

TRIPLE-S MANAGEMENT CORP
Form 10-Q
May 06, 2014

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2014
or

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 001-33865

TRIPLE-S MANAGEMENT CORPORATION

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

Large accelerated filer Accelerated filer

Edgar Filing: TRIPLE-S MANAGEMENT CORP - Form 10-Q

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

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

| <u>Title of each class</u> | <u>Outstanding at March 31, 2014</u> |
|--|--------------------------------------|
| Common Stock Class A, \$1.00 par value | 2,377,689 |
| Common Stock Class B, \$1.00 par value | 24,907,272 |

2

TRIPLE-S MANAGEMENT CORPORATION

FORM 10-Q

For the Quarter Ended March 31, 2014

Table of Contents

| | |
|--|----|
| <u>Part I – Financial Information</u> | 4 |
| <u>Item 1. Financial Statements</u> | 4 |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 35 |
| <u>Cautionary Statement Regarding Forward-Looking Information</u> | 35 |
| <u>Overview</u> | 35 |
| <u>Recent Developments</u> | 37 |
| <u>Recent Accounting Standards</u> | 39 |
| <u>Managed Care Membership</u> | 39 |
| <u>Consolidated Operating Results</u> | 40 |
| <u>Managed Care Operating Results</u> | 41 |
| <u>Life Insurance Operating Results</u> | 43 |
| <u>Property and Casualty Insurance Operating Results</u> | 44 |
| <u>Liquidity and Capital Resources</u> | 45 |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u> | 46 |
| <u>Item 4. Controls and Procedures</u> | 47 |
| <u>Part II – Other Information</u> | 47 |
| <u>Item 1. Legal Proceedings</u> | 47 |
| <u>Item 1A. Risk Factors</u> | 47 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 48 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 48 |
| <u>Item 4. Mine Safety Disclosures</u> | 48 |
| <u>Item 5. Other Information</u> | 48 |
| <u>Item 6. Exhibits</u> | 48 |
| <u>SIGNATURES</u> | 49 |

Table of Contents

Part I – Financial Information

Item 1. Financial Statements

Triple-S Management Corporation

Consolidated Balance Sheets (Unaudited)

(Dollar amounts in thousands, except per share data)

| | March 31, 2014 | December 31, 2013 |
|---|-------------------|-------------------------|
| Assets | | |
| Investments and cash: | | |
| Securities available for sale, at fair value: | | |
| Fixed maturities | \$1,089,479 | \$1,055,874 |
| Equity securities | 232,728 | 239,933 |
| Securities held to maturity, at amortized cost: | | |
| Fixed maturities | 6,261 | 6,139 |
| Policy loans | 6,734 | 6,705 |
| Cash and cash equivalents | 84,728 | 74,356 |
| Total investments and cash | 1,419,930 | 1,383,007 |
| Premiums and other receivables, net | 304,252 | 274,939 |
| Deferred policy acquisition costs and value of business acquired | 177,066 | 177,289 |
| Property and equipment, net | 87,340 | 89,086 |
| Deferred tax asset | 31,836 | 33,519 |
| Goodwill | 25,397 | 25,397 |
| Other assets | 78,552 | 64,387 |
| Total assets | \$2,124,373 | \$2,047,624 |
| Liabilities and Stockholders' Equity | | |
| Claim liabilities | \$446,710 | \$420,421 |
| Liability for future policy benefits | 311,338 | 304,363 |
| Unearned premiums | 78,730 | 87,362 |
| Policyholder deposits | 115,561 | 115,923 |
| Liability to Federal Employees' Health Benefits Program (FEHBP) | 5,021 | 8,148 |
| Accounts payable and accrued liabilities | 186,426 | 161,422 |
| Deferred tax liability | 23,045 | 20,783 |
| Long-term borrowings | 88,804 | 89,302 |
| Liability for pension benefits | 56,046 | 54,697 |
| Total liabilities | 1,311,681 | 1,262,421 |
| Stockholders' equity: | | |
| Triple-S Management Corporation stockholders' equity | | |
| Common stock Class A, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 2,377,689 at March 31, 2014 and December 31, 2013, respectively | 2,378 | 2,378 |
| Common stock Class B, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 24,907,272 and 25,091,277 shares at March 31, 2014 and December 31, 2013, respectively | 24,907 | 25,091 |
| Additional paid-in capital | 127,909 | 130,098 |
| Retained earnings | 602,640 | 595,685 |
| Accumulated other comprehensive income | 55,062 | 32,129 |
| Total Triple-S Management Corporation stockholders' equity | 812,896 | 785,381 |

Edgar Filing: TRIPLE-S MANAGEMENT CORP - Form 10-Q

| | | | | |
|---|-------------|---|-------------|---|
| Non-controlling interest in consolidated subsidiary | (204 |) | (178 |) |
| Total stockholders' equity | 812,692 | | 785,203 | |
| Total liabilities and stockholders' equity | \$2,124,373 | | \$2,047,624 | |

See accompanying notes to unaudited consolidated financial statements.

4

Table of Contents

Triple-S Management Corporation

Consolidated Statements of Earnings (Unaudited)

(Dollar amounts in thousands, except per share data)

| | Three months ended March 31, | |
|--|---------------------------------|-----------|
| | 2014 | 2013 |
| Revenues: | | |
| Premiums earned, net | \$541,852 | \$549,961 |
| Administrative service fees | 29,750 | 27,110 |
| Net investment income | 11,351 | 11,367 |
| Other operating revenues | 1,494 | 1,187 |
| Total operating revenues | 584,447 | 589,625 |
| Net realized investment gains | 126 | 1,888 |
| Other income, net | 246 | 481 |
| Total revenues | 584,819 | 591,994 |
| Benefits and expenses: | | |
| Claims incurred | 449,107 | 452,000 |
| Operating expenses | 125,367 | 114,865 |
| Total operating costs | 574,474 | 566,865 |
| Interest expense | 2,305 | 2,384 |
| Total benefits and expenses | 576,779 | 569,249 |
| Income before taxes | 8,040 | 22,745 |
| Income tax expense (benefit): | | |
| Current | 1,527 | 5,463 |
| Deferred | (416) | 99 |
| Total income taxes | 1,111 | 5,562 |
| Net income | 6,929 | 17,183 |
| Less: Net loss attributable to non-controlling interest | 26 | 55 |
| Net income attributable to Triple-S Management Corporation | \$6,955 | \$17,238 |
| Earnings per share attributable to Triple-S Management Corporation | | |
| Basic net income per share | \$0.26 | \$0.61 |
| Diluted net income per share | \$0.25 | \$0.61 |

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

Triple-S Management Corporation

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollar amounts in thousands, except per share data)

| | Three months ended March 31, | |
|--|------------------------------------|----------|
| | 2014 | 2013 |
| Net income | \$6,929 | \$17,183 |
| Other comprehensive income (loss), net of tax: | | |
| Net unrealized change in fair value of available for sale securities, net of taxes | 22,302 | 6,642 |
| Defined benefit pension plan: | | |
| Actuarial loss, net | 705 | 1,249 |
| Prior service credit, net | (74) | (79) |
| Total other comprehensive income, net of tax | 22,933 | 7,812 |
| Comprehensive income | 29,862 | 24,995 |
| Comprehensive income attributable to non-controlling interest | 26 | 55 |
| Comprehensive income attributable to Triple-S Management Corporation | \$29,888 | \$25,050 |

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

Triple-S Management Corporation

Consolidated Statements of Stockholders' Equity (Unaudited)

(Dollar amounts in thousands, except per share data)

| | 2014 | 2013 |
|--|-----------|-----------|
| Balance at January 1 | \$785,381 | \$761,907 |
| Share-based compensation | 625 | 678 |
| Repurchase and retirement of common stock | (2,998) | - |
| Net current period change in comprehensive income | 29,888 | 25,050 |
| Total Triple-S Management Corporation stockholders' equity | 812,896 | 787,635 |
| Non-controlling interest in consolidated subsidiary | (204) | 185 |
| Balance at March 31 | \$812,692 | \$787,820 |

See accompanying notes to unaudited consolidated financial statements.

7

Table of Contents

Triple-S Management Corporation
 Consolidated Statements of Cash Flows (Unaudited)
 (Dollar amounts in thousands, except per share data)

| | Three months ended March 31, | |
|---|------------------------------------|----------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income | \$6,929 | \$17,183 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,105 | 6,259 |
| Net amortization of investments | 1,429 | 1,467 |
| Provision for doubtful receivables, net | 1,830 | 2,772 |
| Deferred tax expense (benefit) | (416) | 99 |
| Net realized investment gain on sale of securities | (126) | (1,888) |
| Share-based compensation | 625 | 678 |
| (Increase) decrease in assets: | | |
| Premium and other receivables, net | (29,463) | (2,578) |
| Deferred policy acquisition costs and value of business acquired | 223 | 874 |
| Other deferred taxes | 57 | 1 |
| Other assets | (15,844) | 1,549 |
| Increase (decrease) in liabilities: | | |
| Claim liabilities | 26,289 | (2,794) |
| Liability for future policy benefits | 6,975 | 4,928 |
| Unearned premiums | (8,632) | (9,538) |
| Policyholder deposits | 840 | 779 |
| Liability to FEHBP | (3,127) | (1,722) |
| Accounts payable and accrued liabilities | 28,775 | 13,096 |
| Net cash provided by operating activities | 21,469 | 31,165 |

(Continued)

Table of Contents

Triple-S Management Corporation

Consolidated Statements of Cash Flows (Unaudited)

(Dollar amounts in thousands, except per share data)

| | Three months ended March 31, | |
|---|---------------------------------|----------|
| | 2014 | 2013 |
| Cash flows from investing activities: | | |
| Proceeds from investments sold or matured: | | |
| Securities available for sale: | | |
| Fixed maturities sold | \$53,701 | \$15,904 |
| Fixed maturities matured/called | 12,758 | 29,775 |
| Equity securities sold | 27,632 | 9,246 |
| Securities held to maturity: | | |
| Fixed maturities matured/called | 124 | - |
| Acquisition of investments: | | |
| Securities available for sale: | | |
| Fixed maturities | (80,146) | (31,023) |
| Equity securities | (17,123) | (76,095) |
| Securities held to maturity: | | |
| Fixed maturities | (250) | - |
| Other investments | (128) | (106) |
| Net outflows from policy loans | (29) | (97) |
| Net capital expenditures | (1,917) | (6,130) |
| Net cash used in investing activities | (5,378) | (58,526) |
| Cash flows from financing activities: | | |
| Change in outstanding checks in excess of bank balances | (1,021) | 20,521 |
| Repayments of short-term borrowings | - | (21,500) |
| Repayments of long-term borrowings | (498) | (493) |
| Repurchase and retirement of common stock | (2,998) | - |
| Proceeds from policyholder deposits | 1,344 | 3,020 |
| Surrenders of policyholder deposits | (2,546) | (1,156) |
| Net cash (used in) provided by financing activities | (5,719) | 392 |
| Net increase (decrease) in cash and cash equivalents | 10,372 | (26,969) |
| Cash and cash equivalents: | | |
| Beginning of period | 74,356 | 89,564 |
| End of period | \$84,728 | \$62,595 |

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

(1) Basis of Presentation

The accompanying consolidated interim financial statements prepared by Triple-S Management Corporation and its subsidiaries are unaudited. In this filing, the “Corporation”, the “Company”, “TSM”, “we”, “us” and “our” refer to Triple-S Management Corporation and its subsidiaries. The consolidated interim financial statements do not include all of the information and the footnotes required by accounting principles generally accepted in the U.S. (GAAP) for complete financial statements. These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2013.

In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of such consolidated interim financial statements have been included. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the results for the full year ending December 31, 2014.

(2) Recent Accounting Standards

In July 2011, the FASB issued guidance to address questions about how health insurers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act. A health insurer’s portion of the annual fee becomes payable to the U.S. Treasury once the entity provides health insurance for any U.S. health risk for each applicable calendar year. We adopted the provisions of this guidance on January 1, 2014 and recorded a liability in the consolidated accounts payable and accrued liabilities in the first quarter of 2014 of approximately \$28,500 representing an estimate of the fee for 2014. A corresponding deferred cost was recorded in the consolidated other assets. The Corporation will update this estimate for any adjustment in subsequent quarters. During the three months ended March 31, 2014, approximately \$7,100 of the deferred cost was recognized within the consolidated operating expenses; the remainder will be recognized on a straight-line basis over the balance of 2014. For federal income tax purposes, the fee is treated as an excise tax, for which no deduction is allowed under the Internal Revenue Code.

On July 18, 2013, the FASB issued guidance regarding the presentation in the statement of financial position of an unrecognized tax benefit when a net operating loss carry-forward or a tax credit carry-forward exists. In particular, the guidance provides that an entity’s unrecognized tax benefit, or a portion of its unrecognized tax benefit, should be presented in its financial statements as a reduction to a deferred tax asset for a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward, with one exception. That exception states that, to the extent a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance is effective for public companies for fiscal years and interim periods within such years beginning after December 15, 2013. The Company adopted this guidance on January 1, 2014; there was no significant impact on our financial position or results of operations as a result of the adoption.

On March 14, 2014, the FASB issued guidance that amended the Master Glossary of the Accounting Standards Codification (“ASC”), including technical corrections related to glossary links, glossary term deletions, and glossary term name changes. In addition, this guidance included more substantive, limited-scope improvements to reduce instances of the same term appearing multiple times in the Master Glossary with similar, but not entirely identical, definitions. These are items that represent narrow and incremental improvements to U.S. GAAP and are not purely technical corrections and affect a wide variety of Topics in the ASC. The amendments in this guidance apply to all reporting entities within the scope of the affected accounting guidance and are effective upon issuance for both public entities and nonpublic entities. The Company adopted this guidance upon issuance with no impact on our financial position and results of operations.

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the three months ended March 31, 2014 that could have a material impact on the Corporation’s financial position, operating results or financials statement disclosures.

(3) Segment Information

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

The following tables summarize the operations by reportable segment for the three months ended March 31, 2014 and 2013:

10

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

| | Three months ended | |
|---|--------------------|-----------|
| | March 31, | |
| | 2014 | 2013 |
| Operating revenues: | | |
| Managed Care: | | |
| Premiums earned, net | \$483,686 | \$493,468 |
| Administrative service fees | 29,750 | 27,110 |
| Intersegment premiums/service fees | 1,337 | 1,407 |
| Net investment income | 3,704 | 3,921 |
| Total managed care | 518,477 | 525,906 |
| Life Insurance: | | |
| Premiums earned, net | 34,864 | 31,727 |
| Intersegment premiums | 105 | 112 |
| Net investment income | 5,654 | 5,295 |
| Total life insurance | 40,623 | 37,134 |
| Property and Casualty Insurance: | | |
| Premiums earned, net | 23,302 | 24,766 |
| Intersegment premiums | 153 | 153 |
| Net investment income | 1,924 | 1,975 |
| Total property and casualty insurance | 25,379 | 26,894 |
| Other segments: * | | |
| Intersegment service revenues | 1,714 | 3,198 |
| Operating revenues from external sources | 1,494 | 1,187 |
| Total other segments | 3,208 | 4,385 |
| Total business segments | 587,687 | 594,319 |
| TSM operating revenues from external sources | 39 | 140 |
| Elimination of intersegment premiums/service fees | (1,595) | (1,672) |
| Elimination of intersegment service revenues | (1,714) | (3,198) |
| Other intersegment eliminations | 30 | 36 |
| Consolidated operating revenues | \$584,447 | \$589,625 |

* Includes segments that are not required to be reported separately, primarily the data processing services organization and the health clinic.

11

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

| | Three months ended March 31, | |
|--|------------------------------------|----------|
| | 2014 | 2013 |
| Operating income: | | |
| Managed care | \$4,122 | \$20,495 |
| Life insurance | 5,214 | 4,042 |
| Property and casualty insurance | 697 | 384 |
| Other segments * | (365) | (533) |
| Total business segments | 9,668 | 24,388 |
| TSM operating revenues from external sources | 39 | 140 |
| TSM unallocated operating expenses | (2,163) | (3,967) |
| Elimination of TSM intersegment charges | 2,429 | 2,199 |
| Consolidated operating income | 9,973 | 22,760 |
| Consolidated net realized investment gains | 126 | 1,888 |
| Consolidated interest expense | (2,305) | (2,384) |
| Consolidated other income, net | 246 | 481 |
| Consolidated income before taxes | \$8,040 | \$22,745 |
| Depreciation and amortization expense: | | |
| Managed care | \$4,285 | \$5,439 |
| Life insurance | 223 | 205 |
| Property and casualty insurance | 123 | 136 |
| Other segments* | 258 | 262 |
| Total business segments | 4,889 | 6,042 |
| TSM depreciation expense | 216 | 217 |
| Consolidated depreciation and amortization expense | \$5,105 | \$6,259 |

* Includes segments that are not required to be reported separately, primarily the data processing services organization and the health clinic.

12

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

| | March 31, 2014 | December 31, 2013 |
|---|-------------------|-------------------------|
| Assets: | | |
| Managed care | \$985,450 | \$934,467 |
| Life insurance | 718,240 | 698,650 |
| Property and casualty insurance | 348,091 | 346,212 |
| Other segments * | 27,389 | 28,407 |
| Total business segments | 2,079,170 | 2,007,736 |
| Unallocated amounts related to TSM: | | |
| Cash, cash equivalents, and investments | 28,347 | 28,316 |
| Property and equipment, net | 21,062 | 21,278 |
| Other assets | 26,026 | 26,406 |
| | 75,435 | 76,000 |
| Elimination entries-intersegment receivables and others | (30,232) | (36,112) |
| Consolidated total assets | \$2,124,373 | \$2,047,624 |

* Includes segments that are not required to be reported separately, primarily the data processing services organization and the health clinic.

13

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

(4) Investment in Securities

The amortized cost for debt securities and cost for equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for available-for-sale and held-to-maturity securities by major security type and class of security at March 31, 2014 and December 31, 2013, were as follows:

| | March 31, 2014 | | | |
|--|----------------|------------------------|-------------------------|----------------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| Securities available for sale: | | | | |
| Fixed maturities: | | | | |
| Obligations of government- sponsored enterprises | \$ 123,439 | \$ 1,328 | \$ (303) | |