large organizations that have resulted from business combinations, aggressive marketing and pricing practices of competitors and regulatory oversight. The following is a summary of factors, the results of which, either individually or in combination, if markedly different from our planning assumptions, could cause our results to differ materially from those expressed in any forward-looking statements contained in this prospectus:

- trends in health care costs and utilization rates;
- ability to secure sufficient premium rate increases;
- competitor pricing below market trends of increasing costs;
- re-estimates of our policy and contract liabilities;
- changes in government regulation of managed care, life insurance or property and casualty insurance;
- significant acquisitions or divestitures by major competitors;
- introduction and use of new prescription drugs and technologies;
- a downgrade in our financial strength ratings;
- litigation or legislation targeted at managed care, life insurance or property and casualty insurance companies;
- ability to contract with providers consistent with past practice;
- ability to successfully implement our disease management and utilization management programs;
- volatility in the securities markets and investment losses and defaults;
- general economic downturns, major disasters, and epidemics.

The foregoing list should not be construed to be exhaustive. We believe the forward-looking statements in this prospectus are reasonable; however, there is no assurance that the actions, events or results anticipated by the forward-looking statements will occur or, if any of them do, what impact they will have on our results of operations or financial condition. In view of these uncertainties, you should not place undue reliance on any forward-looking statements, which are based on our current expectations. Further, forward-looking statements speak only as of the date they are made, and, other than as required by applicable law, including the securities laws of the United States, we do not intend to update or revise any of them in light of new information or future events.

## USE OF PROCEEDS

We estimate that our proceeds from this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, will be approximately $ million, assuming the Class B shares are offered at $ per share, which is the midpoint of the estimated initial public offering price range set forth on the cover page of this prospectus (or approximately $ million if the underwriters fully exercise their over-allotment option). A $1.00 increase or decrease in the assumed initial public offering price per share would increase or decrease the net proceeds to us by approximately $ million. We will not receive any proceeds from the sale of shares by the selling shareholders.

We intend to use the net proceeds from this offering to repay a portion of our outstanding indebtedness and for general corporate purposes, including working capital and possible acquisitions and investments.

We intend to repay a secured loan payable due on July 1, 2024, with interest payable at 100 basis points over LIBOR, which as of December 31, 2006 had a balance of $27.6 million and an interest rate of 6.35%.

The amounts described above reflect our estimate of the use of our net proceeds from this offering, based on our current plans. Management will have significant flexibility in applying the net proceeds from this offering. Pending any use, the net proceeds of this offering will be invested in short-term, interest-bearing investment-grade securities.

## DIVIDEND POLICY

Subject to the limitations under Puerto Rico corporation law and any preferential dividend rights of outstanding preferred stock, of which there is currently none outstanding, holders of common stock are entitled to receive their pro rata share of such dividends or other distributions as may be declared by our board of directors out of funds legally available therefor.

Our ability to pay dividends is dependent on cash dividends from our subsidiaries. Our subsidiaries are subject to regulatory surplus requirements and additional regulatory requirements, which may restrict their ability to declare and pay dividends or distributions to us. We are required to maintain minimum capital of $1.0 million for our managed care subsidiary, $2.5 million for our life insurance subsidiary and $3.0 million for our property and casualty insurance subsidiary. In addition, our credit agreements restrict our ability to pay dividends if a default thereunder has occurred and is continuing.

In March 2007, we declared and paid dividends amounting to approximately $2.5 million. In January 2006 we declared and paid dividends amounting to $6.2 million. We did not declare any dividends in prior years. Prior to December 31, 2002, our managed care subsidiary was prohibited under its tax exemption ruling from declaring dividends. See "Business."

We do not expect to pay any cash dividends for the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and expand our business. The ultimate decision to pay a dividend, however, remains within the discretion of our board of directors and may be affected by various factors, including our earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual limitations and other considerations our board of directors deems relevant.

## CAPITALIZATION

The following table sets forth our cash and capitalization as of December 31, 2006, on an actual and as adjusted basis to reflect the issuance and sale by us of shares of Class B common stock in this offering at an assumed initial public offering price of $ per share, which is the mid-point of the offering price range set forth on the cover page of this prospectus, and our payment of estimated underwriting discounts and commissions and our estimated offering expenses.

The following table should be read in conjunction with the information under "Use of Proceeds", "Selected Consolidated Financial and Additional Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes thereto included in this prospectus.

| | December 31, 2006 | |
|---|---|---|
| | **Adjusted[(1)]** | **Adjusted for IPO[(1)(2)]** |
| | **(in millions, except per share data)** | |
| Cash and cash equivalents | $ 81.3 | $ |
| Long-term debt, including current portion | $ 183.1 | $ |
| Shareholders' equity: | | |
| Preferred stock, par value $1.00 per share, 100,000,000 shares authorized, none issued and outstanding (1) | — | |
| Common stock, par value $1.00 per share, 100,000,000 shares authorized; 26,733,000 shares issued and outstanding (actual) (1) | 26.7 | |
| Additional paid-in capital (1) | 124.0 | |
| Retained earnings | 211.3 | |
| Accumulated other comprehensive loss | (19.4) | |
| Total shareholders' equity | 342.6 | — |
| Total capitalization | $ 525.7 | $ |

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(1) Reflects the change in par value and authorized shares established in our Amended and Restated Articles, which became effective on February 21, 2007, and the 3,000 for one split of our shares of common stock to be effected by us on May 1, 2007.

(2) A $1.00 increase or decrease in the assumed initial public offering price per share would increase or decrease each of cash, shareholders' equity and total capitalization by , assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and estimated offering expenses payable by us.

# DILUTION

If you invest in our Class B common stock, your interest will be diluted to the extent of the difference between the public offering price per share of our Class B common stock and the as adjusted net tangible book value per share of our common stock after this offering. Dilution results from the fact that the per share offering price of the Class B common stock is in excess of the book value per share attributable to our existing shareholders for the presently outstanding common stock.

Our net tangible book value as of December 31, 2006 was approximately $342.6 million, or $38,447 per share of our common stock (or $12.82 per share after giving effect to the 3,000-for-one stock split to be effected by us on May 1, 2007). Net tangible book value per share is determined by dividing our tangible shareholders' equity, which is total tangible assets less total liabilities, by the aggregate number of shares of common stock outstanding. Tangible assets represent total assets excluding goodwill and other intangible assets.

After giving effect to our sale of shares of Class B common stock in this offering at an assumed offering price of $ per share (the midpoint of the estimated price range shown on the cover page of this prospectus), and the application of the proceeds from this offering as described under "Use of Proceeds", as adjusted net tangible book value (deficiency) as of December 31, 2006 would have been $ million, or $ per share of common stock. This represents an immediate increase in as adjusted net tangible book value of $ per share to our existing shareholders and an immediate dilution of $ per share to new investors purchasing shares of Class B common stock in this offering. The following table illustrates this dilution per share to new investors:

| | | |
|---|---|---|
| Assumed initial public offering price per share of Class B common stock | | $ |
| Net tangible book value per share as of December 31, 2006 | $ | |
| Increase per share attributable to new investors | | |
| As adjusted net tangible book value (deficit) per share after the offering | | |
| Dilution per share of Class B common stock | | |
| | | $ |

A $1.00 increase (decrease) in the assumed initial public offering price of $ per Class B share would increase (decrease) our as adjusted net tangible book value per share of common stock after this offering by $ , and would increase (decrease) the dilution to new investors by $ , assuming the number of Class B shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and estimated offering expenses payable by us.

The following table summarizes, as of December 31, 2006, the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by our existing shareholders and to be paid by new investors purchasing shares of common stock from us in this offering, before deducting the underwriting discount and estimated offering expenses payable by us.

| | **Shares Purchased** | | **Total Consideration** | | |
|---|---|---|---|---|---|
| | **Number** | **Percent** | **Amount** | **Percent** | **Average Price per Share** |
| Existing shareholders (Class A) | | % | $ | % | $ |
| New investors (Class B) | | | | | |
| Total | | 100.0% | $ | 100.0% | $ |

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## SELECTED CONSOLIDATED FINANCIAL AND ADDITIONAL DATA

The table below provides selected consolidated financial and additional statistical data for each of the five years in the period ended December 31, 2006. We derived the statement of earnings data for the five years in the period ended December 31, 2006, and the balance sheet data as of December 31, 2006, 2005, 2004, 2003 and 2002, from our audited consolidated financial statements.

You should read this selected consolidated financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and accompanying notes included elsewhere in this prospectus.

Until October 31, 2006, we had contracts with the government of Puerto Rico to be the Reform insurance carrier for three of the eight geographical areas into which Puerto Rico is divided for purposes of the Reform. In October 2006, we were informed that the new contract to serve one of these regions, Metro-North, had been awarded to another managed care company effective November 1, 2006. The contracts for the other two regions were renewed for additional one-year periods. The premiums earned, net and operating income related to the operations of the Metro-North region during the year ended December 31, 2006 amounted to $161.6 million and $5.4 million, respectively, and during the year ended December 31, 2005 amounted to $200.9 million and $3.5 million, respectively.

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| ***(Dollars in millions, except per share data)*** | **2006[1]** | **2005** | **2004** | **2003** | **2002** |
| **Statement of Earnings Data** | | | | | |
| Revenues: | | | | | |
| Premiums earned, net | $ 1,511.6 | $ 1,380.2 | $ 1,299.0 | $ 1,264.4 | $ 1,236.6 |
| Administrative service fees | 14.1 | 14.4 | 9.2 | 8.3 | 9.5 |
| Net investment income | 42.7 | 29.1 | 26.8 | 24.7 | 24.8 |
| Total operating revenues | 1,568.4 | 1,423.7 | 1,335.0 | 1,297.4 | 1,270.9 |
| Net realized investment gains | 0.8 | 7.2 | 11.0 | 8.4 | 0.2 |
| Net unrealized investment gain (loss) on trading securities | 7.7 | (4.7) | 3.0 | 14.9 | (8.3) |
| Other income, net | 2.3 | 3.7 | 3.4 | 4.7 | 2.1 |
| Total revenues | 1,579.2 | 1,429.9 | 1,352.4 | 1,325.4 | 1,264.9 |
| Benefits and expenses: | | | | | |
| Claims incurred | 1,259.0 | 1,208.3 | 1,115.8 | 1,065.4 | 1,062.0 |
| Operating expenses | 236.1 | 181.7 | 171.9 | 165.1 | 148.5 |
| Total operating costs | 1,495.1 | 1,390.0 | 1,287.7 | 1,230.5 | 1,210.5 |
| Interest expense | 16.6 | 7.6 | 4.6 | 3.2 | 3.6 |
| Total benefits and expenses | 1,511.7 | 1,397.6 | 1,292.3 | 1,233.7 | 1,214.1 |
| Income before taxes | 67.5 | 32.3 | 60.1 | 91.6 | 50.8 |
| Income tax expense | 13.0 | 3.9 | 14.3 | 65.4 | 2.6 |
| Net income | $ 54.5 | $ 28.4 | $ 45.8 | $ 26.2 | $ 48.2 |
| Weighted average number of shares outstanding | 8,911 | 8,904 | 8,919 | 9,180 | 9,531 |
| Weighted average number of shares outstanding giving | 26,733,000 | 26,712,000 | 26,757,000 | 27,540,000 | 28,593,000 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| effect to 3,000-for-one stock split | | | | | | | | | | |
| Basic net income per share | $ | 6,120 | $ | 3,193 | $ | 5,135 | $ | 2,857 | $ | 1,085 |
| Basic net income per share giving effect to 3,000-for-one stock split | $ | 2.04 | $ | 1.06 | $ | 1.71 | $ | 0.95 | $ | 1.69 |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| *(Dollars in millions, except per share data)* | **2006** [1] | **2005** | **2004** | **2003** | **2002** |
| **Balance Sheet Data** | | | | | |
| Cash and cash equivalents | $ 81.3 | $ 49.0 | $ 35.1 | $ 47.7 | $ 82.8 |
| Total assets | 1,345.5 | 1,137.5 | 919.7 | 834.6 | 721.9 |
| Long-term borrowings | 183.1 | 150.6 | 95.7 | 48.4 | 50.0 |
| Total shareholders' equity | 342.6 | 308.7 | 301.4 | 254.3 | 231.7 |

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2006** | **2005** | **2004** | **2003** | **2002** |
| **Additional Managed Care Data** **(2)** | | | | | |
| Medical loss ratio | 87.6% | 90.3% | 88.3% | 86.6% | 87.7% |
| Operating expense ratio | 11.5% | 10.8% | 10.8% | 10.8% | 10.4% |
| Medical membership (period-end) | 979,506 | 1,252,649 | 1,236,108 | 1,235,349 | 1,273,256 |

(1) On January 31, 2006, we completed the acquisition of GA Life. The results of operations and financial condition of GA Life are included in this table for the period following the effective date of the acquisition. See note 3 to the audited consolidated financial statements included elsewhere herein.

(2) Does not reflect inter-segment eliminations.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

***Overview***

We are the largest managed care company in Puerto Rico in terms of membership, with over 45 years of experience in the managed care industry. We offer a broad portfolio of managed care and related products in the commercial, Reform, Medicare Advantage and Part D stand-alone PDP markets. The Reform is a Puerto Rico government-funded managed care program for the medically indigent, similar to the Medicaid program in the U.S. We have the exclusive right to use the Blue Shield name and mark throughout Puerto Rico, serve approximately one million members across all regions of Puerto Rico and hold a leading market position covering approximately 25% of the population. For the year ended December 31, 2006, our managed care segment represented approximately 88.6% of our total consolidated premiums earned, net and approximately 62.1% of our operating income. We also have significant positions in the life insurance and property and casualty insurance markets. Our life insurance segment has a market share of approximately 25% (in terms of premiums written) as of December 31, 2005. Our property and casualty segment has a market share of approximately 8.5% (in terms of direct premiums) as of December 31, 2006.

We participate in the managed care market through our subsidiary, TSI. Our managed care subsidiary is a BCBSA licensee, which provides us with exclusive use of the Blue Shield brand in Puerto Rico. We offer products to the commercial, Reform, Medicare Advantage and PDP market sectors, including corporate accounts, U.S. federal government employees, local government employees, individual accounts and Medicare Supplement.

We participate in the life insurance market through our subsidiary, GA Life (which resulted from the merger of our former subsidiary Seguros de Vida Triple-S, Inc. (SVTS) into GA Life) and in the property and casualty insurance market through our subsidiary, STS, which represented approximately 5.7% and 5.9%, respectively, of our consolidated premiums earned, net for the year ended December 31, 2006 and 15.3% and 15.3%, respectively, of our operating income for that period.

The Commissioner of Insurance recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Puerto Rico insurance laws and for determining whether its financial condition warrants the payment of a dividend to its shareholders. No consideration is given by the Commissioner of Insurance to financial statements prepared in accordance with U.S. GAAP in making such determinations. See note 24 to our audited consolidated financial statements.

Intersegment revenues and expenses are reported on a gross basis in each of the operating segments but eliminated in the consolidated results. Except as otherwise indicated, the numbers presented in this prospectus do not reflect intersegment eliminations. These intersegment revenues and expenses affect the amounts reported on the financial statement line items for each segment, but are eliminated in consolidation and do not change net income. The following table shows premiums earned, net and net fee revenue and operating income for each segment, as well as the intersegment premiums earned, service revenues and other intersegment transactions, which are eliminated in the consolidated results:

| | **Year ended December 31,** | | |
|---|---|---|---|
| ***(Dollar amounts in millions)*** | **2006** | **2005** | **2004** |
| **Premiums earned, net** | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Managed care | $ | 1,339.8 | $ | 1,279.5 | $ | 1,199.2 |
| Life insurance | | 86.9 | | 17.1 | | 16.4 |
| Property and casualty insurance | | | | | | |