TRIPLE-S MANAGEMENT CORP
Form 10-K/A
March 29, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

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

For the transition period from _______________ to _______________

COMMISSION FILE NUMBER 001-33865
Triple-S Management Corporation

Puerto Rico	**66-0555678**
(STATE OF INCORPORATION)	**(I.R.S. ID)**

1441 F.D. Roosevelt Avenue, San Juan, PR 00920
(787) 749-4949
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Class B common stock, $1.00 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Class A common stock, $1.00 par value

Indicate by check mark if the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes þ No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of February 14, 2011, the registrant had 9,042,809 of its Class A common stock outstanding and 19,736,720 of its Class B common stock outstanding.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant (assuming solely for the purposes of this calculation that all directors and executive officers of the registrant are affiliates) as of June 30, 2010 was approximately $373,047,753 for the Class B common stock (the only stock of the registrant that trades in a public market) and $9,042,809 for the Class A common stock (valued at its par value of $1.00 since it is not publicly traded).

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Explanatory Note

Triple-S Management Corporation (TSM or the Corporation) is filing this Amendment No. 1 to the Annual Report on Form 10-K/A for the purpose of correcting typographical errors in the PricewaterhouseCoopers LLP s Report of Independent Registered Public Accounting Firm (Auditor s Report) corresponding to the consolidated financial statements of the Corporation as of December 31, 2010 and 2009, and the results of operations and cash flows for each of the two years in the period ended December 31, 2010 to match the physical original report TSM received. The typographical errors that were corrected include the date of the Auditor s Report. The auditors opinion on the Corporation s consolidated financial statements, financial statement schedules, and internal control effectiveness remained unchanged. The Auditor s Report was included in our 2010 Annual Report on Form 10-K as originally filed with the Securities and Exchange Commission (the SEC) on March 9, 2011 (the Original Filing). Except for the aforementioned corrections to the Auditor s Report, this Amendment does not amend, modify or update the Original Filing in any respect. Information included in this Amendment is stated as of December 31, 2010 and does not reflect events that have occurred subsequent to the filing of the Original Filing and, accordingly, this Amendment should be read in conjunction with our Original Filing made with the SEC.

This Annual Report on Form 10-K/A consists of a cover page, this explanatory note, Item 15 (as amended) of the 2010 Annual Report on Form 10-K, including our consolidated financial statements at December 31, 2010 and 2009, and the results of our operations and cash flows for each of the three years in the period ended December 31, 2010, the corrected Auditor s Report, the signature pages and the required certifications of TSM s principal executive officer and the principal financial officer.

Triple-S Management Corporation
FORM 10-K
For The Fiscal Year Ended December 31, 2010
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F-2	Consolidated Balance Sheets as of December 31, 2010 and 2009
F-3	Consolidated Statements of Earnings for the years ended December 31, 2010, 2009 and 2008
F-4	Consolidated Statements of Stockholders Equity and Comprehensive Income for the years ended December 31, 2010, 2009 and 2008
F-5	Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008
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Financial Statements Schedules	*Description*
S-1	Schedule II Condensed Financial Information of the Registrant
S-2	Schedule III Supplementary Insurance Information
S-3	Schedule IV Reinsurance
S-4	Schedule V Valuation and Qualifying Accounts

Schedule I Summary of Investments was omitted because the information is disclosed in the notes to the audited consolidated financial statements. Schedule VI Supplemental Information Concerning Property Casualty Insurance Operations was omitted because the schedule is not applicable to the Corporation.

Exhibits

Exhibits	*Description*
3(i)(a)	Amended and Restated Articles of Incorporation (incorporated herein by reference to Exhibit 3(i)(d) to TSM s Annual Report on Form 10-K for the Year Ended December 31, 2007 (File No. 001-33865).
3(i)(b)	Amendment to Article Tenth of the Amended and Restated Articles of Incorporation of Triple-S Management Corporation, incorporated by reference to Exhibit 3(i)(b) to TSM s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33865).
3(i)(c)	Articles of Incorporation of Triple-S Management Corporation, as currently in effect, incorporated by reference to Exhibit 3(i)(c) to TSM s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-33865).
3(ii)	Amended and Restated Bylaws of Triple-S Management Corporation (incorporated herein by reference to Exhibit 3.1 to TSM s Current Report on Form 8-K filed on June 11, 2010 (File No. 001-33865)).
10.1	

Extension to the agreement between the Puerto Rico Health Insurance Administration and TSS to act as third party administrator in the Metro-North Region until September 30, 2010 (incorporated herein by reference to Exhibit 10.1 to TSM s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 001-33865)).

Exhibits	*Description*
10.2	Extension to the agreement between the Puerto Rico Health Insurance Administration and TSS for the provision of health insurance coverage to eligible population in the North and South-West Regions until September 30, 2010 (incorporated herein by reference to Exhibit 10.1 to TSM s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 001-33865)).
10.3	Amendment to the Medicare Platino Contract (Medicare Wraparound) between the Puerto Rico Health Insurance Administration and TSS for the provision of wraparound coverage to health insurance dual-eligible population until December 31, 2011 (incorporated herein by reference to Exhibit 10.4 to TSM s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 (File No. 001-33865)).
10.4	Federal Employees Health Benefits Contract (incorporated herein by reference to Exhibit 10.5 to TSM s General Form of Registration of Securities on Form 10 (File No. 001-33865)).
10.5	Credit Agreement with FirstBank Puerto Rico in the amount of $41,000,000 (incorporated herein by reference to Exhibit 10.6 to TSM s General Form of Registration of Securities on Form 10 (File No. 001-33865)).
10.6	Credit Agreement with FirstBank Puerto Rico in the amount of $20,000,000 (incorporated herein by reference to Exhibit 10.7 to TSM s General Form of Registration of Securities on Form 10 (File No. 001-33865)).
10.7	Non-Contributory Retirement Program (incorporated herein by reference to Exhibit 10.8 to TSM s General Form of Registration of Securities on Form 10 (File No. 001-33865)).
10.8	Blue Shield License Agreement by and between BCBSA and TSM, including revisions, if any, adopted by Member Plans through the November 19, 2009 meeting (incorporated herein by reference to Exhibit 10.11 to TSM s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-33865)).
10.9	Blue Shield Controlled Affiliate License Agreement by and among BCBSA, TSS and TSM, including revisions, if any, adopted by Member Plans through the November 19, 2009 meeting (incorporated herein by reference to Exhibit 10.12 to TSM s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-33865)).
10.10	Blue Cross License Agreements by and between BCBSA and TSM, including revisions, if any, adopted by Member Plans through the November 19, 2009 meeting (incorporated herein by reference to Exhibit 10.13 to TSM s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-33865)).
10.11	Blue Cross Controlled Affiliate License Agreement by and among BCBSA, TSS and TSM, including revisions, if any, adopted by Member Plans through the November 19, 2009 meeting (incorporated herein by reference to Exhibit 10.14 to TSM s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-33865)).

Exhibits	*Description*
10.12	6.30% Senior Unsecured Notes Due September 2019 Note Purchase Agreement, dated September 30, 2004, between Triple-S Management Corporation, Triple-S, Inc. and various institutional accredited investors (incorporated herein by reference to Exhibit 10.15 to TSM s Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 001-33865)).
10.13	6.60% Senior Unsecured Notes Due December 2020 Note Purchase Agreement, dated December 15, 2005, between Triple-S Management Corporation and various institutional accredited investors (incorporated herein by reference to Exhibit 10.16 to TSM s Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 001-33865)).
10.14	6.70% Senior Unsecured Notes Due December 2021 Note Purchase Agreement, dated January 23, 2006, between Triple-S Management Corporation and various institutional accredited investors (incorporated herein by reference to Exhibit 10.1 to TSM s Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2006 (File No. 001-33865)).
10.15	TSM 2007 Incentive Plan, dated October 16, 2007 (incorporated herein by reference to Exhibit C to TSM s 2007 Proxy Statement (File No. 001-33865)).
10.16	Software License and Maintenance Agreement between Quality Care Solutions, Inc, and TSS dated August 16, 2007 (incorporated herein by reference to Exhibit 10.15 to TSM s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33865)).
10.17	Addendum Number One to the Software License and Maintenance Agreement between Quality Care Solutions, Inc, and TSS (incorporated herein by reference to Exhibit 10.15(a) to TSM s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33865)).
10.18	Addendum Number Two to the Software License and Maintenance Agreement between Quality Care Solutions, Inc, and TSS (incorporated herein by reference to Exhibit 10.15(b) to TSM s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33865)).
10.19	Addendum Number Three to the Software License and Maintenance Agreement between Quality Care Solutions, Inc, and TSS (incorporated herein by reference to Exhibit 10.15(c) to TSM s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33865)).
10.20	Work Order Agreement between Quality Care Solutions, Inc. and TSS (incorporated herein by reference to Exhibit 10.16 to TSM s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-33865)).
10.21	Employment Contract between Ramón M. Ruiz Comas and TSM (incorporated herein by reference to Exhibit 10.24 to TSM s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-33865)).
11.1	Statement re computation of per share earnings; an exhibit describing the computation of the earnings per share has been omitted as the detail necessary to determine the computation of earnings per share can be clearly determined from the material contained in Part II of this Annual Report on Form 10-K.

12.1	Statement re computation of ratios; an exhibit describing the computation of the loss ratio, expense ratio and combined ratio has been omitted as the detail necessary to determine the computation of the loss ratio, operating expense ratio and combined ratio can be clearly determined from the material contained in Part II of this Annual Report on Form 10-K.

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Exhibits	***Description***
21	List of Subsidiaries of TSM (incorporated herein by reference to Exhibit 21 to TSM s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-33865)).
23.1	Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP) (incorporated herein by reference to Exhibit 23.1 to TSM s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-33865)).
23.2	Consent of Independent Registered Public Accounting Firm (KPMG LLP) (incorporated herein by reference to Exhibit 23.2 to TSM s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-33865)).
31.1*	Certification of the President and Chief Executive Officer required by Rule 13a-14(a)/15d-14(a).
31.2*	Certification of the Vice President of Finance and Chief Financial Officer required by Rule 13a-14(a)/15d-14(a).
32.1*	Certification of the President and Chief Executive Officer required pursuant to 18 U.S. Section 1350.
32.2*	Certification of the Vice President of Finance and Chief Financial Officer required pursuant to 18 U.S. Section 1350.
99.1	Incentive Compensation Recoupment Policy (incorporated herein by reference to Exhibit 99.1 to TSM s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-33865)).

All other exhibits for which provision is made in the applicable accounting regulation of the SEC are not required under the related instructions or are inapplicable, and therefore have been omitted.

* Filed herein.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Triple-S Management Corporation
Registrant

By:	/s/ Ramón M. Ruiz-Comas	Date: March 29, 2011
	Ramón M. Ruiz-Comas President and Chief Executive Officer	
By:	/s/ Juan J. Román	Date: March 29, 2011
	Juan J. Román Vice President of Finance and Chief Financial Officer Principal Accounting Officer	

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By:	/s/ Luis A. Clavell-Rodríguez	Date: March 29, 2011
	Luis A. Clavell-Rodríguez Director and Chairman of the Board	
By:	/s/ Vicente J. León-Irizarry	Date: March 29, 2011
	Vicente J. León-Irizarry Director and Vice-Chairman of the Board	
By:	/s/ Jesús R. Sánchez-Colón	Date: March 29, 2011
	Jesús R. Sánchez-Colón Director and Assistant Secretary of the Board	
By:	/s/ Adamina Soto-Martínez	Date: March 29, 2011
	Adamina Soto-Martínez Director	
By:	/s/ Carmen Ana Culpeper-Ramírez	Date: March 29, 2011
	Carmen Ana Culpeper-Ramírez Director	

By:	/s/ Jorge L. Fuentes-Benejam	Date: March 29, 2011
	Jorge L. Fuentes-Benejam Director	
By:	/s/ Antonio F. Faría-Soto	Date: March 29, 2011
	Antonio F. Faría-Soto Director	
By:	/s/ Manuel Figueroa-Collazo	Date: March 29, 2011
	Manuel Figueroa-Collazo Director	
By:	/s/ José Hawayek-Alemañy	Date: March 29, 2011
	José Hawayek-Alemañy Director	
By:	/s/ Jaime Morgan-Stubbe	Date: March 29, 2011
	Jaime Morgan-Stubbe Director	
By:	/s/ Roberto Muñoz-Zayas	Date: March 29, 2011
	Roberto Muñoz-Zayas Director	
By:	/s/ Juan E. Rodríguez-Díaz	Date: March 29, 2011
	Juan E. Rodríguez-Díaz Director	

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Triple-S Management Corporation
Consolidated Financial Statements
December 31, 2010, 2009, and 2008

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Triple-S Management Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, stockholders equity and comprehensive income, and of cash flows present fairly, in all material respects, the financial position of Triple-S Management Corporation and its subsidiaries (the Company) at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules as of and for the years ended December 31, 2010 and 2009 listed in the index appearing under Item 15 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
San Juan, Puerto Rico
March 9, 2011
CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 216 Expires Dec. 1, 2013
Stamp 2493533 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Triple-S Management Corporation:

We have audited the accompanying consolidated statements of earnings, stockholders equity and comprehensive income, and cash flows of Triple-S Management Corporation and Subsidiaries (the Company) for the year ended December 31, 2008. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of Triple-S Management Corporation and Subsidiaries for the year ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP
March 18, 2009
Stamp No. 2530990 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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Triple-S Management Corporation
Consolidated Balance Sheets
December 31, 2010 and 2009
(dollar amounts in thousands, except per share data)

	2010	2009
Assets		
Investments and cash		
Equity securities held for trading, at fair value (cost of $43,832 in 2010 and $42,075 in 2009)	$ 51,099	$ 43,909
Securities available for sale, at fair value:		
Fixed maturities (amortized cost of $947,957 in 2010 and $911,362 in 2009)	977,586	918,977
Equity securities (cost of $47,750 in 2010 and $61,531 in 2009)	56,739	64,689
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value of $15,424 in 2010 and $16,490 in 2009)	14,615	15,794
Policy loans	5,887	5,940
Cash and cash equivalents	45,021	40,376
Total investments and cash	1,150,947	1,089,685
Premium and other receivables, net	325,780	272,932
Deferred policy acquisition costs and value of business acquired	146,086	139,917
Property and equipment, net	76,745	68,803
Deferred tax asset	29,445	37,551
Other assets	30,367	39,816
Total assets	$ 1,759,370	$ 1,648,704
Liabilities and Stockholders Equity		
Claim liabilities	360,210	360,446
Liability for future policy benefits	236,523	222,619
Unearned premiums	98,341	108,342
Policyholder deposits	49,936	47,563
Liability to Federal Employees Health Benefits Program	15,018	13,002
Accounts payable and accrued liabilities	136,567	139,161
Deferred tax liability	12,655	11,088
Short term borrowings	15,575	
Long term borrowings	166,027	167,667
Liability for pension benefits	51,246	41,044
Total liabilities	1,142,098	1,110,932
Commitments and contingencies		
Stockholders equity		
Common stock Class A, $1 par value. Authorized 100,000,000 shares; issued and outstanding 9,042,809 at December 31, 2010 and 2009	9,043	9,043

Common stock Class B, $1 par value. Authorized 100,000,000 shares; issued and outstanding 19,772,614 and 20,110,391 shares at December 31, 2010 and 2009, respectively	19,773	20,110
Additional paid-in capital	155,299	159,303
Retained earnings	427,693	360,892
Accumulated other comprehensive income (loss), net	5,464	(11,576)
Total stockholders equity	617,272	537,772
Total liabilities and stockholders equity	$ 1,759,370	$ 1,648,704

The accompanying notes are an integral part of these financial statements.

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Triple-S Management Corporation
Consolidated Statements of Earnings
Years Ended December 31, 2010, 2009 and 2008
(dollar amounts in thousands, except per share data)

	2010	2009	2008
Revenues			
Premiums earned, net	$ 1,901,100	$ 1,869,084	$ 1,692,344
Administrative service fees	39,546	48,643	19,187
Net investment income	49,145	52,136	56,253
Total operating revenues	1,989,791	1,969,863	1,767,784
Net realized investment gains (losses):			
Total other-than-temporary impairment losses on securities	(2,997)	(7,118)	(16,494)
Net realized gains, excluding other-than-temporary impairment losses on securities	5,529	7,732	2,554
Total net realized investment gains (losses)	2,532	614	(13,940)
Net unrealized investment gains (losses) on trading securities	5,433	10,497	(21,064)
Other income (expense), net	889	1,237	(2,467)
Total revenues	1,998,645	1,982,211	1,730,313
Benefits and expenses			
Claims incurred	1,596,789	1,605,872	1,431,801
Operating expenses	304,995	279,418	251,887
Total operating costs	1,901,784	1,885,290	1,683,688
Interest expense	12,658	13,270	14,681
Total benefits and expenses	1,914,442	1,898,560	1,698,369
Income before taxes	84,203	83,651	31,944
Income tax expense (benefit)			
Current	14,348	19,197	11,542
Deferred	3,054	(4,326)	(4,388)
Total income taxes	17,402	14,871	7,154
Net income	$ 66,801	$ 68,780	$ 24,790
Basic net income per share	$ 2.30	$ 2.33	$ 0.77
Diluted net income per share	$ 2.28	$ 2.33	$ 0.77

The accompanying notes are an integral part of these financial statements.

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Triple-S Management Corporation
Consolidated Statements of Earnings
Years Ended December 31, 2010, 2009 and 2008
(dollar amounts in thousands, except per share data)

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance, December 31, 2007	$ 16,043	$ 16,266	$ 188,935	$ 267,336	$ (6,042)	$ 482,538
Conversion of Class A common stock to Class B common stock	(7,000)	7,000				
Share-based compensation			3,268			3,268
Grant of restricted Class B common stock		20				20
Repurchase and retirement of common stock		(1,181)	(12,699)			(13,880)
Other				(14)		(14)
Comprehensive income						
Net income				24,790		24,790
Net unrealized change in fair value of available for sale securities					(3,952)	(3,952)
Defined benefit pension plan						
Prior service credit, net					(266)	(266)
Actuarial loss					(7,349)	(7,349)
Net change in fair value of cash flow hedges					(56)	(56)
Total comprehensive income						13,167
Balance, December 31, 2008	9,043	22,105	179,504	292,112	(17,665)	485,099
Share-based compensation			3,897			3,897
Grant of restricted Class B common stock		27				27
Repurchase and retirement of common stock		(2,022)	(24,098)			(26,120)
Comprehensive income						
Net income				68,780		68,780

Net unrealized change in fair value of available for sale securities					3,539	3,539
Defined benefit pension plan						
Prior service credit, net					(273)	(273)
Actuarial gain					2,823	2,823
Total comprehensive income						74,869
Balance, December 31, 2009	9,043	20,110	159,303	360,892	(11,576)	537,772
Share-based compensation			1,878			1,878
Grant of restricted Class B common stock		16				16
Repurchase and retirement of common stock		(353)	(5,882)			(6,235)
Comprehensive income						
Net income				66,801		66,801
Net unrealized change in fair value of available for sale securities					23,602	23,602
Defined benefit pension plan						
Prior service credit, net					(265)	(265)
Actuarial loss					(6,297)	(6,297)
Total comprehensive income						83,841
Balance, December 31, 2010	$ 9,043	$ 19,773	$ 155,299	$ 427,693	$ 5,464	$ 617,272

The accompanying notes are an integral part of these financial statements

Triple-S Management Corporation
Consolidated Statements of Earnings
Years Ended December 31, 2010, 2009 and 2008
(dollar amounts in thousands, except per share data)

	2010	2009	2008
Cash flows from operating activities			
Net income	$ 66,801	$ 68,780	$ 24,790
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation and amortization	15,500	9,643	7,367
Net amortization of investments	4,511	744	952
Provision (reversal of provision) for doubtful receivables	(5,200)	10,489	(1,180)
Deferred tax expense (benefit)	3,054	(4,326)	(4,388)
Net realized investment (gains) losses	(2,532)	(614)	13,940
Net unrealized (gains) losses on trading securities	(5,433)	(10,497)	21,064
Share-based compensation	1,894	3,924	3,268
Proceeds from trading securities sold			
Equity securities	4,871	4,240	24,640
Acquisition of securities in trading portfolio			
Equity securities	(6,506)	(6,132)	(10,737)
Gain on sale of property and equipment	6		11
(Increase) decrease in assets			
Premium and other receivables, net	(47,648)	(46,263)	(32,210)
Deferred policy acquisition costs and value of business acquired	(6,169)	(13,570)	(9,108)
Other deferred taxes	6,658	900	(8,337)
Other assets	5,223	(1,593)	(933)
Increase (decrease) in liabilities			
Claim liabilities	(236)	36,736	(30,120)
Liability for future policy benefits	13,904	15,074	13,414
Unearned premiums	(10,001)	(1,799)	(22,458)
Policyholder deposits	733	1,665	1,902
Liability to FEHBP	2,016	1,845	(10,181)
Accounts payable and accrued liabilities	(3,790)	3,339	15,322
Net cash provided by (used in) operating activities	37,656	72,585	(2,982)

The accompanying notes are an integral part of these financial statements

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Triple-S Management Corporation
Consolidated Statements of Earnings
Years Ended December 31, 2010, 2009 and 2008
(dollar amounts in thousands, except per share data)

	2010	2009	2008
Cash flows from investing activities			
Proceeds from investments sold or matured			
Securities available for sale			
Fixed maturities sold	$ 121,968	$ 241,368	$ 228,436
Fixed maturities matured	175,483	189,144	91,732
Equity securities sold	41,802	9,877	4,450
Securities held to maturity			
Fixed maturities matured	2,587	7,819	22,875
Acquisition of investments			
Securities available for sale			
Fixed maturities	(337,569)	(459,705)	(505,896)
Equity securities	(26,957)	(3,684)	(19,636)
Securities held to maturity			
Fixed maturities	(1,050)	(1,502)	(554)
Net (disbursements) repayment for policy loans	53	(489)	30
Capital expenditures	(19,222)	(18,706)	(22,411)
Net cash used in investing activities	(42,905)	(35,878)	(200,974)
Cash flows from financing activities			
Repurchase and retirement of common stock	(6,235)	(32,355)	(7,645)
Change in outstanding checks in excess of bank balances	281	(5,645)	18,353
Repayments of long-term borrowings	(26,367)	(1,640)	(1,639)
Net proceeds from short-term borrowings	15,575		
Proceeds from long-term borrowings	25,000		
Proceeds from annuity contracts	10,691	4,307	8,018
Surrenders of annuity contracts	(9,051)	(7,093)	(7,195)
Other			6
Net cash provided by (used in) financing activities	9,894	(42,426)	9,898
Net increase (decrease) in cash and cash equivalents	4,645	(5,719)	(194,058)
Cash and cash equivalents			
Beginning of year	40,376	46,095	240,153
End of year	$ 45,021	$ 40,376	$ 46,095

The accompanying notes are an integral part of these financial statements

Triple-S Management Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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1. Nature of Business

Triple-S Management Corporation (the Company or TSM) was incorporated under the laws of the Commonwealth of Puerto Rico on January 17, 1997 to engage, among other things, as the holding company of entities primarily involved in the insurance industry.

The Company has the following wholly owned subsidiaries that are subject to the regulations of the Commissioner of Insurance of the Commonwealth of Puerto Rico (the Commissioner of Insurance): (1) Triple-S Salud, Inc. (TSS) a managed care organization that provides health benefits services to subscribers through contracts with hospitals, physicians, dentists, laboratories, and other organizations; (2) Triple-S Vida, Inc. (TSV), which is engaged in the underwriting of life and accident and health insurance policies and the administration of annuity contracts; and (3) Triple-S Propiedad, Inc. (TSP), which is engaged in the underwriting of property and casualty insurance policies. The Company and TSS are members of the Blue Cross and Blue Shield Association (BCBSA).

The Company also has two other wholly owned subsidiaries, Interactive Systems, Inc. (ISI) and Triple-C, Inc. (TC). ISI is mainly engaged in providing data processing services to the Company and its subsidiaries. TC is mainly engaged as a third-party administrator for TSS in the administration of the Commonwealth of Puerto Rico Health Insurance Plan (Similar to Medicaid)(Medicaid) business. Also, TC provides healthcare advisory services to TSS and other health insurance-related services to the health insurance industry.

The contract with the Commonwealth of Puerto Rico (the government of Puerto Rico) that allowed us to provide services to Medicaid enrollees, expired by its own terms on September 30, 2010, thus effective October 1st, 2010 we no longer provide services to these enrollees. As a result, TC will cease to exist during 2011.

A substantial majority of the Company s business activity is with insurers located throughout Puerto Rico, and as such, the Company is subject to the risks associated with the Puerto Rico economy.

2. Significant Accounting Policies

The following are the significant accounting policies followed by the Company and its subsidiaries:

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. The most significant items on the consolidated balance sheets that involve a greater degree of accounting estimates and actuarial determinations subject to changes in the near future are the assessment of other-than-temporary

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impairments, allowance for doubtful receivables, deferred policy acquisition costs and value of business acquired, claim liabilities, the liability for future policy benefits, and liability for pension benefits. As additional information becomes available (or actual amounts are determinable), the recorded estimates are revised and reflected in operating results of the period they are determined. Although some variability is inherent in these estimates, the Company believes the amounts provided are adequate.

Reclassifications

Certain amounts in the 2009 and 2008 consolidated financial statements were reclassified to conform to the 2010 presentation.

Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash equivalents of $626 and $920 at December 31, 2010 and 2009, respectively, consist principally of obligations of government-sponsored enterprises and certificates of deposit with an initial term of less than three months.

Investments

Investment in securities at December 31, 2010 and 2009 consists mainly of obligations of government-sponsored enterprises, U.S. Treasury securities and obligations of U.S. government instrumentalities, obligations of the Commonwealth of Puerto Rico and its instrumentalities, municipal securities, obligations of states of the United States and political subdivisions of the states, corporate bonds, mortgage-backed securities, collateralized mortgage obligations, and equity securities. The Company classifies its debt and equity securities in one of three categories: trading, available for sale, or held to maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Securities classified as held to maturity are those securities in which the Company has the ability and intent to hold the security until maturity. All other securities not included in trading or held to maturity are classified as available for sale.

Trading and available-for-sale securities are recorded at fair value. The fair values of debt securities (both available for sale and held to maturity investments) and equity securities are based on quoted market prices for those or similar investments at the reporting date. Held-to-maturity debt securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums and discounts, respectively. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are included in earnings and are determined on a specific-identification basis.

Transfers of securities between categories are recorded at fair value at the date of transfer. Unrealized holding gains and losses are recognized in earnings for transfers into trading securities. Unrealized holding gains or losses associated with transfers of securities from held to maturity to available for sale are recorded as a separate component of other comprehensive income. The unrealized holding gains or losses included in the separate component of other comprehensive income for securities transferred from available for sale to held to maturity, are maintained and amortized into earnings over the remaining life of the security as an adjustment to yield in a manner consistent with the amortization or accretion of premium or discount on the associated security.

If a fixed maturity security is in an unrealized loss position and the Company has the intent to sell the fixed maturity security, or it is more likely than not that the Company will have to sell the fixed

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maturity security before recovery of its amortized cost basis, the decline in value is deemed to be other-than-temporary and is recorded to other-than-temporary impairment losses recognized in earnings in the Company s consolidated statements of earnings. For impaired fixed maturity securities that the Company does not intend to sell or it is more likely than not that such securities will not have to be sold, but the Company expects not to fully recover the amortized cost basis, the credit component of the other-than temporary impairment is recognized in other-than-temporary impairment losses recognized in earnings in the Company s consolidated statements of earnings and the non-credit component of the other-than-temporary impairment is recognized in other comprehensive income. Furthermore, unrealized losses entirely caused by non-credit related factors related to fixed maturity securities for which the Company expects to fully recover the amortized cost basis continue to be recognized in accumulated other comprehensive income.

The credit component of an other-than-temporary impairment is determined by comparing the net present value of projected future cash flows with the amortized cost basis of the fixed maturity security. The net present value is calculated by discounting the Company s best estimate of projected future cash flows at the effective interest rate implicit in the fixed maturity security at the date of acquisition.

The unrealized gains or losses on the Company s equity securities classified as available-for-sale are included in accumulated other comprehensive income as a separate component of stockholders equity, unless the decline in value is deemed to be other-than-temporary and the Company does not have the intent and ability to hold such equity securities until their full cost can be recovered, in which case such equity securities are written down to fair value and the loss is charged to other-than-temporary impairment losses recognized in earnings.

A decline in the fair value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, market conditions, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

The Company regularly invests in mortgaged-backed securities and other securities subject to prepayment and call risk. Significant changes in prevailing interest rates may adversely affect the timing and amount of cash flows on such securities. In addition, the amortization of market premium and accretion of market discount for mortgaged-backed securities is based on historical experience and estimates of future payment speeds on the underlying mortgage loans. Actual prepayment speeds will differ from original estimates and may result in material adjustments to amortization or accretion recorded in future periods.

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Revenue Recognition

a. Managed Care

Subscriber premiums on the managed care business are billed in advance of their respective coverage period. Managed care premiums are billed in the month prior to the effective date of the policy with a grace period of up to two months. If the insured fails to pay, the policy can be canceled at the end of the grace period at the option of the Company. Managed care premiums are reported as earned when due.

Premiums for the Medicare Advantage (MA) business are based on a bid contract with the Centers for Medicare and Medicaid Services (CMS) and billed in advance of the coverage period. MA contracts provide for a risk factor to adjust premiums paid for members that represent a higher or lower risk to the Company. Retroactive rate adjustments are made periodically based on the aggregate health status and risk scores of the Company s MA membership. These risk adjustments are evaluated quarterly based on actuarial estimates. Actual results could differ from these estimates. As additional information becomes available, the recorded estimate is revised and reflected in operating results.

TSS offers prescription drug coverage to Medicare eligible beneficiaries as part of its MA plans (MA-PD) and on a stand-alone basis (stand-alone PDP). Premiums are based on a bid contract with CMS that considers the estimated costs of providing prescription drug benefits to enrolled participants. MA-PD and stand-alone PDP premiums are subject to adjustment, positive or negative, based upon the application of risk corridors that compare the estimated prescription drug costs included in the bids to CMS to actual prescription drug costs. Variances exceeding certain thresholds may result in CMS making additional payments to the TSS or in TSS refunding CMS a portion of the premiums collected. TSS estimates and records adjustments to earned premiums related to estimated risk corridor payments based upon actual prescription drug costs for each reporting period as if the annual contract were to end at the end of each reporting period.

Administrative service fees include revenue from certain groups which has managed care contracts that provide for the group to be at risk for all or a portion of their claims experience. For these groups, the Company is not at risk and only handles the administration of the insurance coverage for an administrative service fee. The Company pays claims under self-funded arrangements from its own funds, and subsequently receives reimbursement from these groups. Claims paid under self-funded arrangements are excluded from the claims incurred in the accompanying consolidated financial statements. Administrative service fees under the self-funded arrangements are recognized based on the group s membership or incurred claims for the period multiplied by an administrative fee rate plus other fees. In addition, some of these self-funded groups purchase aggregate and/or specific stop-loss coverage. In exchange for a premium, the group s aggregate liability or the group s liability on any one episode of care is capped for the year. Premiums for the stop-loss coverage are actuarially determined based on experience and other factors and are recorded as earned over the period of the contract in proportion to the coverage provided. This fully insured portion of premiums is included within the premiums earned, net in the accompanying consolidated statements of earnings. The Medicaid contract with the Government of Puerto Rico contained a savings-sharing provision whereby the Government of Puerto Rico shares with TSS a portion of the medical cost savings obtained with the administration of the region served on an administrative service basis. Any savings-sharing amount is recorded when

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earned as administrative service fees in the accompanying consolidated statements of earnings.

b. Life and Accident and Health Insurance

Premiums on life insurance policies are billed in advance of their respective coverage period and the related revenue is recorded as earned when due. Premiums on accident and health and other short-term policies are recognized as earned primarily on a pro rata basis over the contract period. Premiums on credit life policies are recognized as earned in proportion to the amounts of insurance in-force. Revenues from universal life and interest sensitive policies represent amounts assessed against policyholders, including mortality charges, surrender charges actually paid, and earned policy service fees. The revenues for limited payment contracts are recognized over the period that benefits are provided rather than on collection of premiums.

c. Property and Casualty Insurance

Premiums on property and casualty contracts are billed in advance of their respective coverage period and they are recognized as earned on a pro rata basis over the policy term. The portion of premiums related to the period prior to the end of coverage is recorded in the consolidated balance sheets as unearned premiums and is transferred to premium revenue as earned.

Allowance for Doubtful Receivables

The allowance for doubtful receivables is based on management s evaluation of the aging of accounts and such other factors, which deserve current recognition. Actual results could differ from these estimates. Receivables are charged against their respective allowance accounts when deemed to be uncollectible.

Deferred Policy Acquisition Costs and Value of Business Acquired

Certain direct costs for acquiring life and accident and health, and property and casualty insurance business are deferred by the Company. Substantially all acquisition costs related to the managed care business are expensed as incurred.

In the life and accident and health business deferred acquisition costs consist of commissions and certain expenses related to the production of life, annuity, accident and health, and credit business. In the event that future premiums, in combination with policyholder reserves and anticipated investment income, could not provide for all future maintenance and settlement expenses, the amount of deferred policy acquisition costs would be reduced to provide for such amount. The related amortization is provided over the anticipated premium-paying period of the related policies in proportion to the ratio of annual premium revenue to expected total premium revenue to be received over the life of the policies. Interest is considered in the amortization of deferred policy acquisition cost and value of business acquired. For these contracts interest is considered at a level rate at the time of issue of each contract, 5.4% for 2010 and 2009, and, in the case of the value of business acquired, at the time of any acquisition. For certain other long-duration contracts, deferred amounts are amortized at historical and forecasted credited interest rates. Expected premium revenue is estimated by using the same mortality and withdrawal assumptions used in computing liabilities for future policy benefits. The method followed in computing deferred policy acquisition costs limits the amount of such deferred costs to their estimated net realizable value. In determining estimated net realizable value, the computations give effect to the premiums to be earned, related investment income, losses and loss-adjustment expenses, and certain other

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costs expected to be incurred as the premium is earned. Costs deferred on universal life and interest sensitive products are amortized as a level percentage of the present value of anticipated gross profits from investment yields, mortality, expenses and surrender charges. Estimates used are based on the Company s experience as adjusted to provide for possible adverse deviations. These estimates are periodically reviewed and compared with actual experience. When it is determined that future expected experience differs significantly from that assumed, the estimates are revised for current and future issues.

The value assigned to the insurance in-force of TSV at the date of the acquisition is amortized using methods similar to those used to amortize the deferred policy acquisition costs of the life and accident and health business.

In the property and casualty business, acquisition costs consist of commissions incurred during the production of business and are deferred and amortized ratably over the terms of the policies.

Property and Equipment

Property and equipment are stated at cost. Maintenance and repairs are expensed as incurred. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Costs of computer equipment, programs, systems, installations, and enhancements are capitalized and amortized straight-line over their estimated useful lives. The following is a summary of the estimated useful lives of the Company s property and equipment:

Asset Category	Estimated Useful Life
Buildings	20 to 50 years
Building improvements	3 to 5 years
Leasehold improvements	Shorter of estimated useful life or lease term
Office furniture	5 years
Computer software	3 to 10 years
Computer equipment, equipment, and automobiles	3 years

Software Development Costs

Costs related to software developed or obtained for internal use that is incurred in the preliminary project stage are expensed as incurred. Once capitalization criteria are met, directly attributable development costs are capitalized and amortized over the expected useful life of the software. Upgrade and maintenance costs are expensed as incurred. During the year ended December 31, 2010 and 2009 the Company capitalized approximately $11,647 and $10,993 associated with the implementation of new software.

Long-Lived Assets

Long-lived assets, such as property and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be

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disposed of would be separately presented in the balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

Goodwill and intangible assets that have indefinite useful lives are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. For goodwill, the impairment determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

Claim Liabilities

Claim liabilities for managed care policies represent the estimated amounts to be paid to providers based on experience and accumulated statistical data. Loss-adjustment expenses related to such claims are currently accrued based on estimated future expenses necessary to process such claims.

TSS contracts with various independent practice associations (IPAs) for certain medical care services provided to some policies subscribers. The IPAs are compensated on a capitation basis. In the Medicaid business and one of the MA policies, TSS retains a portion of the capitation payments to provide for incurred but not reported losses. At December 31, 2010 and 2009, total withholdings and capitation payable amounted to $22,428 and $25,568, respectively, which are recorded as part of the claim liabilities in the accompanying consolidated balance sheets.

Claim liabilities include unpaid claims and loss-adjustment expenses of the life and accident and health business based on a case-basis estimate for reported claims, and on estimates, based on experience, for unreported claims and loss-adjustment expenses. The liability for policy and contract claims and claims expenses has been established to cover the estimated net cost of insured claims.

Also included within the claim liabilities is the liability for losses and loss-adjustment expenses for the property and casualty business which represents individual case estimates for reported claims and estimates for unreported losses, net of any salvage and subrogation based on past experience modified for current trends and estimates of expenses for investigating and settling claims.

Claim liabilities are necessarily based on estimates and, while management believes that the amounts are adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in the consolidated statements of earnings in the period determined.

Future Policy Benefits

The liability for future policy benefits has been computed using the level-premium method based on estimated future investment yield, mortality, morbidity and withdrawal experience. The interest rate assumption ranges between 5.0% and 5.40% for all years in issue. Mortality has been calculated

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principally on select and ultimate tables in common usage in the industry. Withdrawals have been determined principally based on industry tables, modified by Company s experience.

Policyholder Deposits

Amounts received for annuity contracts are considered deposits and recorded as a liability along with the accrued interest and reduced for charges and withdrawals. Interest incurred on such deposits, which amounted to $1,688, $1,665, and $1,902, during the years ended December 31, 2010, 2009, and 2008, respectively, is recorded as interest expense in the accompanying consolidated statements of earnings.

Reinsurance

In the normal course of business, the insurance-related subsidiaries seek to limit their exposure that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers.

Reinsurance premiums, commissions, and expense reimbursements, related to reinsured business are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Accordingly, reinsurance premiums are reported as prepaid reinsurance premiums and amortized over the remaining contract period in proportion to the amount of insurance protection provided.

Premiums ceded and recoveries of losses and loss-adjustment expenses have been reported as a reduction of premiums earned and losses and loss-adjustment expenses incurred, respectively. Commission and expense allowances received by TSP in connection with reinsurance ceded have been accounted for as a reduction of the related policy acquisition costs and are deferred and amortized accordingly. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Derivative Instruments and Hedging Activities

The Company recognizes all derivative instruments, including certain derivative instruments embedded in other contracts, whether or not designated in hedging relationships, as either assets or liabilities in the balance sheet at their respective fair values. Changes in the fair value of derivative instruments are recorded in earnings, unless specific hedge accounting criteria are met in which case the change in fair value of the instrument is recorded within other comprehensive income for cash flow hedges.

On the date the derivative contract designated as a hedging instrument is entered into, the Company designates the instrument as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair-value hedge), a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge), a foreign currency fair-value or cash-flow hedge (foreign-currency hedge), or a hedge of a net investment in a foreign operation. For all hedging relationships the Company formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument s effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as fair-value, cash-flow, or foreign-currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in

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offsetting changes in fair values or cash flows of hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income to the extent that the derivative is effective as hedge, until earnings are affected by the variability in cash flows of the designated hedged item. Changes in the fair value of derivatives that are highly effective as hedges and that are designated and qualify as foreign-currency hedges are recorded in either earnings or other comprehensive income, depending on whether the hedge transaction is a fair-value hedge or a cash-flow hedge. However, if a derivative is used as a hedge of a net investment in a foreign operation, its changes in fair value, to the extent effective as a hedge, are recorded in the cumulative translation adjustments account within other comprehensive income. The ineffective portion of the change in fair value of a derivative instrument that qualifies as either a fair-value hedge or a cash-flow hedge is reported in earnings. Changes in the fair value of derivative trading instruments are reported in current period earnings.

The Company discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is de-designated as a hedging instrument, because it is unlikely that a forecasted transaction will occur, a hedged firm commitment no longer meets the definition of a firm commitment, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

In all situations in which hedge accounting is discontinued and the derivative is retained, the Company continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in earnings. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, the Company no longer adjusts the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Company removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the balance sheet, and recognizes any gain or loss in earnings. When it is probable that a forecasted transaction will not occur, the Company discontinues hedge accounting if not already done and recognizes immediately in earnings gains and losses that were accumulated in other comprehensive income.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of earnings in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

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The Company records any interest and penalties related to unrecognized tax benefits within the operating expenses in the consolidated statement of earnings.

Insurance-Related Assessments

The Company records a liability for insurance-related assessments when the following three conditions are met: (1) the assessment has been imposed or the information available prior to the issuance of the financial statements indicates it is probable that an assessment will be imposed; (2) the event obligating an entity to pay (underlying cause of) an imposed or probable assessment has occurred on or before the date of the financial statements; and (3) the amount of the assessment can be reasonably estimated. A related asset is recognized when the paid or accrued assessment is recoverable through either premium taxes or policy surcharges.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Recoveries of costs from third parties, which are probable of realization, are separately recorded as assets, and are not offset against the related liability.

Share-Based Compensation

Share-based compensation is measured at the fair value of the award and recognized as an expense in the financial statements over the vesting period. The Company recognizes compensation expense for its stock options based on estimated grant date fair value using the Black-Scholes option-pricing model.

Earnings Per Share