HEALTHSOUTH CORP
Form 10-Q
May 01, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015
OR

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

Commission File Number 001-10315

HealthSouth Corporation
(Exact name of Registrant as specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	63-0860407 (I.R.S. Employer Identification No.)
3660 Grandview Parkway, Suite 200 Birmingham, Alabama (Address of Principal Executive Offices)	35243 (Zip Code)

(205) 967-7116
(Registrant's telephone number)

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 ý No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ý No 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 the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The registrant had 91,494,644 shares of common stock outstanding, net of treasury shares, as of April 24, 2015.

TABLE OF CONTENTS

NOTE TO READERS

As used in this report, the terms "HealthSouth," "we," "us," "our," and the "Company" refer to HealthSouth Corporation and it consolidated subsidiaries, unless otherwise stated or indicated by context. This drafting style is suggested by the Securities and Exchange Commission and is not meant to imply that HealthSouth Corporation, the publicly traded parent company, owns or operates any specific asset, business, or property. The hospitals, operations, and businesses described in this filing are primarily owned and operated by subsidiaries of the parent company. In addition, we use the term "HealthSouth Corporation" to refer to HealthSouth Corporation alone wherever a distinction between HealthSouth Corporation and its subsidiaries is required or aids in the understanding of this filing.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains historical information, as well as forward-looking statements that involve known and unknown risks and relate to, among other things, future events, changes to Medicare reimbursement and other healthcare laws and regulations from time to time, our business strategy, our dividend and stock repurchase strategies, our financial plans, our growth plans, our future financial performance, our projected business results, or our projected capital expenditures. In some cases, the reader can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "targets," "potential," or "continue" or t these terms or other comparable terminology. Such forward-looking statements are necessarily estimates based upon current information and involve a number of risks and uncertainties, many of which are beyond our control. Any forward-looking statement is based on information current as of the date of this report and speaks only as of the date on which such statement is made. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include, but are not limited to, the following:

- each of the factors discussed in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2014, as well as uncertainties and factors discussed elsewhere in this Form 10-Q, in our other filings from time to time with the SEC, or in materials incorporated therein by reference;
- changes in the rules and regulations of the healthcare industry at either or both of the federal and state levels, including those contemplated now and in the future as part of national healthcare reform and deficit reduction such as the reinstatement of the "75% Rule" or the introduction of site neutral payments with skilled nursing facilities for certain conditions, and related increases in the costs of complying with such changes;
- reductions or delays in, or suspension of, reimbursement for our services by governmental or private payors, including our ability to obtain and retain favorable arrangements with third-party payors and our exposure to the effects of Medicare claims audits for services previously provided;

i

- increased costs of regulatory compliance and compliance monitoring in the healthcare industry, including the costs of investigating and defending asserted claims, whether meritorious or not;
- our ability to attract and retain nurses, therapists, and other healthcare professionals in a highly competitive environment with often severe staffing shortages and the impact on our labor expenses from potential union activity and staffing recruitment and retention;
- competitive pressures in the healthcare industry and our response to those pressures;
- our ability to successfully complete and integrate de novo developments, acquisitions, investments, and joint ventures consistent with our growth strategy, including realization of anticipated revenues, cost savings, and productivity improvements arising from the related operations;
- any adverse outcome of various lawsuits, claims, and legal or regulatory proceedings, including the ongoing investigations initiated by the U.S. Department of Health and Human Services, Office of the Inspector General;
- increased costs of defending and insuring against alleged professional liability and other claims and the ability to predict the costs related to such claims;
- potential incidents affecting the proper operation, availability, or security of our information systems;
- the price of our common stock as it affects our willingness and ability to repurchase shares and the financial and accounting effects of any repurchases;
- our ability and willingness to continue to declare and pay dividends on our common stock;
- our ability to successfully integrate Encompass Home Health and Hospice, including the realization of anticipated benefits from the acquisition and avoidance of unanticipated difficulties, costs, or liabilities that could arise from the acquisition or integration;
- our ability to attract and retain key management personnel; and
- general conditions in the economy and capital markets, including any instability or uncertainty related to governmental impasse over approval of the United States federal budget or an increase to the debt ceiling.

The cautionary statements referred to in this section also should be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. We undertake no duty to update these forward-looking statements, even though our situation may change in the future. Furthermore, we cannot guarantee future results, events, levels of activity, performance, or achievements.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)
HealthSouth Corporation and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
	(In Millions)	
Net operating revenues	$740.6	$591.2
Less: Provision for doubtful accounts	(11.6)	(7.5)
Net operating revenues less provision for doubtful accounts	729.0	583.7
Operating expenses:		
Salaries and benefits	385.1	286.1
Other operating expenses	103.2	84.5
Occupancy costs	12.1	10.5
Supplies	31.4	27.6
General and administrative expenses	34.6	30.7
Depreciation and amortization	31.9	26.4
Government, class action, and related settlements	8.0	—
Professional fees—accounting, tax, and legal	2.2	1.6
Total operating expenses	608.5	467.4
Loss on early extinguishment of debt	1.2	—
Interest expense and amortization of debt discounts and fees	31.8	27.9
Other income	(0.5)	(1.7)
Equity in net income of nonconsolidated affiliates	(1.6)	(4.3)
Income from continuing operations before income tax expense	89.6	94.4
Provision for income tax expense	30.3	32.8
Income from continuing operations	59.3	61.6
Loss from discontinued operations, net of tax	(0.3)	(0.1)
Net income	59.0	61.5
Less: Net income attributable to noncontrolling interests	(16.5)	(14.8)
Net income attributable to HealthSouth	42.5	46.7
Less: Convertible perpetual preferred stock dividends	(1.6)	(1.6)
Net income attributable to HealthSouth common shareholders	$40.9	$45.1

(Continued)

HealthSouth Corporation and Subsidiaries
Condensed Consolidated Statements of Operations (Continued)
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
	(In Millions, Except Per Share Data)	
Weighted average common shares outstanding:		
Basic	87.1	87.3
Diluted	101.1	100.9
Earnings per common share:		
Basic earnings per share attributable to HealthSouth common shareholders:		
Continuing operations	$0.47	$0.51
Discontinued operations	—	—
Net income	$0.47	$0.51
Diluted earnings per share attributable to HealthSouth common shareholders:		
Continuing operations	$0.44	$0.48
Discontinued operations	—	—
Net income	$0.44	$0.48
Cash dividends per common share	$0.21	$0.18
Amounts attributable to HealthSouth common shareholders:		
Income from continuing operations	$42.8	$46.8
Loss from discontinued operations, net of tax	(0.3)	(0.1)
Net income attributable to HealthSouth	$42.5	$46.7

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

2

HealthSouth Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
	(In Millions)	
COMPREHENSIVE INCOME		
Net income	$59.0	$61.5
Other comprehensive income, net of tax:		
Net change in unrealized gain on available-for-sale securities:		
Unrealized net holding gain arising during the period	0.1	0.1
Other comprehensive income, net of tax	0.1	0.1
Comprehensive income	59.1	61.6
Comprehensive income attributable to noncontrolling interests	(16.5)	(14.8)
Comprehensive income attributable to HealthSouth	$42.6	$46.8

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed statements.
3

HealthSouth Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

	March 31, 2015	December 31, 2014
	(In Millions)	
Assets		
Current assets:		
Cash and cash equivalents	$208.3	$66.7
Accounts receivable, net of allowance for doubtful accounts of $25.0 in 2015; $22.2 in 2014	337.9	323.2
Deferred income tax assets	188.4	188.4
Other current assets	131.4	108.3
Total current assets	866.0	686.6
Property and equipment, net	1,012.3	1,019.7
Goodwill	1,090.0	1,084.0
Intangible assets, net	307.6	306.1
Deferred income tax assets	102.3	129.4
Other long-term assets	199.7	183.0
Total assets	$3,577.9	$3,408.8
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$149.8	$20.8
Accounts payable	55.1	53.4
Accrued expenses and other current liabilities	292.7	290.1
Total current liabilities	497.6	364.3
Long-term debt, net of current portion	2,122.5	2,110.8
Other long-term liabilities	139.5	136.3
	2,759.6	2,611.4
Commitments and contingencies		
Convertible perpetual preferred stock	93.2	93.2
Redeemable noncontrolling interests	84.7	84.7
Shareholders' equity:		
HealthSouth shareholders' equity	492.3	473.2
Noncontrolling interests	148.1	146.3
Total shareholders' equity	640.4	619.5
Total liabilities and shareholders' equity	$3,577.9	$3,408.8

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

HealthSouth Corporation and Subsidiaries
Condensed Consolidated Statements of Shareholders' Equity
(Unaudited)

Three Months Ended March 31, 2015
(In Millions)

	HealthSouth Common Shareholders							
	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interests	Total
Balance at beginning of period	87.8	$ 1.0	$ 2,810.5	$ (1,879.1)	$ (0.5)	$ (458.7)	$ 146.3	$ 619.5
Net income	—	—	—	42.5	—	—	13.6	56.1
Receipt of treasury stock	(0.5)	—	—	—	—	(14.9)	—	(14.9)
Dividends declared on common stock	—	—	(18.7)	—	—	—	—	(18.7)
Dividends declared on convertible perpetual preferred stock	—	—	(1.6)	—	—	—	—	(1.6)
Stock-based compensation	—	—	9.1	—	—	—	—	9.1
Stock options exercised	0.2	—	5.5	—	—	(3.6)	—	1.9
Distributions declared	—	—	—	—	—	—	(12.4)	(12.4)
Other	0.7	—	0.8	—	0.1	(0.1)	0.6	1.4
Balance at end of period	88.2	$ 1.0	$ 2,805.6	$ (1,836.6)	$ (0.4)	$ (477.3)	$ 148.1	$ 640.4

Three Months Ended March 31, 2014
(In Millions)

	HealthSouth Common Shareholders							
	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interests	Total
Balance at beginning of period	88.0	$ 1.0	$ 2,849.4	$ (2,101.1)	$ (0.1)	$ (404.6)	$ 124.1	$ 468.7
Net income	—	—	—	46.7	—	—	12.8	59.5
Receipt of treasury stock	(0.3)	—	—	—	—	(9.2)	—	(9.2)
Dividends declared on common stock	—	—	(16.0)	—	—	—	—	(16.0)
Dividends declared on convertible perpetual preferred stock	—	—	(1.6)	—	—	—	—	(1.6)
Stock-based compensation	—	—	7.3	—	—	—	—	7.3
Stock options exercised	0.1	—	3.6	—	—	—	—	3.6
Stock warrants exercised	0.2	—	6.3	—	—	—	—	6.3
Distributions declared	—	—	—	—	—	—	(10.3)	(10.3)
	(0.8)	—	—	—	—	(26.3)	—	(26.3)

Repurchases of common stock in open market								
Other	0.9	—	0.3	—	0.1	(0.2)	—	0.2
Balance at end of period	88.1	$ 1.0	$ 2,849.3	$ (2,054.4)	$ —	$ (440.3)	$ 126.6	$ 482.2

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

5

HealthSouth Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
	(In Millions)	
Cash flows from operating activities:		
Net income	$59.0	$61.5
Loss from discontinued operations	0.3	0.1
Adjustments to reconcile net income to net cash provided by operating activities—		
Provision for doubtful accounts	11.6	7.5
Depreciation and amortization	31.9	26.4
Equity in net income of nonconsolidated affiliates	(1.6)	(4.3)
Distributions from nonconsolidated affiliates	1.9	3.4
Stock-based compensation	9.4	7.3
Deferred tax expense	26.8	29.2
Other	10.8	3.1
Change in assets and liabilities—		
Accounts receivable	(37.3)	(24.7)
Other assets	(2.9)	(4.7)
Accounts payable	2.1	2.6
Accrued payroll	(23.3)	(11.3)
Other liabilities	5.4	11.2
Premium received on bond issuance	8.0	—
Net cash used in operating activities of discontinued operations	(0.1)	(0.2)
Total adjustments	42.7	45.5
Net cash provided by operating activities	102.0	107.1

(Continued)

HealthSouth Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Continued)
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
	(In Millions)	
Cash flows from investing activities:		
Purchases of property and equipment	(17.7)	(56.6)
Capitalized software costs	(8.9)	(7.0)
Acquisition of business, net of cash acquired	(7.3)	—
Net change in restricted cash	(15.0)	(5.5)
Other	3.2	1.3
Net cash used in investing activities	(45.7)	(67.8)
Cash flows from financing activities:		
Proceeds from bond issuance	700.0	—
Principal payments on debt, including pre-payments	(252.9)	(1.3)
Borrowings on revolving credit facility	35.0	40.0
Payments on revolving credit facility	(350.0)	(42.0)
Debt amendment and issuance costs	(13.7)	—
Repurchases of common stock, including fees and expenses	—	(26.3)
Dividends paid on common stock	(18.6)	(15.8)
Dividends paid on convertible perpetual preferred stock	(1.6)	(1.6)
Distributions paid to noncontrolling interests of consolidated affiliates	(13.2)	(12.0)
Proceeds from exercise of stock warrants	—	6.3
Other	0.3	2.0
Net cash provided by (used in) financing activities	85.3	(50.7)
Increase (decrease) in cash and cash equivalents	141.6	(11.4)
Cash and cash equivalents at beginning of period	66.7	64.5
Cash and cash equivalents at end of period	$208.3	$53.1

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed statements.
7

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

HealthSouth Corporation, incorporated in Delaware in 1984, including its subsidiaries, is one of the nation's largest providers of post-acute healthcare services, offering both facility-based and home-based post-acute services in 33 states and Puerto Rico through its network of inpatient rehabilitation hospitals, home health agencies, and hospice agencies.

The accompanying unaudited condensed consolidated financial statements of HealthSouth Corporation and Subsidiaries should be read in conjunction with the consolidated financial statements and accompanying notes filed with the United States Securities and Exchange Commission in HealthSouth's Annual Report on Form 10-K filed on March 2, 2015 (the "2014 Form 10-K"). The unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the SEC applicable to interim financial information. Certain information and note disclosures included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been omitted in these interim statements, as allowed by such SEC rules and regulations. The condensed consolidated balance sheet as of December 31, 2014 has been derived from audited financial statements, but it does not include all disclosures required by GAAP. However, we believe the disclosures are adequate to make the information presented not misleading.

The unaudited results of operations for the interim periods shown in these financial statements are not necessarily indicative of operating results for the entire year. In our opinion, the accompanying condensed consolidated financial statements recognize all adjustments of a normal recurring nature considered necessary to fairly state the financial position, results of operations, and cash flows for each interim period presented.

See also Note 12, Segment Reporting.

Net Operating Revenues—

We derived consolidated Net operating revenues from the following payor sources:

	Three Months Ended March 31,			
	2015		2014	
Medicare	74.9	%	75.2	%
Medicaid	2.6	%	1.3	%
Workers' compensation	0.9	%	1.3	%
Managed care and other discount plans, including Medicare Advantage	18.2	%	18.1	%
Other third-party payors	1.5	%	1.6	%
Patients	0.7	%	1.0	%
Other income	1.2	%	1.5	%
Total	100.0	%	100.0	%

We record gross service charges in our accounting records on an accrual basis using our established rates for the type of service provided to the patient. We recognize an estimated contractual allowance and an estimate of potential subsequent adjustments that may arise from post-payment and other reviews to reduce gross patient charges to the amount we estimate we will actually realize for the service rendered based upon previously agreed to rates with a payor. Our patient accounting system calculates contractual allowances on a patient-by-patient basis based on the rates in effect for each primary third-party payor.

Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms that result from contract renegotiations and renewals. Due to complexities involved in determining amounts ultimately due under reimbursement arrangements with third-party payors, which are often subject to interpretation, we may receive reimbursement for healthcare services authorized and provided that is different from our estimates, and such differences could be material. In addition, laws and regulations governing the Medicare and Medicaid programs are complex, subject to interpretation, and are routinely modified for provider reimbursement. All healthcare providers participating in the Medicare and Medicaid programs are required to meet certain

financial reporting requirements. Federal regulations require submission of annual cost reports covering medical costs and expenses associated with the services provided under each hospital, home health, and hospice provider number to program beneficiaries. Annual cost reports required under the Medicare and Medicaid programs are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due to HealthSouth under these reimbursement programs. These audits often require several years to reach the final determination of amounts earned under the programs. If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material.

The United States Centers for Medicare and Medicaid Services ("CMS") has been granted authority to suspend payments, in whole or in part, to Medicare providers if CMS possesses reliable information an overpayment, fraud, or willful misrepresentation exists. If CMS suspects payments are being made as the result of fraud or misrepresentation, CMS may suspend payment at any time without providing prior notice to us. The initial suspension period is limited to 180 days. However, the payment suspension period can be extended almost indefinitely if the matter is under investigation by the United States Department of Health and Human Services Office of Inspector General (the "HHS-OIG") or the United States Department of Justice. Therefore, we are unable to predict if or when we may be subject to a suspension of payments by the Medicare and/or Medicaid programs, the possible length of the suspension period, or the potential cash flow impact of a payment suspension. Any such suspension would adversely impact our financial position, results of operations, and cash flows.

Pursuant to legislative directives and authorizations from Congress, CMS has developed and instituted various Medicare audit programs under which CMS contracts with private companies to conduct claims and medical record audits. As a matter of course, we undertake significant efforts through training and education to ensure compliance with Medicare requirements. However, audits may lead to assertions we have been underpaid or overpaid by Medicare or submitted improper claims in some instances, require us to incur additional costs to respond to requests for records and defend the validity of payments and claims, and ultimately require us to refund any amounts determined to have been overpaid. We cannot predict when or how these audit programs will affect us.

Inpatient Rehabilitation Revenues

During the three months ended March 31, 2015 and 2014, our inpatient rehabilitation segment derived its Net operating revenues from the following payor sources:

	Three Months Ended March 31,			
	2015		2014	
Medicare	73.5	%	74.8	%
Medicaid	2.0	%	1.3	%
Workers' compensation	1.1	%	1.3	%
Managed care and other discount plans, including Medicare Advantage	19.5	%	18.3	%
Other third-party payors	1.7	%	1.6	%
Patients	0.8	%	1.1	%
Other income	1.4	%	1.6	%
Total	100.0	%	100.0	%

Revenues recognized by our inpatient rehabilitation segment are subject to a number of elements which impact both the overall amount of revenue realized as well as the timing of the collection of the related accounts receivable. Factors that are considered and could influence the level of our reserves include the patient's total length of stay for in-house patients, each patient's discharge destination, the proportion of patients with secondary insurance coverage and the level of reimbursement under that secondary coverage, and the amount of charges that will be disallowed by payors. Such additional factors are assumed to remain consistent with the experience for patients discharged in similar time periods for the same payor classes, and additional reserves are provided to account for these factors.

In connection with CMS approved and announced Recovery Audit Contractors ("RACs") audits related to IRFs, we received requests in 2014 and 2013 to review certain patient files for discharges occurring from 2010 to 2014. These post-payment RAC audits are focused on medical necessity requirements for admission to IRFs rather than targeting a specific

9

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

diagnosis code as in previous pre-payment audits. Medical necessity is a subjective assessment by an independent physician of a patient's ability to tolerate and benefit from intensive multi-disciplinary therapy provided in an IRF setting.

To date, the Medicare payments that are subject to these audit requests represent less than 1% of our Medicare patient discharges from 2010 to 2014, and not all of these patient file requests have resulted in payment denial determinations by the RACs. Because we have confidence in the medical judgment of both the referring and the admitting physicians who assess the treatment needs of their patients, we have appealed substantially all RAC denials arising from these audits using the same process we follow for appealing denials of certain diagnosis codes by Medicare Administrative Contractors ("MACs") (see "Accounts Receivable and Allowance for Doubtful Accounts" below). Due to the delays announced by CMS in the related adjudication process, we believe the resolution of any claims that are subsequently denied as a result of these RAC audits could take in excess of two years. In addition, because we have limited experience with RACs in the context of post-payment reviews of this nature, we cannot provide assurance as to the future success of these disputes. As such, we make provisions for these claims based on our historical experience and success rates in the claims adjudication process, which is the same process we follow for appealing denials of certain diagnosis codes by MACs. Because these reviews involve post-payment claims, there are no corresponding patient receivables in our consolidated balance sheet. As the ultimate results of these audits impact our estimates of amounts determined to be due to HealthSouth under these reimbursement programs, our provision for claims that are part of this post-payment review process are recorded to Net operating revenues. See Note 1, Summary of Significant Accounting Policies, "Net Operating Revenues," to the consolidated financial statements accompanying the 2014 Form 10-K.

Home Health and Hospice Revenues

The results of operations for our home health and hospice segment in 2014 included only the results of HealthSouth's legacy hospital-based home health agencies. During the three months ended March 31, 2015 and 2014, our home health and hospice segment derived its Net operating revenues from the following payor sources:

	Three Months Ended March 31,			
	2015		2014	
Medicare	83.8	%	96.2	%
Medicaid	5.6	%	—	%
Workers' compensation	—	%	0.4	%
Managed care and other discount plans, including Medicare Advantage	10.4	%	2.0	%
Other third-party payors	0.1	%	1.4	%
Patients	0.1	%	—	%
Total	100.0	%	100.0	%

Home health and hospice revenues are earned as services are performed either on an episode of care basis, on a per visit basis, or on a daily basis, depending upon the payment terms and conditions established with each payor for services provided.

Home Health

Under the Medicare home health prospective payment system ("HH-PPS"), we are paid by Medicare based on episodes of care. An episode of care is defined as a length of stay up to 60 days, with multiple continuous episodes allowed. A base episode payment is established by the Medicare program through federal legislation. The base episode payment can be adjusted based on each patient's health including clinical condition, functional abilities, and service needs, as well as for the applicable geographic wage index, low utilization, patient transfers, and other factors. The services covered by the episode payment include all disciplines of care in addition to medical supplies.

A portion of reimbursement from each Medicare episode is billed near the start of each episode, and cash is typically received before all services are rendered. Revenue for the episode of care is recorded over an average length of treatment period using a calendar day prorating method. The amount of revenue recognized for episodes of care which are incomplete at period end is based on the pro rata number of days in the episode which have been completed as of the period end date. As of

10

March 31, 2015 and December 31, 2014, the difference between the cash received from Medicare for a request for anticipated payment on episodes in progress and the associated estimated revenue was not material and was recorded in Other current liabilities in our condensed consolidated balance sheets.

We are subject to certain Medicare regulations affecting outlier revenue if our patient's care was unusually costly. Regulations require a cap on all outlier revenue at 10% of total Medicare revenue received by each provider during a cost reporting year. Management has reviewed the potential cap. Reserves recorded for the outlier cap were not material as of March 31, 2015 and December 31, 2014.

For episodic-based rates that are paid by other insurance carriers, including Medicare Advantage, we recognize revenue in a similar manner as discussed above for Medicare revenues. However, these rates can vary based upon the negotiated terms. For non-episodic-based revenue, gross revenue is recorded on an accrual basis based upon the date of service at amounts equal to our established or estimated per-visit rates. Contractual allowances are recorded for the differences between our standard rates and the applicable contracted rates.

Hospice

Medicare revenues for hospice are recorded on an accrual basis based on the number of days a patient has been on service at amounts equal to an estimated daily or hourly payment rate. The payment rate is dependent on whether a patient is receiving routine home care, general inpatient care, continuous home care or respite care. Adjustments to Medicare revenues are recorded based on an inability to obtain appropriate billing documentation or authorizations acceptable to the payor or other reasons unrelated to credit risk. Hospice companies are subject to two specific payment limit caps under the Medicare program. One limit relates to inpatient care days that exceed 20% of the total days of hospice care provided for the year. The second limit relates to an aggregate Medicare reimbursement cap calculated by the Medicare fiscal intermediary. Currently, we do not believe we are at risk for exceeding these caps and have not recorded a reserve for these caps as of March 31, 2015 or December 31, 2014.

For non-Medicare hospice revenues, we record gross revenue on an accrual basis based upon the date of service at amounts equal to our established rates or estimated per day rates, as applicable. Contractual adjustments are recorded for the difference between our established rates and the amounts estimated to be realizable from patients and third parties for services provided and are deducted from gross revenue to determine our net service revenue.

We are subject to changes in government legislation that could impact Medicare payment levels and changes in payor patterns that may impact the level and timing of payments for services rendered.

Accounts Receivable and Allowance for Doubtful Accounts—

We report accounts receivable at estimated net realizable amounts from services rendered from federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies, workers' compensation programs, employers, and patients. Our accounts receivable are geographically dispersed, but a significant portion of our revenues are concentrated by type of payors. The concentration of net patient service accounts receivable by payor class, as a percentage of total net patient service accounts receivable, is as follows:

	March 31, 2015		December 31, 2014	
Medicare	70.7	%	72.2	%
Medicaid	1.9	%	1.8	%
Workers' compensation	2.0	%	1.9	%
Managed care and other discount plans, including Medicare Advantage	20.1	%	18.5	%
Other third-party payors	3.8	%	3.8	%
Patients	1.5	%	1.8	%
Total	100.0	%	100.0	%

While revenues and accounts receivable from the Medicare program are significant to our operations, we do not believe there are significant credit risks associated with this government agency. We do not believe there are any other significant concentrations of revenues from any particular payor that would subject us to any significant credit risks in the collection of our accounts receivable.

We provide for accounts receivable that could become uncollectible by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. Additions to the allowance for doubtful accounts are made by means of the Provision for doubtful accounts. We write off uncollectible accounts (after exhausting collection efforts) against the allowance for doubtful accounts. Subsequent recoveries are recorded via the Provision for doubtful accounts.

The collection of outstanding receivables from Medicare, managed care payors, other third-party payors, and patients is our primary source of cash and is critical to our operating performance. While it is our policy to verify insurance prior to a patient being admitted, there are various exceptions that can occur. Such exceptions include instances where we are (1) unable to obtain verification because the patient's insurance company was unable to be reached or contacted, (2) a determination is made that a patient may be eligible for benefits under various government programs, such as Medicaid, and it takes several days, weeks, or months before qualification for such benefits is confirmed or denied, and (3) the patient is transferred to our hospital from an acute care hospital without having access to a credit card, cash, or check to pay the applicable patient responsibility amounts (i.e., deductibles and co-payments). Based on our historical collection trends, our primary collection risks relate to patient accounts for which the patient was the primary payor or the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts remain outstanding. Changes in the economy, such as increased unemployment rates or periods of recession, can further exacerbate our ability to collect patient responsibility amounts.

We estimate our allowance for doubtful accounts based on the aging of our accounts receivable, our historical collection experience for each type of payor, and other relevant factors so that the remaining receivables, net of allowances, are reflected at their estimated net realizable values. Accounts requiring collection efforts are reviewed via system-generated work queues that automatically stage (based on age and size of outstanding balance) accounts requiring collection efforts for patient account representatives. Collection efforts include contacting the applicable party (both in writing and by telephone), providing information (both financial and clinical) to allow for payment or to overturn payor decisions to deny payment, and arranging payment plans with self-pay patients, among other techniques. When we determine all in-house efforts have been exhausted or it is a more prudent use of resources, accounts may be turned over to a collection agency. Accounts are written off after all collection efforts (internal and external) have been exhausted.

For several years, under programs designated as "widespread probes," certain of our MACs have conducted pre-payment claim reviews of our billings and denied payment for certain diagnosis codes based on medical necessity. We dispute, or "appeal," most of these denials, and we have historically collected approximately 63% of all amounts denied. For claims we choose to take through all levels of appeal, up to and including administrative law judge hearings, we have historically experienced an approximate 72% success rate. The resolution of these disputes can take in excess of two years, and we cannot provide assurance as to our ongoing and future success of these disputes. As such, we make provisions against these receivables in accordance with our accounting policy that necessarily considers historical collection trends of the receivables in this review process as part of our Provision for doubtful accounts. Because we do not write off receivables until all collection efforts have been exhausted, we do not write off receivables related to denied claims while they are in this review process. When the amount collected related to denied claims differs from the net amount previously recorded, these collection differences are recorded in the Provision for doubtful accounts. As a result, the timing of these denials by MACs and their subsequent collection can create volatility in our Provision for doubtful accounts.

If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material. Changes in general economic conditions, business office operations, payor mix, or trends in federal or state governmental and private employer healthcare coverage could affect our collection of accounts receivable, financial position, results of operations, and cash flows.

12

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

2. Business Combinations

In March 2015, we acquired Integrity Home Health Care, Inc. (“Integrity”), a home health company with two locations in the Las Vegas, Nevada area. The acquisition, which was funded with cash on hand, was not material to our financial position, results of operations, or cash flows. As a result of this transaction, Goodwill increased by $6.0 million.

This acquisition was made to enhance our position and ability to provide post-acute healthcare services to patients in Las Vegas, Nevada and its surrounding area. All of the goodwill resulting from this transaction is deductible for federal income tax purposes. The goodwill reflects our expectations of favorable growth opportunities based on positive demographic trends in this market.

We accounted for this transaction under the acquisition method of accounting and reported the results of operations of Integrity from the date of acquisition. Assets acquired were recorded at their estimated fair values as of the acquisition date. The fair values of identifiable intangible assets were based on valuations using the cost and income approaches. The cost approach is based on amounts that would be required to replace the asset (i.e., replacement cost). The income approach is based on management’s estimates of future operating results and cash flows discounted using a weighted-average cost of capital that reflects market participant assumptions. The excess of the fair value of the consideration conveyed over the fair value of the net assets acquired was recorded as goodwill.

The fair value of the assets acquired at the acquisition date were as follows (in millions):

Identifiable intangible assets:	
Noncompete agreement (useful life of 2 to 5 years)	$0.3
Trade name (useful life of 1 year)	0.1
License (useful life of 10 years)	0.9
Goodwill	6.0
Total assets acquired	$7.3

Our reported Net operating revenues and Net income for the three months ended March 31, 2015 include operating results for Integrity from the acquisition date through March 31, 2015. The following table summarizes the results of operations of the above mentioned entity from the date of acquisition included in our consolidated results of operations and the results of operations of the combined entity had the date of the acquisition been January 1, 2014 (in millions):

	Net Operating Revenues	Net Income Attributable to HealthSouth
Acquired entity only: Actual from acquisition date to March 31, 2015	$0.5	$—
Combined entity: Supplemental pro forma from 01/01/2015-03/31/15	741.8	42.6
Combined entity: Supplemental pro forma from 01/01/2014-03/31/14	592.8	46.9

Information regarding the net cash paid for all acquisitions during each period presented is as follows (in millions):

	Three Months Ended March 31, 2015
Fair value of assets acquired	$1.3
Goodwill	6.0
Net cash paid for acquisitions	$7.3

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

See Note 2, Business Combinations, to the consolidated financial statements accompanying the 2014 Form 10-K for information regarding acquisitions completed in 2014.

3. Investments in and Advances to Nonconsolidated Affiliates

As of March 31, 2015 and December 31, 2014, we had $9.1 million and $9.4 million, respectively, of investments in and advances to nonconsolidated affiliates included in Other long-term assets in our condensed consolidated balance sheets. Investments in and advances to nonconsolidated affiliates represent our investments in nine partially owned subsidiaries, of which eight are general or limited partnerships, limited liability companies, or joint ventures in which HealthSouth or one of its subsidiaries is a general or limited partner, managing member, member, or venturer, as applicable. We do not control these affiliates but have the ability to exercise significant influence over the operating and financial policies of certain of these affiliates. Our ownership percentages in these affiliates range from approximately 1% to 51%. We account for these investments using the cost and equity methods of accounting.

The following summarizes the combined results of operations of our equity method affiliates (on a 100% basis, in millions):

	Three Months Ended March 31,	
	2015	2014
Net operating revenues	$8.2	$21.3
Operating expenses	(3.9)	(11.2)
Income from continuing operations, net of tax	3.9	18.5
Net income	3.9	18.5

4. Long-term Debt

Our long-term debt outstanding consists of the following (in millions):

	March 31, 2015	December 31, 2014
Credit Agreement—		
Advances under revolving credit facility	$10.0	$325.0
Term loan facilities	197.5	450.0
Bonds payable—		
8.125% Senior Notes due 2020	287.2	287.0
7.75% Senior Notes due 2022	227.1	227.1
5.125% Senior Notes due 2023	300.0	—
5.75% Senior Notes due 2024	864.0	456.2
2.0% Convertible Senior Subordinated Notes due 2043	260.2	258.0
Other notes payable	41.1	41.6
Capital lease obligations	85.2	86.7
	2,272.3	2,131.6
Less: Current portion	(149.8)	(20.8)
Long-term debt, net of current portion	$2,122.5	$2,110.8

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

The following chart shows scheduled principal payments due on long-term debt for the next five years and thereafter (in millions):

	Face Amount	Net Amount
April 1 through December 31, 2015	$145.7	$144.4
2016	20.6	20.6
2017	18.9	18.9
2018	18.7	18.7
2019	342.0	340.4
2020	322.5	262.7
Thereafter	1,451.5	1,466.6
Total	$2,319.9	$2,272.3

In December 2014, we drew $375 million under our term loan facilities and $325 million under our revolving credit facility to fund the acquisition of Encompass Home Health and Hospice ("Encompass"). See Note 2, Business Combinations, to the consolidated financial statements accompanying the 2014 Form 10 K. In January 2015, we issued an additional $400 million of our 5.75% Senior Notes due 2024 at a price of 102% of the principal amount and used $250 million of the net proceeds to repay borrowings under our term loan facilities, with the remaining net proceeds used to repay borrowings under our revolving credit facility. As a result of this transaction, we recorded a $1.2 million Loss on early extinguishment of debt in the first quarter of 2015.

In March 2015, we issued $300 million of 5.125% Senior Notes due 2023 (the "2023 Notes) at a price of 100.0% of the principal amount, which resulted in approximately $295 million in net proceeds from the public offering. The 2023 Notes will be governed by the Base Indenture, as defined in Note 8, Long-term debt, to the consolidated financial statements accompanying the 2014 Form 10-K, and the Fifth Supplemental Indenture dated March 12, 2015. The 2023 Notes mature on March 15, 2023 and bear interest at a per annum rate of 5.125%. Interest on the 2023 Notes is payable semiannually in arrears on March 15 and September 15, beginning on September 15, 2015. We may redeem the 2023 Notes, in whole or in part, at any time on or after March 15, 2018 at the redemption prices set forth below:

Period	Redemption Price*	
2018	103.844	%
2019	102.563	%
2020	101.281	%
2021 and thereafter	100.000	%

* Expressed in percentage of principal amount

Approximately $135 million of the net proceeds from the offering of the 2023 Notes were invested in short-term interest-bearing instruments and are included in Cash and cash equivalents in our consolidated balance sheet as of March 31, 2015. The remainder of the net proceeds from this offering were initially used to repay borrowings under our revolving credit facility.

On March 11, 2015, we gave notice of, and made an irrevocable commitment for, the redemption of all the outstanding principal amount of our 8.125% Senior Notes due 2020 (the "2020 Notes"). On April 10, 2015, we used the net proceeds from the 2023 Notes offering, a portion of which represented a re-borrowing under our revolving credit facility, along with Cash and cash equivalents on hand, to execute the redemption. Therefore, approximately $160 million of the 2020 Notes were classified as noncurrent as of March 31, 2015. Pursuant to the terms of the 2020 Notes, this redemption was made at a price of 104.063%, which resulted in a total cash outlay of approximately $302 million to retire the $290 million in principal. As a result of this redemption, we expect to record an approximate $19 million Loss on early extinguishment of debt in the second quarter of 2015.

For additional information regarding our indebtedness, see Note 8, Long-term Debt, to the consolidated financial statements accompanying the 2014 Form 10-K.

5. Redeemable Noncontrolling Interests

The following is a summary of the activity related to our Redeemable noncontrolling interests during the three months ended March 31, 2015 and 2014 (in millions):

	Three Months Ended March 31,	
	2015	2014
Balance at beginning of period	$84.7	$13.5
Net income attributable to noncontrolling interests	2.9	2.0
Distributions declared	(1.7)	(2.5)
Change in fair value	(1.2)	—
Balance at end of period	$84.7	$13.0

The following table reconciles the net income attributable to nonredeemable Noncontrolling interests, as recorded in the shareholders' equity section of the condensed consolidated balance sheets, and the net income attributable to Redeemable noncontrolling interests, as recorded in the mezzanine section of the condensed consolidated balance sheets, to the Net income attributable to noncontrolling interests presented in the condensed consolidated statements of operations for the three months ended March 31, 2015 and 2014 (in millions):

	Three Months Ended March 31,	
	2015	2014
Net income attributable to nonredeemable noncontrolling interests	$13.6	$12.8
Net income attributable to redeemable noncontrolling interests	2.9	2.0
Net income attributable to noncontrolling interests	$16.5	$14.8

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

6. Fair Value Measurements

Our financial assets and liabilities that are measured at fair value on a recurring basis are as follows (in millions):

		Fair Value Measurements at Reporting Date Using			
As of March 31, 2015	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique [1]
Other current assets:					
Current portion of restricted marketable securities	$0.9	$—	$0.9	$—	M
Other long-term assets:					
Restricted marketable securities	50.2	—	50.2	—	M
Redeemable noncontrolling interests	84.7	—	—	84.7	I
As of December 31, 2014					
Other current assets:					
Current portion of restricted marketable securities	$4.6	$—	$4.6	$—	M
Other long-term assets:					
Restricted marketable securities	45.9	—	45.9	—	M
Redeemable noncontrolling interests	84.7	—	—	84.7	I

[1] The three valuation techniques are: market approach (M), cost approach (C), and income approach (I).

The fair values of our available-for-sale restricted marketable securities are determined based on quoted market prices in active markets or quoted prices, dealer quotations, or alternative pricing sources supported by observable inputs in markets that are not considered to be active. The fair value of the Redeemable noncontrolling interest related to our home health segment (see Note 2, Business Combinations, to the consolidated financial statements accompanying the 2014 Form 10 K) is determined using the product of a twelve-month specified performance measure and a specified median market price multiple based on a basket of public health companies. To determine the fair value of the Redeemable noncontrolling interests in our joint venture hospitals, we use the applicable hospitals' projected operating results and cash flows discounted using a rate that reflects market participant assumptions for the applicable facilities. The projected operating results use management's best estimates of economic and market conditions over the forecasted periods including assumptions for pricing and volume, operating expenses, and capital expenditures. See also Note 5, Redeemable Noncontrolling Interests.

In addition to assets and liabilities recorded at fair value on a recurring basis, we are also required to record assets and liabilities at fair value on a nonrecurring basis. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges or similar adjustments made to the carrying value of the applicable assets. During the three months ended March 31, 2015 and March 31, 2014, we did not record any gains or losses related to our nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis as part of our continuing operations.

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

As discussed in Note 1, Summary of Significant Accounting Policies, “Fair Value Measurements,” to the consolidated financial statements accompanying the 2014 Form 10-K, the carrying value equals fair value for our financial instruments that are not included in the table below and are classified as current in our condensed consolidated balance sheets. The carrying amounts and estimated fair values for all of our other financial instruments are presented in the following table (in millions):

	As of March 31, 2015		As of December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt:				
Advances under revolving credit facility	$10.0	$10.0	$325.0	$325.0
Term loan facilities	197.5	197.5	450.0	450.0
8.125% Senior Notes due 2020	287.2	302.1	287.0	302.5
7.75% Senior Notes due 2022	227.1	238.8	227.1	240.7
5.125% Senior Notes due 2023	300.0	305.6	—	—
5.75% Senior Notes due 2024	864.0	887.2	456.2	471.4
2.00% Convertible Senior Subordinated Notes due 2043	260.2	398.2	258.0	358.4
Other notes payable	41.1	41.1	41.6	41.6
Financial commitments:				
Letters of credit	—	35.4	—	31.8

Fair values for our long-term debt and financial commitments are determined using inputs, including quoted prices in nonactive markets, that are observable either directly or indirectly, or Level 2 inputs within the fair value hierarchy. See Note 1, Summary of Significant Accounting Policies, “Fair Value Measurements,” to the consolidated financial statements accompanying the 2014 Form 10-K.

See also Note 8, Assets and Liabilities in and Results of Discontinued Operations.

7. Share-Based Payments

In February 2015, we issued 0.5 million of restricted stock awards to members of our management team and our board of directors. Approximately 0.2 million of these awards contain only a service condition, while the remainder contain both a service and a performance or market condition. For the awards that include a performance or market condition, the number of shares that will ultimately be granted to employees may vary based on the Company’s performance during the applicable two-year performance measurement period. Additionally, in February 2015, we granted 0.1 million stock options to members of our management team. The fair value of these awards and options was determined using the policies described in Note 1, Summary of Significant Accounting Policies, and Note 13, Share-Based Payments, to the consolidated financial statements accompanying the 2014 Form 10-K.

8. Assets and Liabilities in and Results of Discontinued Operations

In connection with the 2007 sale of our surgery centers division (now known as Surgical Care Affiliates, or “SCA”) to ASC Acquisition LLC, an affiliate of TPG Partners V, L.P. (“TPG”), a private investment partnership, we received an option, subject to terms and conditions set forth below, to purchase up to a 5% equity interest in SCA. The price of the option was equal to the original issuance price of the units subscribed for by TPG and certain other co-investors in connection with the acquisition plus a 15% premium, compounded annually. The option had a term of ten years and was exercisable upon certain liquidity events, including a public offering of SCA’s shares of common stock that resulted in 30% or more of SCA’s common stock being listed or traded on a national securities exchange. On November 4, 2013, SCA announced the closing of its initial public offering, which did not reach the 30% threshold to trigger a qualifying liquidity event.

During the second quarter of 2014, we entered into an amendment to the option agreement that required us to settle the option net of our exercise price. The addition of this new feature resulted in the option becoming a derivative that must be

recorded as an asset or liability on our consolidated balance sheet and marked to market each period. As of March 31, 2015 and December 31, 2014, the fair value of this option was $9.5 million and $9.9 million, respectively, and is included in Other current assets and Other long-term assets, respectively, in our condensed consolidated balance sheets. Income from discontinued operations, net of tax for the three months ended March 31, 2015 included a $0.4 million net loss resulting from the change in fair value of this option since December 31, 2014.

On April 1, 2015, TPG closed a secondary offering of SCA common stock, which resulted in greater than 30% of SCA's common stock being listed or traded on a national securities exchange, and our option became exercisable. On April 9, 2015, we delivered notice of exercise of the option to SCA. On April 13, 2015, SCA settled the net exercise of the option by delivering to us 326,242 shares of SCA common stock. The closing price of the stock on that date was $35.43 per share. These shares are considered available-for-sale-securities.

The fair value of the option as of December 31, 2014 was determined using a lattice model. Inputs into the model included the historical price volatility of SCA's common stock, the risk-free interest rate, and probability factors for the timing of when the option was expected to be exercisable, or Level 3 inputs. The fair value of the option as of March 31, 2015 was based on its intrinsic value.

9. Income Taxes

Our Provision for income tax expense of $30.3 million and $32.8 million for the three months ended March 31, 2015 and 2014, respectively, primarily resulted from the application of our estimated effective blended federal and state income tax rate.

The $290.7 million of net deferred tax assets included in the accompanying condensed consolidated balance sheet as of March 31, 2015 reflects management's assessment it is more likely than not we will be able to generate sufficient future taxable income to utilize those deferred tax assets based on our current estimates and assumptions. As of March 31, 2015, we maintained a valuation allowance of $23.0 million due to uncertainties regarding our ability to utilize a portion of our state net operating losses ("NOLs") before they expire. The amount of the valuation allowance has been determined for each tax jurisdiction based on the weight of all available evidence including management's estimates of taxable income for each jurisdiction in which we operate over the periods in which the related deferred tax assets will be recoverable. It is possible we may be required to increase or decrease our valuation allowance at some future time if our forecast of future earnings varies from actual results on a consolidated basis or in the applicable state tax jurisdictions, or if the timing of future tax deductions differs from our expectations.

We have significant federal and state NOLs that expire in various amounts at varying times through 2031. Our reported federal NOL of $195.6 million (approximately $559 million on a gross basis) as of March 31, 2015 excludes $13.8 million related to operating loss carryforwards resulting from excess tax benefits related to share-based awards, the tax benefits of which, when recognized, will be accounted for as a credit to Capital in excess of par value when they reduce taxes payable.

Total remaining gross unrecognized tax benefits were $2.4 million and $0.9 million as of March 31, 2015 and December 31, 2014, respectively, all of which would affect our effective tax rate if recognized. A reconciliation of the beginning and ending liability for unrecognized tax benefits is as follows (in millions):

	Gross Unrecognized Income Tax Benefits
Balance at December 31, 2014	$0.9
Gross amount of increases in unrecognized tax benefits related to prior periods	1.5
Balance at March 31, 2015	$2.4

For the tax years that remain open under the applicable statutes of limitation, amounts related to unrecognized tax benefits have been considered by management in its estimate of our potential net recovery of prior years' income taxes. We do not expect a material change in our unrecognized tax benefits within the next 12 months due to the closing of the applicable statutes of limitation.

Our continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. Interest recorded as part of our income tax provision during the three months ended March 31, 2015 and 2014 was not material. Accrued interest income related to income taxes as of March 31, 2015 and December 31, 2014 was not material.

In December 2014, we signed an agreement with the IRS to begin participating in their Compliance Assurance Process, a program in which we and the IRS endeavor to agree on the treatment of significant tax positions prior to the filing of our federal income tax return. As a result of this agreement, the IRS is currently surveying our 2013 federal income tax return and will examine our 2014 return when it is filed. The IRS has previously surveyed our 2012 and 2011 federal income tax returns. We have settled federal income tax examinations with the IRS for all tax years through 2010. Our state income tax returns are also periodically examined by various regulatory taxing authorities. We are currently under audit by three states for tax years ranging from 2007 through 2013.

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

10. Earnings per Common Share

The following table sets forth the computation of basic and diluted earnings per common share (in millions, except per share amounts):

	Three Months Ended March 31,	
	2015	2014
Basic:		
Numerator:		
Income from continuing operations	$59.3	$61.6
Less: Net income attributable to noncontrolling interests included in continuing operations	(16.5)	(14.8)
Less: Income allocated to participating securities	(0.3)	(0.5)
Less: Convertible perpetual preferred stock dividends	(1.6)	(1.6)
Income from continuing operations attributable to HealthSouth common shareholders	40.9	44.7
Loss from discontinued operations, net of tax, attributable to HealthSouth common shareholders	(0.3)	(0.1)
Net income attributable to HealthSouth common shareholders	$40.6	$44.6
Denominator:		
Basic weighted average common shares outstanding	87.1	87.3
Basic earnings per share attributable to HealthSouth common shareholders:		
Continuing operations	$0.47	$0.51
Discontinued operations	—	—
Net income	$0.47	$0.51
Diluted:		
Numerator:		
Income from continuing operations	$59.3	$61.6
Less: Net income attributable to noncontrolling interests included in continuing operations	(16.5)	(14.8)
Add: Interest on convertible debt, net of tax	2.3	2.2
Income from continuing operations attributable to HealthSouth common shareholders	45.1	49.0
Loss from discontinued operations, net of tax, attributable to HealthSouth common shareholders	(0.3)	(0.1)
Net income attributable to HealthSouth common shareholders	$44.8	$48.9
Denominator:		
Diluted weighted average common shares outstanding	101.1	100.9
Diluted earnings per share attributable to HealthSouth common shareholders:		
Continuing operations	$0.44	$0.48
Discontinued operations	—	—
Net income	$0.44	$0.48

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

The following table sets forth the reconciliation between basic weighted average common shares outstanding and diluted weighted average common shares outstanding (in millions):

	Three Months Ended March 31,	
	2015	2014
Basic weighted average common shares outstanding	87.1	87.3
Convertible perpetual preferred stock	3.2	3.2
Convertible senior subordinated notes	8.2	8.1
Restricted stock awards, dilutive stock options, restricted stock units, and common stock warrants	2.6	2.3
Diluted weighted average common shares outstanding	101.1	100.9

In October 2014 and February 2015, our board of directors declared a cash dividend of $0.21 per share that was paid in January 2015 and April 2015, respectively. As of March 31, 2015 and December 31, 2014, accrued common stock dividends of $19.1 million and $18.6 million were included in Accrued expenses and other current liabilities in our condensed consolidated balance sheets. Future dividend payments are subject to declaration by our board of directors.

On April 22, 2015, we delivered notice of the exercise of our rights to force conversion of all outstanding shares of our Convertible perpetual preferred stock (par value of $0.10 per share and liquidation preference of $1,000 per share) pursuant to the underlying certificate of designations. The effective date of the conversion was April 23, 2015. On that date, each share of preferred stock automatically converted into 33.9905 shares of our common stock (par value of $0.01 per share). We completed the forced conversion by issuing and delivering in the aggregate 3,271,415 shares of our common stock to the registered holders of the 96,245 shares of the preferred stock outstanding and paying cash in lieu of fractional shares due to those holders.

The indenture underlying our convertible notes includes antidilutive protection that requires adjustments to the number of shares of common stock issuable upon conversion and the exercise price for common stock upon the occurrence of certain events, including payment of cash dividends on our common stock after a de minimis threshold. At issuance, the convertible notes had a conversion price of $39.65 per share, which was equal to an initial conversion rate of 25.2194 shares per $1,000 principal amount of the convertible notes. The payment of dividends on our common stock has triggered and will continue to trigger, from time to time, the antidilutive adjustment provisions of the convertible notes. The current conversion price of the convertible notes is $38.82 per share, and the conversion rate is 25.7582 for each $1,000 principal amount of the convertible notes.

See Note 8, Long-term Debt, Note 10, Convertible Perpetual Preferred Stock, and Note 17, Earnings per Common Share, to the consolidated financial statements accompanying the 2014 Form 10-K for additional information related to our convertible notes, common stock, common stock warrants, and convertible perpetual preferred stock.

11. Contingencies and Other Commitments

We operate in a highly regulated and litigious industry. As a result, various lawsuits, claims, and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. The resolution of any such lawsuits, claims, or legal and regulatory proceedings could materially and adversely affect our financial position, results of operations, and cash flows in a given period.

General Medicine Action—

On August 16, 2004, General Medicine, P.C. filed a lawsuit in the Circuit Court of Jefferson County, Alabama (the “Alabama Action”) against us captioned General Medicine, P.C. v. HealthSouth Corp. seeking the recovery of allegedly fraudulent transfers involving assets of Horizon/CMS Healthcare Corporation, a former subsidiary of HealthSouth. General Medicine’s underlying claim against Horizon/CMS originates from a services contract entered into in 1995 between General Medicine and Horizon/CMS whereby General Medicine agreed to provide medical director services to skilled nursing facilities owned by Horizon/CMS for a term of three years. Horizon/CMS terminated the agreement for cause six

months after it was executed, and General Medicine then initiated a lawsuit against Horizon/CMS in the United States District Court for the Eastern District of Michigan in 1996 (the “Michigan Action”). General Medicine’s complaint in the Michigan Action alleged that Horizon/CMS breached the services contract by wrongfully terminating General Medicine. We acquired Horizon/CMS in 1997 and sold it to Meadowbrook Healthcare, Inc. in 2001 pursuant to a stock purchase agreement. In 2004, Meadowbrook, without the knowledge of HealthSouth, consented to the entry of a final judgment in the Michigan Action in favor of General Medicine against Horizon/CMS for the alleged wrongful termination of the contract with General Medicine in the amount of $376 million (the “Consent Judgment”). The $376 million damages figure was unilaterally selected by General Medicine and was not tested or opposed by Meadowbrook. Additionally, the settlement agreement (the “Settlement”) used as the basis for the Consent Judgment provided that Meadowbrook would pay only $300,000 to General Medicine to settle the Michigan Action and that General Medicine would seek to recover the remaining balance of the Consent Judgment solely from us. We were not a party to the Michigan Action, the Settlement negotiated by Meadowbrook, or the Consent Judgment.

The complaint filed by General Medicine against us in the Alabama Action alleged that while Horizon/CMS was our wholly owned subsidiary, General Medicine was an existing creditor of Horizon/CMS by virtue of the breach of contract claim underlying the Settlement. The complaint also alleged we caused Horizon/CMS to transfer its assets to us for less than a reasonably equivalent value or, in the alternative, with the actual intent to defraud creditors of Horizon/CMS, including General Medicine, in violation of the Alabama Uniform Fraudulent Transfer Act. General Medicine further alleged in its amended complaint that we were liable for the Consent Judgment despite not being a party to it because as Horizon/CMS’s parent we failed to observe corporate formalities in our operation and ownership of Horizon/CMS, misused our control of Horizon/CMS, stripped assets from Horizon/CMS, and engaged in other conduct which amounted to a fraud on Horizon/CMS’s creditors. General Medicine requested relief including recovery of the unpaid amount of the Consent Judgment, the avoidance of the subject transfers of assets, attachment of the assets transferred to us, appointment of a receiver over the transferred properties, and a monetary judgment for the value of properties transferred.

We denied liability to General Medicine and asserted defenses and a counterclaim against General Medicine that the Consent Judgment was the product of collusion by General Medicine and Meadowbrook. Consequently, we asserted that the Consent Judgment was not evidence of a legitimate debt owed by Horizon/CMS to General Medicine that was collectible from HealthSouth under any theory of liability.

The trial in the Alabama Action began on March 9, 2015. On March 22, 2015, we entered into an agreement with General Medicine to settle the Alabama Action. Although the specific terms of this settlement agreement are confidential, both parties agreed to dismiss with prejudice the lawsuit pending in the Circuit Court of Jefferson County, Alabama and to release all claims between the parties. In exchange for General Medicine’s release, we agreed to pay an amount of cash that is not material.

Other Litigation—

We have been named as a defendant in a lawsuit filed March 28, 2003 by several individual stockholders in the Circuit Court of Jefferson County, Alabama, captioned Nichols v. HealthSouth Corp. The plaintiffs allege that we, some of our former officers, and our former investment bank engaged in a scheme to overstate and misrepresent our earnings and financial position. The plaintiffs are seeking compensatory and punitive damages. This case was consolidated with the Tucker case for discovery and other pretrial purposes and was stayed in the Circuit Court on August 8, 2005. The plaintiffs filed an amended complaint on November 9, 2010 to which we responded with a motion to dismiss filed on December 22, 2010. During a hearing on February 24, 2012, plaintiffs’ counsel indicated his intent to dismiss certain claims against us. Instead, on March 9, 2012, the plaintiffs amended their complaint to include additional securities fraud claims against HealthSouth and add several former officers to the lawsuit. On September 12, 2012, the plaintiffs further amended their complaint to request certification as a class action. One of those named officers has repeatedly attempted to remove the case to federal district court, most recently on December 11, 2012. We filed our latest motion to remand the case back to state court on January 10, 2013. On September 27, 2013, the federal court remanded the case back to state court. On November 25, 2014, the plaintiffs filed another amended complaint to assert new allegations relating to the time period of 1997 to 2002. On December 10, 2014, we filed a motion to dismiss on the grounds the plaintiffs lack standing because their claims are derivative in nature, and the claims are time-barred by the statute of limitations. A hearing on our motion has not yet been set.

We intend to vigorously defend ourselves in this case. Based on the stage of litigation, review of the current facts and circumstances as we understand them, the nature of the underlying claim, the results of the proceedings to date, and the nature and scope of the defense we continue to mount, we do not believe an adverse judgment or settlement is probable in this matter, and it is also not possible to estimate the amount of loss, if any, or range of possible loss that might result from an adverse judgment or settlement of this case.

Governmental Inquiries and Investigations—

On June 24, 2011, we received a document subpoena addressed to HealthSouth Hospital of Houston, a long-term acute care hospital ("LTCH") we closed in August 2011, and issued from the Dallas, Texas office of the U.S. Department of Health and Human Services, Office of the Inspector General (the "HHS-OIG"). The subpoena stated it was in connection with an investigation of possible false or otherwise improper claims submitted to Medicare and Medicaid and requested documents and materials relating to patient admissions, length of stay, and discharge matters at this closed LTCH. We furnished the documents requested and have heard nothing from the HHS-OIG since December 2012.

On March 4, 2013, we received document subpoenas from an office of the HHS-OIG addressed to four of our hospitals. Those subpoenas also requested complete copies of medical records for 100 patients treated at each of those hospitals between September 2008 and June 2012. The investigation is being conducted by the United States Department of Justice (the "DOJ"). On April 24, 2014, we received document subpoenas relating to an additional seven of our hospitals. The new subpoenas reference substantially similar investigation subject matter as the original subpoenas and request materials from the period January 2008 through December 2013. Two of the four hospitals addressed in the original set of subpoenas have received supplemental subpoenas to cover this new time period. The most recent subpoenas do not include requests for specific patient files. However, in February 2015, the DOJ requested the voluntary production of the medical records of an additional 70 patients, some of whom were treated in hospitals not subject to the subpoenas, and we provided these records.

All of the subpoenas are in connection with an investigation of alleged improper or fraudulent claims submitted to Medicare and Medicaid and request documents and materials relating to practices, procedures, protocols and policies, of certain pre- and post-admissions activities at these hospitals including, among other things, marketing functions, pre-admission screening, post-admission physician evaluations, patient assessment instruments, individualized patient plans of care, and compliance with the Medicare 60% rule. Under the Medicare rule commonly referred to as the "60% rule," an inpatient rehabilitation hospital must treat 60% or more of its patients from at least one of a specified list of medical conditions in order to be reimbursed at the inpatient rehabilitation hospital payment rates, rather than at the lower acute care hospital payment rates.

We are cooperating fully with the DOJ in connection with these subpoenas and are currently unable to predict the timing or outcome of the related investigations.

Other Matters—

The False Claims Act, 18 U.S.C. § 287, allows private citizens, called "relators," to institute civil proceedings alleging violations of the False Claims Act. These qui tam cases are generally sealed by the court at the time of filing. The only parties typically privy to the information contained in the complaint are the relator, the federal government, and the presiding court. It is possible that qui tam lawsuits have been filed against us and that those suits remain under seal or that we are unaware of such filings or prevented by existing law or court order from discussing or disclosing the filing of such suits. We may be subject to liability under one or more undisclosed qui tam cases brought pursuant to the False Claims Act.

It is our obligation as a participant in Medicare and other federal healthcare programs to routinely conduct audits and reviews of the accuracy of our billing systems and other regulatory compliance matters. As a result of these reviews, we have made, and will continue to make, disclosures to the HHS-OIG and the United States Centers for Medicare and Medicaid Services relating to amounts we suspect represent over-payments from these programs, whether due to inaccurate billing or otherwise. Some of these disclosures have resulted in, or may result in, HealthSouth refunding amounts to Medicare or other federal healthcare programs.

12. Segment Reporting

As described in Note 2, Business Combinations, to the consolidated financial statements accompanying the 2014 Form10-K, on December 31, 2014, we completed the acquisition of Encompass. As a result of this transaction, in the first quarter of 2015, management changed the way it manages and operates the consolidated reporting entity and modified the reports used by our chief operating decision maker to assess performance and allocate resources. These changes required us to revise our segment reporting from our historic presentation of only one reportable segment.

Our internal financial reporting and management structure is focused on the major types of services provided by HealthSouth. Beginning in the first quarter of 2015, we manage our operations using two operating segments which are also our reportable segments: (1) inpatient rehabilitation and (2) home health and hospice. Prior period information has been adjusted to conform to the current period presentation. Specifically, HealthSouth's legacy 25 hospital-based home health agencies have been reclassified from our inpatient rehabilitation segment to our home health and hospice segment for all periods presented.

These reportable operating segments are consistent with information used by our chief executive officer, who is our chief operating decision maker, to assess performance and allocate resources. The following is a brief description of our reportable segments:

- Inpatient Rehabilitation - Our national network of inpatient rehabilitation hospitals stretches across 29 states and Puerto Rico, with a concentration of hospitals in the eastern half of the United States and Texas. As of March 31, 2015, we operate 107 inpatient rehabilitation hospitals, including one hospital that operates as a joint venture which we account for using the equity method of accounting. In addition, we manage three inpatient rehabilitation units through management contracts. We provide specialized rehabilitative treatment on both an inpatient and outpatient basis. Our inpatient rehabilitation hospitals provide a higher level of rehabilitative care to patients who are recovering from conditions such as stroke and other neurological disorders, cardiac and pulmonary conditions, brain and spinal cord injuries, complex orthopedic conditions, and amputations.
- Home Health and Hospice - As of March 31, 2015, we provide home health and hospice services in 164 locations across 16 states. Our home health services include a comprehensive range of Medicare-certified home nursing services to adult patients in need of care. These services include, among others, skilled nursing, physical, occupational, and speech therapy, medical social work, and home health aide services. We also provide specialized home care services in Texas and Kansas for pediatric patients with severe medical conditions. Our hospice services primarily include in-home services to terminally ill patients and their families to address patients' physical needs, including pain control and symptom management, and to provide emotional and spiritual support.

The accounting policies of our reportable segments are the same as those described in Note 1, Basis of Presentation, "Net Operating Revenues" and "Accounts Receivable and Allowance for Doubtful Accounts" to these condensed consolidated financial statements and Note 1, Summary of Significant Accounting Policies, to the consolidated financial statements accompanying the 2014 Form 10-K. All revenues for our services are generated through external customers. See Note 1, Basis of Presentation, "Net Operating Revenues," for the payor composition of our revenues. No corporate overhead is allocated to either of our reportable segments. Our chief operating decision maker evaluates the performance of our segments and allocates resources to them based on adjusted earnings before interest, taxes, depreciation, and amortization ("Segment Adjusted EBITDA").

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

Selected financial information for our reportable segments is as follows (in millions):

	Inpatient Rehabilitation Three Months Ended March 31,		Home Health and Hospice Three Months Ended March 31,	
	2015	2014	2015	2014
Net operating revenues	$630.3	$584.5	$110.3	$6.7
Less: Provision for doubtful accounts	(11.0)	(7.4)	(0.6)	(0.1)
Net operating revenues less provision for doubtful accounts	619.3	577.1	109.7	6.6
Operating expenses:				
Inpatient rehabilitation:				
Salaries and benefits	306.4	280.9	—	—
Other operating expenses	95.2	82.7	—	—
Supplies	29.8	27.5	—	—
Occupancy costs	10.4	10.4	—	—
Home health and hospice:				
Cost of services sold (excluding depreciation and amortization)	—	—	53.4	4.2
Support and overhead costs	—	—	38.1	1.7
	441.8	401.5	91.5	5.9
Other income	(0.5)	(1.7)	—	—
Equity in net income of nonconsolidated affiliates	(1.6)	(4.3)	—	—
Noncontrolling interests	15.2	14.7	1.3	0.1
Segment Adjusted EBITDA	$164.4	$166.9	$16.9	$0.6
Capital expenditures	$26.3	$63.6	$0.3	$—

	Inpatient Rehabilitation	Home Health and Hospice	HealthSouth Consolidated
As of March 31, 2015			
Total assets	$2,762.5	$879.7	$3,577.9
Investments in and advances to nonconsolidated affiliates	9.1	—	9.1
As of December 31, 2014			
Total assets	$2,596.8	$876.3	$3,408.8
Investments in and advances to nonconsolidated affiliates	9.4	—	9.4

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

Segment reconciliations (in millions):

	Three Months Ended March 31,	
	2015	2014
Total segment Adjusted EBITDA	$181.3	$167.5
General and administrative expenses	(34.6)	(30.7)
Depreciation and amortization	(31.9)	(26.4)
Gain (loss) on disposal or impairment of assets	1.5	(1.3)
Government, class action, and related settlements	(8.0)	—
Professional fees - accounting, tax, and legal	(2.2)	(1.6)
Loss on early extinguishment of debt	(1.2)	—
Interest expense and amortization of debt discounts and fees	(31.8)	(27.9)
Net income attributable to noncontrolling interests	16.5	14.8
Income from continuing operations before income tax expense	$89.6	$94.4

	March 31, 2015	December 31, 2014
Total assets for reportable segments	$3,642.2	$3,473.1
Reclassification of noncurrent deferred income tax liabilities to net noncurrent deferred income tax assets	(64.3)	(64.3)
Total consolidated assets	$3,577.9	$3,408.8

Additional detail regarding the revenues of our operating segments by service line follows (in millions):

	Three Months Ended March 31,	
	2015	2014
Inpatient rehabilitation:		
Inpatient	$606.6	$558.2
Outpatient and other	23.7	26.3
Total inpatient rehabilitation	630.3	584.5
Home health and hospice:		
Home health	103.9	6.7
Hospice	6.4	—
Total home health and hospice	110.3	6.7
Total net operating revenues	$740.6	$591.2

13. Condensed Consolidating Financial Information

The accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X, Rule 3-10, “Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.” Each of the subsidiary guarantors is 100% owned by HealthSouth, and all guarantees are full and unconditional and joint and several, subject to certain customary conditions for release. HealthSouth’s investments in its consolidated subsidiaries, as well as guarantor subsidiaries’ investments in nonguarantor subsidiaries and nonguarantor subsidiaries’ investments in guarantor subsidiaries, are presented under the equity method of accounting with the related investment presented within the line items Intercompany receivable and Intercompany payable in the accompanying condensed consolidating balance sheets.

The terms of our credit agreement allow us to declare and pay cash dividends on our common stock so long as: (1) we are not in default under our credit agreement and (2) our senior secured leverage ratio (as defined in our credit agreement) remains less than or equal to 1.75x. The terms of our senior note indenture allow us to declare and pay cash dividends on our common stock so long as (1) we are not in default, (2) the consolidated coverage ratio (as defined in the indenture) exceeds 2x or we are otherwise allowed under the indenture to incur debt, and (3) we have capacity under the indenture's restricted payments covenant to declare and pay dividends. See Note 8, Long-term Debt, to the consolidated financial statements accompanying the 2014 Form 10-K.

In the first quarter of 2015, we revised our condensed consolidating balance sheet as of December 31, 2014 to correct the classification of $51.4 million of net noncurrent deferred tax liabilities of our Nonguarantor Subsidiaries from noncurrent Deferred income tax assets to Other long-term liabilities. The impact of this revision was to increase total assets and increase liabilities for Nonguarantor Subsidiaries, with an offset to Eliminating Entries. This revision is not material to the related financial statements as of and for the year ended December 31, 2014 and had no impact on our condensed consolidated balance sheet as of December 31, 2014.

Periodically, certain wholly owned subsidiaries of HealthSouth make dividends or distributions of available cash and/or intercompany receivable balances to their parents. In addition, HealthSouth makes contributions to certain wholly owned subsidiaries. When made, these dividends, distributions, and contributions impact the Intercompany receivable, Intercompany payable, and HealthSouth shareholders' equity line items in the accompanying condensed consolidating balance sheet but have no impact on the consolidated financial statements of HealthSouth Corporation.

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Condensed Consolidating Statement of Operations

	Three Months Ended March 31, 2015				
	HealthSouth Corporation (In Millions)	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	HealthSouth Consolidated
Net operating revenues	$5.3	$456.8	$303.2	$(24.7)	$740.6
Less: Provision for doubtful accounts	—	(9.0)	(2.6)	—	(11.6)
Net operating revenues less provision for doubtful accounts	5.3	447.8	300.6	(24.7)	729.0
Operating expenses:					
Salaries and benefits	8.1	211.1	170.0	(4.1)	385.1
Other operating expenses	9.5	63.1	41.0	(10.4)	103.2
Occupancy costs	1.1	15.3	5.9	(10.2)	12.1
Supplies	—	20.8	10.6	—	31.4
General and administrative expenses	34.3	—	0.3	—	34.6
Depreciation and amortization	2.3	19.1	10.5	—	31.9
Government, class action, and related settlements	8.0	—	—	—	8.0
Professional fees—accounting, tax, and legal	2.2	—	—	—	2.2
Total operating expenses	65.5	329.4	238.3	(24.7)	608.5
Loss on early extinguishment of debt	1.2	—	—	—	1.2
Interest expense and amortization of debt discounts and fees	29.2	2.3	2.7	(2.4)	31.8
Other income	(2.3)	—	(0.6)	2.4	(0.5)
Equity in net income of nonconsolidated affiliates	—	(1.6)	—	—	(1.6)
Equity in net income of consolidated affiliates	(78.6)	(8.1)	—	86.7	—
Management fees	(28.5)	21.7	6.8	—	—
Income from continuing operations before income tax (benefit) expense	18.8	104.1	53.4	(86.7)	89.6
Provision for income tax (benefit) expense	(24.0)	39.6	14.7	—	30.3
Income from continuing operations	42.8	64.5	38.7	(86.7)	59.3
Loss from discontinued operations, net of tax	(0.3)	—	—	—	(0.3)
Net Income	42.5	64.5	38.7	(86.7)	59.0
Less: Net income attributable to noncontrolling interests	—	—	(16.5)	—	(16.5)
Net income attributable to HealthSouth	$42.5	$64.5	$22.2	$(86.7)	$42.5
Comprehensive income	$42.6	$64.5	$38.7	$(86.7)	$59.1
	$42.6	$64.5	$22.2	$(86.7)	$42.6

Comprehensive income attributable
to HealthSouth

29

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Condensed Consolidating Statement of Operations

	Three Months Ended March 31, 2014				
	HealthSouth Corporation (In Millions)	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	HealthSouth Consolidated
Net operating revenues	$3.8	$427.0	$182.2	$(21.8)	$591.2
Less: Provision for doubtful accounts	—	(5.5)	(2.0)	—	(7.5)
Net operating revenues less provision for doubtful accounts	3.8	421.5	180.2	(21.8)	583.7
Operating expenses:					
Salaries and benefits	5.6	196.9	87.3	(3.7)	286.1
Other operating expenses	4.9	59.8	28.5	(8.7)	84.5
Occupancy costs	1.0	14.3	4.5	(9.3)	10.5
Supplies	—	19.6	8.0	—	27.6
General and administrative expenses	30.7	—	—	—	30.7
Depreciation and amortization	2.9	17.9	5.6	—	26.4
Professional fees—accounting, tax, and legal	1.6	—	—	—	1.6
Total operating expenses	46.7	308.5	133.9	(21.7)	467.4
Interest expense and amortization of debt discounts and fees	25.3	2.2	0.7	(0.3)	27.9
Other income	(0.2)	(1.2)	(0.6)	0.3	(1.7)
Equity in net income of nonconsolidated affiliates	—	(4.3)	—	—	(4.3)
Equity in net income of consolidated affiliates	(67.9)	(6.8)	—	74.7	—
Management fees	(26.6)	20.4	6.2	—	—
Income from continuing operations before income tax (benefit) expense	26.5	102.7	40.0	(74.8)	94.4
Provision for income tax (benefit) expense	(20.3)	42.5	10.6	—	32.8
Income from continuing operations	46.8	60.2	29.4	(74.8)	61.6
Loss from discontinued operations, net of tax	(0.1)	—	—	—	(0.1)
Net Income	46.7	60.2	29.4	(74.8)	61.5
Less: Net income attributable to noncontrolling interests	—	—	(14.8)	—	(14.8)
Net income attributable to HealthSouth	$46.7	$60.2	$14.6	$(74.8)	$46.7
Comprehensive income	$46.8	$60.2	$29.4	$(74.8)	$61.6
Comprehensive income attributable to HealthSouth	$46.8	$60.2	$14.6	$(74.8)	$46.8

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Condensed Consolidating Balance Sheet

	As of March 31, 2015 HealthSouth Corporation (In Millions)	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	HealthSouth Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$189.6	$1.0	17.7	$—	$208.3
Accounts receivable, net	—	214.1	123.8	—	337.9
Deferred income tax assets	125.3	39.8	23.3	—	188.4
Other current assets	67.6	16.7	119.1	(72.0)	131.4
Total current assets	382.5	271.6	283.9	(72.0)	866.0
Property and equipment, net	13.7	744.6	254.0	—	1,012.3
Goodwill	—	279.6	810.4	—	1,090.0
Intangible assets, net	11.4	53.0	243.2	—	307.6
Deferred income tax assets	136.2	17.5	—	(51.4)	102.3
Other long-term assets	463.0	48.1	73.8	(385.2)	199.7
Intercompany receivable and investments in consolidated affiliates	1,937.1	—	—	(1,937.1)	—
Total assets	$2,943.9	$1,414.4	$1,665.3	$(2,445.7)	$3,577.9
Liabilities and Shareholders’ Equity					
Current liabilities:					
Current portion of long-term debt	$156.6	$4.2	$6.5	$(17.5)	149.8
Accounts payable	8.9	30.3	15.9	—	55.1
Accrued expenses and other current liabilities	141.4	68.6	137.2	(54.5)	292.7
Total current liabilities	306.9	103.1	159.6	(72.0)	497.6
Long-term debt, net of current portion	2,007.5	82.7	417.5	(385.2)	2,122.5
Other long-term liabilities	44.0	12.5	134.4	(51.4)	139.5
Intercompany payable	—	322.3	210.6	(532.9)	—
	2,358.4	520.6	922.1	(1,041.5)	2,759.6
Commitments and contingencies					
Convertible perpetual preferred stock	93.2	—	—	—	93.2
Redeemable noncontrolling interests	—	—	84.7	—	84.7
Shareholders’ equity:					
HealthSouth shareholders’ equity	492.3	893.8	510.4	(1,404.2)	492.3
Noncontrolling interests	—	—	148.1	—	148.1
Total shareholders’ equity	492.3	893.8	658.5	(1,404.2)	640.4
Total liabilities and shareholders’ equity	$2,943.9	$1,414.4	$1,665.3	$(2,445.7)	$3,577.9

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Condensed Consolidating Balance Sheet

	As of December 31	
	HealthSouth Corporation	Guarantor Subsidiar
	(In Millions)	
Assets		
Current assets:		
Cash and cash equivalents	$41.9	$1.5
Accounts receivable, net	—	202.6
Deferred income tax assets	125.0	39.8
Other current assets	30.9	15.1
Total current assets	197.8	259.0
Property and equipment, net	16.1	752.0
Goodwill	—	279.6
Intangible assets, net	11.3	50.6
Deferred income tax assets	163.3	17.5
Other long-term assets	461.3	42.5
Intercompany receivable and investments in consolidated affiliates	1,898.7	—
Total assets	$2,748.5	$1,401.2
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$27.9	$4.2
Accounts payable	9.3	29.5
Accrued expenses and other current liabilities	107.1	72.6
Total current liabilities	144.3	106.3
Long-term debt, net of current portion	1,993.7	83.9
Other long-term liabilities	44.1	12.7
Intercompany payable	—	368.7
	2,182.1	571.6
Commitments and contingencies		
Convertible perpetual preferred stock	93.2	—
Redeemable noncontrolling interests	—	—
Shareholders' equity:		
HealthSouth shareholders' equity	473.2	829.6
Noncontrolling interests	—	—
Total shareholders' equity	473.2	829.6

F-9

(b) Cash Equivalents

Cash equivalents of $37,271 and $28,030 at December 31, 2006 and 2005, respectively, consist principally of certificates of deposit and obligations of the Commonwealth of Puerto Rico and the U.S. Treasury with an initial term of less than three months. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(c) Investments

Investment in securities at December 31, 2006 and 2005 consists mainly of U.S. Treasury securities and obligations of U.S. government instrumentalities, obligations of the Commonwealth of Puerto Rico and its instrumentalities, obligations of government sponsored entities, obligations of state and political subdivisions, mortgage-backed securities, collateralized mortgage obligations, corporate debt, 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. Held-to-maturity debt securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums and discounts. Unrealized holding gains and losses on trading securities are included in operations. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from operations and are reported as a separate component of other comprehensive income until realized. Transfers of securities between categories are recorded at fair value at the date of transfer. Unrealized holding gains and losses are recognized in operations 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 operations 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.

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 a reduction in 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 period-end and forecasted performance of the investee.

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.

Realized gains and losses from the sale of available-for-sale securities are included in operations and are determined on a specific identification basis.

(d) Revenue Recognition

(i) Managed Care

Subscriber premiums on the managed care business are billed in advance of their respective coverage period and the related revenue is recorded as earned during the 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 periodically recorded based on actuarial estimates.

The Company 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 Company or in the Company refunding CMS a portion of the premiums collected. The Company 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 have 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. In addition, accounts for certain self insured groups are charged or credited with interest expense or income as provided by the group's contracts.

(ii) 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.

(iii) Property and Casualty Insurance

Premiums on property and casualty contracts 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.

(e) 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.

(f) Deferred Policy Acquisition Costs and Value of Business Acquired

Certain costs for acquiring life and accident and health, and property and casualty insurance business are deferred by the Company. 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. The amount of deferred policy acquisition costs is reduced by a provision for future maintenance and settlement expenses which are not provided through future premiums. The related amortization is provided, considering interest, 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. 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 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 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 GA Life 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.

(g) 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 equipment, equipment, and automobiles	3 years

(h) Claim Liabilities

Claims processed and incomplete and unreported losses 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 accrued currently based on estimated future expenses necessary to process such claims.

TSI 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 Reform business and one of the MA policies, TSI retains a portion of the capitation payments to provide for incurred but not reported losses. At December 31, 2006 and 2005, total withholdings and capitation payable amounted to $23,796 and $27,327, respectively, which are recorded as part of the liability for claims processed and incomplete in the accompanying consolidated balance sheets.

Unpaid claims and loss adjustment expenses of the life and accident and health business are based on a case-basis estimates 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.

The liability for losses and loss adjustment expenses for the property and casualty business 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.

The above 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.

(i) Future Policy Benefits

The liability for future policy benefits has been computed using the level-premium method based on estimated future investment yield, mortality, and withdrawal experience. The interest rate assumption is 5.0% for all years in issue. Mortality has been calculated principally on select and ultimate tables in common usage in the industry. Withdrawals have been determined principally based on industry tables, modified by Company's experience.

(j) Policyholder Deposits

Amounts received for annuity contracts are considered deposits and recorded as a liability. Interest accrued on such deposits, which amounted to $1,810, $1,230, and $1,004, during the years ended December 31, 2006, 2005, and 2004, respectively, is recorded as interest expense in the accompanying consolidated statements of earnings.

(k) 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 STS 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.

(l) Derivative Instruments and Hedging Activities

The Company accounts for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment to SFAS No. 133*. These statements require that all derivative instruments, whether or not designated in hedging relationships, be recorded on the balance sheets 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.

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 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.

(m) 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.

(n) Insurance-related Assessments

The Company accounts for insurance related assessments in accordance with the provisions of Statement of Position (SOP) No. 97-3, *Accounting by Insurance and Other Enterprises for Insurance- related Assessments*. This SOP prescribes liability recognition 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. Also, this SOP provides for the recognition of an asset when the paid or accrued assessment is recoverable through either premium taxes or policy surcharges.

(o) Impairment of Long-lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of 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 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 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, in accordance with SFAS No. 141, *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

(p) 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.

(q) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. 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 future are the claim liabilities, the deferred policy acquisition costs and value of business acquired, the liability for future policy benefits, liability for pension benefits and the allowance for doubtful receivables. As additional information becomes available (or actual amounts are determinable), the recorded estimates will be revised and reflected in operating results. Although some variability is inherent in these estimates, the Company believes the amounts provided are adequate.

(r) Fair Value of Financial Instruments

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of investments in corporate bonds, premiums receivable, accrued interest receivable, and other receivables.

The fair value information of financial instruments in the accompanying consolidated financial statements was determined as follows:

(i) Cash and Cash Equivalents

The carrying amount approximates fair value because of the short term nature of such instruments.

(ii) Investment in Securities

The fair value of investment securities is estimated based on quoted market prices for those or similar investments. Additional information pertinent to the estimated fair value of investment in securities is included in note 4.

(iii) Policy Loans

Policy loans have no stated maturity dates and are part of the related insurance contract. The carrying amount of policy loans approximates fair value because their interest rate is reset periodically in accordance with current market rates.

(iv) Receivables, Accounts Payable, and Accrued Liabilities

The carrying amount of receivables, accounts payable, and accrued liabilities approximates fair value because they mature and should be collected or paid within 12 months after December 31.

(v) Policyholder Deposits

The fair value of policyholder deposits is the amount payable on demand at the reporting date, and accordingly, the carrying value amount approximates fair value.

(vi) Short term Borrowings

The carrying amount of securities sold under agreements to repurchase is a reasonable estimate of fair value due to its short term nature.

(vii) Long term Borrowings

The carrying amounts and fair value of the Company's long term borrowings are as follows:

	2006		2005	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Loans payable to bank	$ 38,087	$ 38,087	$ 40,590	$ 40,590
6.3% senior unsecured notes payable	50,000	47,897	50,000	49,546
6.6% senior unsecured notes payable	60,000	58,104	60,000	60,000
6.7% senior unsecured notes payable	35,000	34,062		
Totals	$ 183,087	$ 178,150	$ 150,590	$ 150,136

The carrying amount of the loans payable to bank approximates fair value due to its floating interest rate structure. The fair value of the senior unsecured notes payable was determined using market quotations. Additional information pertinent to long term borrowings is included in note 11.

(viii) Derivative Instruments

Current market pricing models were used to estimate fair value of interest rate swap agreement and structured notes agreements. Fair values were determined using market quotations provided by outside securities consultants or prices provided by market makers. Additional information pertinent to the estimated fair value of derivative instruments is included in note 12.

(s) Earnings Per Share

The Company calculates and presents earnings per share in accordance with SFAS No. 128, *Earnings per Share*. Basic earnings per share exclude dilution and are computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period (see note 22). Because the Company has not issued convertible debt, options, warrants or contingent stock agreements, there is no potential dilution that could affect basic earnings per share. As disclosed in note 28, the accompanying consolidated financial statements have been revised to give retroactive effect to the 3,000-for-one stock split of shares of common stock effected on May 1, 2007.

(t) Recently Issued Accounting Standards

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, addressing how the effects of prior-year uncorrected financial statement misstatements should be considered in current year financial statements. SAB No. 108 requires registrants to quantify misstatements using both balance sheet and income statement approaches in evaluating whether or not a misstatement is material. SAB No. 108 is effective for fiscal years ended after November 15, 2006. The adoption of this SAB did not have a material impact on the Company's consolidated financial statements.

SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, was issued in September 2006. This statement changes financial reporting by requiring employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement also changes financial reporting by requiring employers to measure the funded status of a plan as of the date of its year-end statement of financial position. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide required disclosures as of the end of the fiscal year ended after December 15, 2006. An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit pension plan and to provide required disclosures as of the end of the fiscal year ending after June 15, 2007. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company adopted the provisions of this statement in the consolidated financial statements as of December 31, 2006 as further discussed in note 18.

SFAS No. 157, *Fair Value Measurements*, was issued in September 2006. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; it applies under other accounting statements that require or permit fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Except for certain exceptions, the provisions of this statement are to be applied prospectively as of the beginning of the fiscal year in which it is initially applied. The Company is currently evaluating the effect of this statement on its consolidated financial statements.

Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*, was issued in June 2006. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation is effective for fiscal years beginning after December 15, 2006. The adoption of this Interpretation is not expected to have a material impact on the Company's consolidated financial statements.

SFAS No. 156, *Accounting for Servicing of Financial Assets, an amendment of SFAS No. 140*, was issued in March 2006. This statement amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement is effective as of the beginning of the first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 156 is not expected to have an impact on the Company's consolidated financial statements.

SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140*, was issued in February 2006. This statement amends SFAS No. 133, *Accounting for Derivatives and Hedging Activities*, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and allows an entity to remeasure at fair value a hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation from the host, if the holder irrevocably elects to account for the whole instrument on a fair value basis. Subsequent changes in the fair value of the instrument would be recognized in earnings. This statement also clarifies certain issues included in the amended SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all financial instruments acquired and issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 is not expected to have an impact on the Company's consolidated financial statements.

(u) Reclassification

Certain amounts in the 2005 and 2004 consolidated financial statements were reclassified to conform to the 2006 presentation.

(3) Business Combinations

Effective January 31, 2006, the Company acquired 100% of the common stock of GA Life. As a result of this acquisition, the Corporation became one of the leading providers of life insurance policies in Puerto Rico. The acquisition was accounted by the Company in accordance with the provisions of SFAS No. 141, *Business Combinations*. The results of operations and financial condition of GA Life are included in the accompanying consolidated financial statements for the period following the effective date of the acquisition. The aggregate purchase price of the acquired entity amounted to $38,196; of this amount $37,500 was paid in cash on January 31, 2006 and $696 was direct costs related to the acquisition.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$ 219,747
Property and equipment	1,500
Value of business acquired	22,823
Total assets acquired	244,070
Total liabilities assumed	(205,874)
Net assets acquired	$ 38,196

The estimated fair value of the value of business acquired was actuarially determined by discounting after-tax profits at a risk rate of return equal to approximately 12%. After-tax profits were forecasted based upon models of the insurance in-force, actual invested assets as of acquisition date and best-estimate actuarial assumptions regarding premium income, claims, persistency, expenses and investment income accruing from invested assets plus reinvestment of positive cash flows. The best-estimate actuarial assumptions were based upon GA Life's recent experience in each of its major life and health insurance product lines. The amount of value of business acquired is to be amortized, considering interest, over the anticipated premium-paying period of the related policies in proportion to the ratio of annual premium revenue to the expected total premium revenue to be received over the life of the policies.

The following unaudited pro forma financial information presents the combined results of operations of the Company and GA Life as if the acquisition had occurred at the beginning of each period presented. The unaudited pro forma financial information is not intended to represent or be indicative of the Company's consolidated results of operations that would have been reported had the acquisition been completed as of the beginning of the periods presented and should not be taken as indicative of the Company's future consolidated results of operations.

	Unaudited		
	2006	**2005**	**2004**
Operating revenues	$ 1,576,492	$ 1,516,632	$ 1,423,783
Net income	54,850	43,814	58,971
Basic net income per share (note 28)	2.05	1.64	2.20

(4) Investment in Securities

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

	2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Trading securities:				
Equity securities	$ 66,930	$ 17,436	$ (919)	$ 83,447

	2005			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Trading securities:				
Equity securities	$ 69,397	$ 11,378	$ (2,560)	$ 78,215

	2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Obligations of government-sponsored enterprises	$ 444,710	$ 243	$ (7,576)	$ 437,377
U.S. Treasury securities and obligations of U.S. government instrumentalities	93,652		(944)	92,708
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	53,388	138	(1,823)	51,703
Corporate bonds	48,882	6	(966)	47,922
Mortgage-backed securities	16,001	56	(214)	15,843
Collateralized mortgage obligations	57,480	147	(614)	57,013
Total fixed maturities	714,113	590	(12,137)	702,566
Equity securities	50,132	13,112	(1,558)	61,686
Total	$ 764,245	$ 13,702	$ (13,695)	$ 764,252

	2005			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Obligations of government-sponsored enterprises	$ 426,391	$ 21	$ (7,754)	$ 418,658
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	55,388	522	(1,304)	54,606
Corporate bonds	6,535	61	(104)	6,492
Mortgage-backed securities	4,667	58	(58)	4,667
Collateralized mortgage obligations	31,306	32	(587)	30,751
Total fixed maturities	524,287	694	(9,807)	515,174
Equity securities	38,675	14,550	(1,415)	51,810
Total	$ 562,962	$ 15,244	$ (11,222)	$ 566,984

	2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
Obligations of government-sponsored enterprises	$ 5,995	$	$ (141)	$ 5,854
Mortgage-backed securities	3,775		(106)	3,669
Corporate bonds	10,013		(569)	9,444
Certificates of deposit	667			667
Index linked certificate of deposit	1,000	370		1,370
Total	$ 21,450	$ 370	$ (816)	$ 21,004

	2005			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
Obligations of government-sponsored enterprises	$ 5,993	$	$ (143)	$ 5,850
Mortgage-backed securities	4,282		(79)	4,203
Corporate bonds	9,693		(401)	9,292
Certificates of deposit	161			161
Index linked certificate of deposit	1,000	254		1,254
Total	$ 21,129	$ 254	$ (623)	$ 20,760

The fair values of investment in securities are determined based on quoted market prices or bid quotations received from securities dealers. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Gross unrealized losses on investment securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2006 and 2005 were as follows:

	2006					
	Less than 12 months		12 months or longer		Total	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
Securities available for sale:						
Obligations of government-sponsored enterprises	$ 71,628	$ (636)	$ 346,369	$ (6,940)	$ 417,997	$ (7,576)
U.S. Treasury securities and obligations of U.S. government instrumentalities	92,708	(944)			92,708	(944)
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	4,588	(68)	31,165	(1,755)	35,753	(1,823)
Corporate bonds	43,190	(560)	3,959	(406)	47,149	(966)
Mortgage-backed securities	10,969	(137)	2,841	(77)	13,810	(214)
Collateralized mortgage obligations	11,958	(52)	23,112	(562)	35,070	(614)
Total fixed maturities	235,041	(2,397)	407,446	(9,740)	642,487	(12,137)
Equity securities	6,570	(681)	11,113	(877)	17,683	(1,558)
Total for securities available for sale	241,611	(3,078)	418,559	(10,617)	660,170	(13,695)
Securities held to maturity:						
Obligations of government-sponsored enterprises			5,854	(141)	5,854	(141)
Mortgage-backed securities			3,669	(106)	3,669	(106)
Corporate bonds			9,444	(569)	9,444	(569)
Total for securities held to maturity	$	$	$ 18,967	$ (816)	$ 18,967	$ (816)

	2005					
	Less than 12 months		12 months or longer		Total	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
Securities available-for-sale:						
Obligations of government-sponsored enterprises	$ 243,470	$ (3,683)	$ 161,654	$ (4,071)	$ 405,124	$ (7,754)
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	2,886	(113)	35,368	(1,191)	38,254	(1,304)
Corporate bonds	2,391	(44)	1,944	(60)	4,335	(104)
Mortgage-backed securities			3,174	(58)	3,174	(58)
Collateralized mortgage obligations	14,725	(227)	14,457	(360)	29,182	(587)
Total fixed maturities	263,482	(4,067)	216,597	(5,740)	480,069	(9,807)
Equity securities	13,359	(1,288)	3,059	(127)	16,418	(1,415)
Total for securities available for sale	276,831	(5,355)	219,656	(5,867)	496,487	(11,222)
Securities held-to-maturity:						
Obligations of government-sponsored enterprises	5,850	(143)			5,850	(143)
Mortgage-backed securities	598	(2)	3,605	(77)	4,203	(79)
Corporate bonds	9,292	(401)			9,292	(401)
Total for securities held to maturity	$ 15,740	$ (546)	$ 3,605	$ (77)	$ 19,345	$ (623)

The Company regularly monitors and evaluates the difference between the cost and estimated fair value of investments. For investments with a fair value below cost, the process includes evaluating the length of time and the extent to which cost exceeds fair value, the prospects and financial condition of the issuer, and the Company's intent and ability to retain the investment to allow for recovery in fair value, among other factors. This process is not exact and further requires consideration of risks such as credit and interest rate risks. Consequently, if an investment's cost exceeds its fair value solely due to changes in interest rates, impairment may not be appropriate. If after monitoring and analyzing, the Company determines that a decline in the estimated fair value of any available-for-sale or held-to-maturity security below cost is other than temporary, the carrying amount of the security is reduced to its fair value. The impairment is charged to operations and a new cost basis for the security is established. During the years ended December 31, 2006 and 2005, the Company recognized other than temporary impairments amounting to $2,098 and $1,036 on some of its equity securities classified as available-for-sale. No impairments were identified nor recognized by the Company during 2004.

Obligations of Government-sponsored Enterprises, U.S. Treasury Securities and Obligations of U.S. Government Instrumentalities and Obligations of the Commonwealth of Puerto Rico and its Instrumentalities: The unrealized losses on the Company's investments in obligations of government-sponsored enterprises, U.S. Treasury securities and obligations of U.S. government instrumentalities and in obligations of the Commonwealth of Puerto Rico and its instrumentalities were mainly caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other than temporarily impaired.

Corporate Bonds: The Company's unrealized losses on investments in corporate bonds are comprised of small unrealized losses in most of the corporate bonds. Unrealized losses of these bonds were mostly caused by interest rate increases. Because the decline in fair value is attributable to changes in interest rates and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Mortgage-Backed Securities and Collateralized Mortgage Obligations: The unrealized losses on investments in mortgage-backed securities and collateralized mortgage obligations were caused by interest rate increases. The contractual cash flows of these securities are guaranteed by a U.S. government-sponsored enterprise. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other than temporarily impaired.

Equity Securities: The Company's investment in equity securities classified as available for sale consist mainly of investments in common and preferred stock of domestic banking institutions and in investments in several mutual funds. The unrealized loss experienced in the investment in common stocks of domestic banking institutions is mainly due to the increase in interest rates, which significantly impact banking institutions, and to the general economic conditions in the past two years. The unrealized loss related to the Company's investments in preferred stock of domestic banking institutions and in investments in several mutual funds investing in fixed income securities is mainly caused by interest rate increases. Because the unrealized losses on equity securities were caused by interest rate increases and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery, these investments are not considered other than temporarily impaired.

Maturities of investment securities classified as available for sale and held to maturity were as follows at December 31, 2006:

	Amortized cost	Estimated fair value
Securities available for sale:		
Due in one year or less	$ 42,745	$ 42,062
Due after one year through five years	320,668	315,344
Due after five years through ten years	172,760	169,952
Due after ten years	104,459	102,352
Collateralized mortgage obligations	57,480	57,013
Mortgage-backed securities	16,001	15,843
	$ 714,113	$ 702,566
Securities held to maturity:		
Due in one year or less	3,169	3,355
Due after one year through five years	5,995	5,854
Due after five years through ten years	8,511	8,126
Mortgage-backed securities	3,775	3,669
	$ 21,450	$ 21,004

Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations with or without call or prepayment penalties.

Investments with an amortized cost of $5,237 and $3,496 (fair value of $5,053 and $3,553) at December 31, 2006 and 2005, respectively, were deposited with the Commissioner of Insurance to comply with the deposit requirements of the Insurance Code the Commonwealth of Puerto Rico (the Insurance Code). Investment with an amortized cost of $500 (fair value of $500) at December 31, 2006 and 2005 were deposited with the Commissioner of Insurance of the Government of the U.S. Virgin Islands.

The following investments were held as collateral by financial institutions:

Investments with a face value of $500 (fair value of $484 and $480) at December 31, 2006 and 2005, respectively, were held as collateral for the Company's interest rate swap agreement (see note 12).

Investments with a face value of $1,885 (fair value of $1,832) at December 31, 2005 were held as collateral for the short term borrowings of the Company (see note 11).

Information regarding realized and unrealized gains and losses from investments for the years ended December 31, 2006, 2005, and 2004 is as follows:

	2006	2005	2004
Realized gains (losses):			
Fixed maturity securities:			
Trading securities:			
Gross gains from sales	$	$ 2,235	$ 594
Gross losses from sales		(542)	(492)
		1,693	102
Available for sale:			
Gross gains from sales		137	123
Gross losses from sales	(687)	(214)	(241)
	(687)	(77)	(118)
Total debt securities	(687)	1,616	(16)
Equity securities:			
Trading securities:			
Gross gains from sales	4,318	6,339	5,608
Gross losses from sales	(1,488)	(1,776)	(1,056)
	2,830	4,563	4,552
Available for sale:			
Gross gains from sales	792	2,043	6,432
Gross losses from sales and impairments	(2,098)	(1,061)	
	(1,306)	982	6,432
Total equity securities	1,524	5,545	10,984
Net realized gains on securities	$ 837	$ 7,161	$ 10,968

	2006	2005	2004
Changes in unrealized gains (losses):			
Recognized in income:			
Fixed maturities trading	$	$ (1,755)	$ (7)
Equity securities trading	7,699	(2,954)	3,049
	$ 7,699	$ (4,709)	$ 3,042
Recognized in accumulated other comprehensive income:			
Fixed maturities available for sale	$ (2,434)	$ (9,615)	$ (1,481)
Equity securities available for sale	(1,581)	(11,742)	2,714
	$ (4,015)	$ (21,357)	$ 1,233
Not recognized in the consolidated financial statements:			
Fixed maturities held to maturity	$ (77)	$ (592)	$ 110

The deferred tax liability on unrealized gains and losses recognized in accumulated other comprehensive income during the years 2006, 2005, and 2004 aggregated $2, $805, and $3,330, respectively.

As of December 31, 2006, investments in obligations that are payable from and secured by the same source of revenue or taxing authority, other than investment instruments of the U.S. and the Commonwealth of Puerto Rico governments, did not exceed 10% of stockholders' equity. As of December 31, 2006, no investment in equity securities individually exceeded 10% of stockholders' equity.

(5) Net Investment Income

Components of net investment income as of December 31 were as follows:

	Year ended December 31		
	2006	2005	2004
Fixed maturities	$ 35,217	$ 24,094	$ 22,061
Equity securities	3,821	3,228	3,239
Policy loans	336		
Cash equivalent interest and interest-bearing deposits	1,903	702	810
Other	1,380	1,114	710
Total	$ 42,657	$ 29,138	$ 26,820

(6) Premium and Other Receivables, Net

Premium and other receivables as of December 31 were as follows:

	2006	2005
Premium	$ 53,377	$ 27,138
Self-funded group receivables	24,854	21,620
FEHBP	9,187	9,491
Agent balances	28,813	26,253
Accrued interest	7,786	5,074
Funds withheld reinsurance receivable		118,635
Reinsurance recoverable on paid losses	40,885	33,915
Other	18,686	14,152
	183,588	256,278
Less allowance for doubtful receivables:		
Premium	12,128	7,792
Other	6,102	4,448
	18,230	12,240
Premium and other receivables, net	$ 165,358	$ 244,038

(7) Deferred Policy Acquisition Costs and Value of Business Acquired

The movement of deferred policy acquisition costs (DPAC) and value of business acquired (VOBA) for the years ended December 31, 2006, 2005, and 2004 is summarized as follows:

	DPAC	VOBA	Total
Balance, December 31, 2003	$ 16,671	$	$ 16,671
Additions	24,495		24,495
Amortization	(22,454)		(22,454)
Net change	2,041		2,041
Balance, December 31, 2004	18,712		18,712
Additions	26,257		26,257
Ceding commission of coinsurance funds withheld agreement (see note 17)	60,000		60,000
Amortization	(23,401)		(23,401)
Net change	62,856		62,856
Balance, December 31, 2005	81,568		81,568
Capitalization upon acquisition of GA Life		22,823	22,823
Termination of coinsurance funds withheld agreement	(60,000)		(60,000)
Acquisition of business ceded in coinsurance funds withheld agreement		60,000	60,000
Additions	44,056		44,056
VOBA interest at an average rate of 5.29%		4,427	4,427
Amortization	(26,799)	(14,658)	(41,457)
Net change	(42,743)	72,592	29,849
Balance, December 31, 2006	$ 38,825	$ 72,592	$ 111,417

The amortization expense of the deferred policy acquisition costs and value of business acquired is included within the operating expenses, net of reimbursement for services in the accompanying consolidated statement of earnings.

The estimated amount of the year-end VOBA balance expected to be amortized during the next five years is as follows:

Year ending December 31:	
2007	$ 11,974
2008	10,597
2009	9,357
2010	8,057
2011	7,241

(8) Property and Equipment, Net

Property and equipment as of December 31 are composed of the following:

	2006	2005
Land	$ 6,531	$ 6,531
Buildings and building and leasehold improvements	41,214	35,860
Office furniture and equipment	13,264	11,937
Computer equipment	31,457	26,130
Automobiles	413	239
	92,879	80,697
Less accumulated depreciation and amortization	51,264	45,988
Property and equipment, net	$ 41,615	$ 34,709

(9) Claim Liabilities

The activity in the total claim liabilities during 2006, 2005, and 2004 is as follows:

	2006	2005	2004
Claim liabilities at beginning of year	$ 297,563	$ 279,325	$ 247,920
Reinsurance recoverable on claim liabilities	(28,720)	(26,555)	(19,357)
Net claim liabilities at beginning of year	268,843	252,770	228,563
Claim liabilities acquired from GA Life	8,771		
Incurred claims and loss-adjustment expenses:			
Current period insured events	1,266,132	1,202,952	1,120,443
Prior period insured events	(19,669)	5,415	(4,650)
Total	1,246,463	1,208,367	1,115,793
Payments of losses and loss-adjustment expenses:			
Current period insured events	1,046,477	1,004,060	920,173
Prior period insured events	194,984	188,234	171,413
Total	1,241,461	1,192,294	1,091,586
Net claim liabilities at end of year	282,616	268,843	252,770
Reinsurance recoverable on claim liabilities	32,066	28,720	26,555
Claim liabilities at end of year	$ 314,682	$ 297,563	$ 279,325

As a result of differences between actual amounts and estimates of insured events in prior years, the amounts included as incurred claims for prior period insured events differ from anticipated claims incurred.

The credits in the incurred claims and loss adjustment expenses for prior period insured events for the years 2006 and 2004 are due primarily to better than expected utilization trends. The amount of incurred claims and loss adjustment expenses for prior period insured events for the year 2005 is due to higher than expected cost per service and utilization trends.

Reinsurance recoverable on unpaid claims is reported as premium and other receivables, net in the accompanying consolidated financial statements.

(10) Federal Employees' Health Benefits Program (FEHBP)

TSI entered into a contract, renewable annually, with OPM as authorized by the Federal Employees' Health Benefits Act of 1959, as amended, to provide health benefits under the FEHBP. The FEHBP covers postal and federal employees resident in the Commonwealth of Puerto Rico as well as retirees and eligible dependents. The FEHBP is financed through a negotiated contribution made by the federal government and employees' payroll deductions.

The accounting policies for the FEHBP are the same as those described in the Company's summary of significant accounting policies. Premium rates are determined annually by TSI and approved by the federal government. Claims are paid to providers based on the guidelines determined by the federal government. Operating expenses are allocated from TSI's operations to the FEHBP based on applicable allocation guidelines (such as, the number of claims processed for each program).

The operations of the FEHBP do not result in any excess or deficiency of revenue or expense as this program has a special account available to compensate any excess or deficiency on its operations to the benefit or detriment of the federal government. Any transfer to/from the special account necessary to cover any excess or deficiency in the operations of the FEHBP is recorded as a reduction/increment to the premiums earned. The contract with OPM provides that the cumulative excess of the FEHBP earned income over health benefits charges and expenses represents a restricted fund balance denoted as the special account. Upon termination of the contract and satisfaction of all the FEHBP's obligations, any unused remainder of the special reserve would revert to the Federal Employees Health Benefit Fund. In the event that the contract terminates and the special reserve is not sufficient to meet the FEHBP's obligations, the FEHBP contingency reserve will be used to meet such obligations. If the contingency reserve is not sufficient to meet such obligations, the Company is at risk for the amount not covered by the contingency reserve.

The contract with OPM allows for the payment of service fees as negotiated between TSI and OPM. Service fees, which are included within the other income, net in the accompanying consolidated statements of earnings, amounted to $861, $800, and $778, respectively, for each of the years in the three year period ended December 31, 2006.

A contingency reserve is maintained by the OPM at the U.S. Treasury, and is available to the Company under certain conditions as specified in government regulations. Accordingly, such reserve is not reflected in the accompanying consolidated balance sheets. The balance of such reserve as of December 31, 2006 and 2005 was $27,683 and $19,353, respectively. The Company received $4,850, $1,059, and $5,217, of payments made from the contingency reserve fund of OPM during 2006, 2005, and 2004, respectively.

The claim payments and operating expenses charged to the FEHBP are subject to audit by the U.S. government. Management is of the opinion that an adjustment, if any, resulting from such audits will not have a significant effect on the accompanying financial statements. The claim payments and operating expenses reimbursed in connection with the FEHBP have been audited through 1998 by OPM.

(11) Borrowings

A summary of the borrowings entered by the Company at December 31, 2006 and 2005 is as follows:

	2006	2005
Short-term borrowings Securities sold under agreement to repurchase	$	$ 1,740
Long-term borrowings:		
Secured note payable of $20,000, payable in various installments through August 31, 2007, with interest payable on a monthly basis at a rate reset periodically of 130 basis points over selected LIBOR maturity (which was 6.67% and 5.71% at December 31, 2006 and 2005, respectively)	10,500	11,500
Senior unsecured notes payable of $50,000 due September 2019. Interest is payable semiannually at a fixed rate of 6.30%	50,000	50,000
Senior unsecured notes payable of $60,000 due December 2020. Interest is payable monthly at a fixed rate of 6.60%	60,000	60,000
Senior unsecured notes payable of $35,000 due January 2021. Interest is payable monthly at a fixed rate of 6.70%	35,000	
Secured loan payable of $41,000, payable in monthly installments of $137 through July 1, 2024, plus interest at a rate reset periodically of 100 basis points over selected LIBOR maturity (which was 6.35% and 5.29% at December 31, 2006 and 2005, respectively)	27,587	29,090
Total long-term borrowings	183,087	150,590
Total borrowings	$ 183,087	$ 152,330

(a) Short-term Borrowings

Short term borrowings outstanding at December 31, 2005 matured in January 2006 and accrued interest at London Interbank Offered Rate (LIBOR) (interest rate of 4.45%), and were in the form of securities sold under agreement to repurchase. The investment securities underlying such agreement were delivered to the dealers with whom the agreements were transacted. At December 31, 2005, investment securities available for sale with fair value of $1,832 (face value of $1,885) were pledged as collateral under these agreements.

(b) Long-term Borrowings

Aggregate maturities of the Company's long term borrowings as of December 31, 2006 are summarized as follows:

Year ending December 31:

2007	$ 12,140
2008	1,640
2009	1,640
2010	1,640
2011	1,640
Thereafter	164,387
	$ 183,087

On January 23, 2006 the Company issued and sold $35,000 of its 6.70% senior unsecured notes payable due January 2021. These notes were privately placed to various accredited institutional investors. All of the Company's senior notes can be prepaid at par, in total or partially, five years after issuance as determined by the Company. The Company's senior unsecured notes contain certain covenants with which TSI and the Company have complied with at December 31, 2006.

Debt issuance costs related to each of the Company's senior unsecured notes were deferred and are being amortized using the straight line method over the term of its respective senior note. Unamortized debt issuance costs related to these senior unsecured notes as of December 31, 2006 and 2005 amounted to $1,338 and $1,129, respectively, and are included within the other assets in the accompanying consolidated balance sheets.

The credit agreement related to the $20,000 secured note payable calls for repayments of principal amount of not less than $250 and in integral multiples of $50.

The loan and note payable previously described are guaranteed by a first position held by the bank on the Company's land, building, and substantially all leasehold improvements, as collateral for the term of the loans under a continuing general security agreement. These credit facilities contain certain covenants, which are normal in this type of credit facility, which the Company has complied with at December 31, 2006 and 2005.

Interest expense on the above long term borrowings amounted to $11,695, $5,168, and $2,005, for the years ended December 31, 2006, 2005, and 2004, respectively.

(12) Derivative Instruments and Hedging Activities

The Company uses derivative instruments to manage the risks associated with changes in interest rates and to diversify the composition of its investment in securities.

By using derivative financial instruments the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty is obligated to the Company, which creates credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, it does not possess credit risk. The Company minimizes the credit risk in derivative instruments by entering into transactions with high quality counterparties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates, currency exchange rates, commodity prices, or market indexes. The market risk associated with derivative instruments is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

(a) Cash Flow Hedge

The Company has invested in an interest rate related derivative hedging instrument to manage its exposure on its debt instruments.

The Company assesses interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. The Company maintains risk management control systems to monitor interest rate cash flow risk attributable to both the Company's outstanding or forecasted debt obligations as well as the Company's offsetting hedge positions. The risk management control systems involve the use of analytical techniques to estimate the expected impact of changes in interest rates on the Company's future cash flows.

The Company has a variable rate debt that was used to finance the acquisition of real estate from subsidiaries (see note 11). The debt obligations expose the Company to variability in interest payments due to changes in interest rates. Management believes it is prudent to limit the variability of a portion of its interest payments. To meet this objective, on December 6, 2002, management entered into an interest rate swap agreement, with an effective date of April 1, 2003, to manage fluctuations in cash flows resulting from interest rate risk. The maturity date of the interest rate swap agreement is March 30, 2008. This swap economically changes the variable rate cash flow exposure on the debt obligations to fixed cash flows. Under the terms of the interest rate swap, the Company receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed rate debt.

Changes in the fair value of the interest rate swap, designated as a hedging instrument that effectively offsets the variability of cash flows associated with the variable rate of the long term debt obligation, are reported in accumulated other comprehensive income, net of the related tax effect. This amount is subsequently reclassified into interest expense as a yield adjustment of the hedged debt obligation in the same period in which the related interest affects earnings. During the year ended December 31, 2006 the Company's interest expense was reduced by $379 of interest received related to this agreement. During the years ended December 31, 2005 and 2004, the Company recorded $127 and $374, respectively, of interest expense related to this agreement. No amount representing cash flow hedge ineffectiveness was recorded since the terms of the swap agreement allow the Company to assume no ineffectiveness in the agreement.

As of December 31, 2006 and 2005, the fair value of the interest rate swap amounted to $502 and $607, respectively, and was included within the other assets in the accompanying consolidated balance sheets.

(b) Other Derivative Instruments

The Company has invested in other derivative instruments in order to diversify its investment in securities and participate in the foreign stock market.

During 2005 the Company invested in two structured note agreements amounting to $5,000 each, where the interest income received is linked to the performance of the Dow Jones Euro STOXX 50 and Nikkei 225 Equity Indexes (the Indexes). Under these agreements the principal invested by the Company is protected, the only amount that varies according to the performance of the Indexes is the interest to be received upon the maturity of the instruments. Should the Indexes experience a negative performance during the holding period of the structured notes, no interest will be received and no amount will be paid to the issuer of the structured notes. The contingent interest payment component within the structured note agreements meets the definition of an embedded derivative. In accordance with the provisions of SFAS No. 133, as amended, the embedded derivative component of the structured notes is separated from the structured notes and accounted for separately as a derivative instrument.

The changes in the fair value of the embedded derivative component are recorded as gains or losses in earnings in the period of change. During the years ended December 31, 2006 and 2005 the Company recorded a gain associated with the change in the fair value of this derivative component of $1,046 and $2,833, respectively, that is included within the other income, net in the accompanying consolidated statement of earnings.

As of December 31, 2006 and 2005, the fair value of the derivative component of the structured notes amounted to $6,377 and $5,331, respectively, and is included within the Company's other assets in the accompanying consolidated balance sheets. The investment component of the structured notes is accounted for as held to maturity debt securities and is included within the investment in securities in the accompanying consolidated balance sheets. As of December 31, 2006 the fair value and amortized cost of the investment component of both structured notes amounted to $7,626 and $8,011, respectively.

(13) Retained Earnings and Stockholders' Equity

As members of the BCBSA, the Company and TSI are required by membership standards of the association to maintain liquidity as defined by BCBSA. That is, to maintain net worth exceeding the Company Action Level as defined in the National Association of Insurance Commissioners' (NAIC) Risk Based Capital for Insurers Model Act. The companies are in compliance with this requirement.

(14) Comprehensive Income

The accumulated balances for each classification of other comprehensive income are as follows:

	Unrealized gains (losses) on securities	Liability for pension benefits	Cash-flow hedges	Accumulated other comprehensive income (loss)
Beginning balance	$ 3,217	$ (8,613)	$ 371	$ (5,025)
Net current period change	(4,807)	4,952	(65)	80
Reclassification adjustments for gains and losses reclassified in income	1,595			1,595
Adjustment to initially apply SFAS No. 158, net of tax		(16,081)		(16,081)
Ending balance	$ 5	$ (19,742)	$ 306	$ (19,431)

The related deferred tax effects allocated to each component of other comprehensive income in the accompanying consolidated statements of stockholders' equity and comprehensive income in 2006 and 2005 are as follows:

	2006		
	Before-tax amount	Deferred tax (expense) benefit	Net-of-tax amount
Unrealized holding gains on securities arising during the period	$ (6,008)	$ 1,201	$ (4,807)
Less reclassification adjustment for gains and losses realized in income	1,993	(398)	1,595
Net change in unrealized gain	(4,015)	803	(3,212)
Minimum pension liability adjustment	7,915	(2,963)	4,952
Cash-flow hedges	(105)	40	(65)
Adjustment to initially apply SFAS No.158	(26,233)	10,152	(16,081)
Net current period change	$ (22,438)	$ 8,032	$ (14,406)

	2005		
	Before-tax amount	Deferred tax (expense) benefit	Net-of-tax amount
Unrealized holding gains on securities arising during the period	$ (20,452)	$ 2,350	$ (18,102)
Less reclassification adjustment for gains and losses realized in income	(905)	175	(730)
Net change in unrealized gain	(21,357)	2,525	(18,832)
Minimum pension liability adjustment	(4,515)	1,727	(2,788)
Cash-flow hedges	749	(292)	457
Net current period change	$ (25,123)	$ 3,960	$ (21,163)

	2004		
	Before-tax amount	Deferred tax (expense) benefit	Net-of-tax amount
Unrealized holding gains on securities arising during the period	$ 7,547	$ 451	$ 7,998
Less reclassification adjustment for gains and losses realized in income	(6,314)	(583)	(6,897)
Net change in unrealized gain	1,233	(132)	1,101
Minimum pension liability adjustment	35	(38)	(3)
Cash-flow hedges	459	(178)	281
Net current period change	$ 1,727	$ (348)	$ 1,379

(15) Agency Contract and Expense Reimbursement

TSI processes and pays claims as fiscal intermediary for the Medicare Part B Program. Claims from this program, which are excluded from the accompanying consolidated statements of earnings, amounted to $413,806, $618,725, and $625,841, for each of the years in the three year period ended December 31, 2006.

TSI is reimbursed for administrative expenses incurred in performing this service. For the years ended December 31, 2006, 2005, and 2004, TSI was reimbursed by $13,073, $13,889, and $13,980, respectively, for such services, which are deducted from operating expenses in the accompanying consolidated statements of earnings.

The operating expense reimbursements in connection with processing Medicare claims have been audited through 2002 by federal government representatives. Management is of the opinion that no significant adjustments will be made affecting cost reimbursements through December 31, 2006.

(16) Reinsurance Activity

The effect of reinsurance on premiums earned and claims incurred is as follows:

	Premiums earned			Claims incurred		
	2006	2005	2004	2006	2005	2004
Gross	$ 1,584,857	$ 1,447,054	$ 1,359,140	$ 1,267,871	$ 1,225,065	$ 1,133,238
Ceded	(77,644)	(67,250)	(60,181)	(22,869)	(16,698)	(17,445)
Assumed	4,413	400		1,461		
Net	$ 1,511,626	$ 1,380,204	$ 1,298,959	$ 1,246,463	$ 1,208,367	$ 1,115,793

(a) Reinsurance Ceded Activity

STS and GA Life, in accordance with general industry practices, annually purchase reinsurance to protect them from the impact of large unforeseen losses and prevent sudden and unpredictable changes in net income and stockholders' equity of the Company. Reinsurance contracts do not relieve any of the subsidiaries from their obligations to policyholders. In the event that all or any of the reinsuring companies might be unable to meet their obligations under existing reinsurance agreements, the subsidiaries would be liable for such defaulted amounts. During 2006, 2005, and 2004, STS placed 9% of its reinsurance business with one reinsurance company.

STS has a number of pro rata and excess of loss reinsurance treaties whereby the subsidiary retains for its own account all loss payments for each occurrence that does not exceed the stated amount in the agreements and a catastrophe cover, whereby it protects itself from a loss or disaster of a catastrophic nature. Under these treaties, STS ceded premiums of $65,723, $59,244, and $52,214, in 2006, 2005, and 2004, respectively.

Reinsurance cessions are made on excess of loss and on a proportional basis. Principal reinsurance agreements are as follows:

Property quota share treaty covering for a maximum of $20,000 for any one risk. Only 41.0% of this treaty was placed with reinsurers. The remaining exposure was covered by a property per risk excess of loss treaty, which provides reinsurance in excess of $500 up to a maximum of $12,500 or the remaining 59.0% for any one risk. STS also has an additional property catastrophe excess of loss contract, which provides protection for losses in excess of $5,000 resulting from any catastrophe, subject to a maximum loss of $10,000.

Personal property catastrophe excess of loss. This treaty provides protection for losses in excess of $5,000 resulting from any catastrophe, subject to a maximum loss of $70,000.

Commercial property catastrophe excess of loss. This treaty provides protection for losses in excess of $5,000 resulting from any catastrophe, subject to a maximum loss of $180,000.

Property catastrophe excess of loss. This treaty provides protection for losses in excess of $70,000 and $180,000 with respect to personal and commercial lines, respectively, resulting from any catastrophe, subject to a maximum loss of $145,000.

Personal lines quota share. This treaty provides protection of 13.75% on all ground up losses, subject to a limit of $1,000 for any one risk.

Reinstatement premium protection. This treaty provides a maximum limit of $2,700 in personal lines and $12,200 in commercial lines to cover the necessity of reinstating the catastrophe program in the event it is activated.

Casualty excess of loss treaty. This treaty provides reinsurance for losses in excess of $150 up to a maximum of $11,850.

Medical malpractice excess of loss. This treaty provides reinsurance in excess of $150 up to a maximum of $1,500 per incident.

Builders' risk quota share and first surplus covering contractors' risk. This treaty provides protection on a 20/80 quota share basis for the initial $2,500 and a first surplus of $10,000 for a maximum of $12,000 for any one risk.

Surety quota share treaty covering contract and miscellaneous surety bond business. This treaty provides reinsurance of up to $3,000 for contract surety bonds, subject to an aggregate of $7,000 per contractor and $2,000 per miscellaneous surety bond.

Facultative reinsurance is obtained when coverage per risk is required, on a proportional basis. All reinsurance contracts are for a period of one year, on a calendar basis, and are subject to modifications and negotiations in each renewal.

The ceded unearned reinsurance premiums on STS arising from these reinsurance transactions amounted to $19,892 and $17,475 at December 31, 2006 and 2005, respectively and are reported as other assets in the accompanying consolidated balance sheets.

The reinsurance agreements negotiated by SVTS and GA Life continued in force after the merger of SVTS into GA Life. Life insurance is ceded on pro rata, excess of loss and catastrophic bases. Principal reinsurance agreements are as follows:

Under the group life pro rata agreement, GA Life reinsures 50% of the risk up to $250 on the life of any participating individual of certain groups insured. Premiums ceded under this treaty, amount to approximately $2,368 in 2006, $2,227 in 2005, and $2,291 in 2004.

The group life insurance facultative excess of loss agreements provide for GA Life to retain a portion of the losses on the life of any participating individual of certain groups insured. Any excess will be recovered from the reinsurer. This agreement provides for various retentions ($25, $50, and $75) of the losses. Under this facultative treaty, ceded premiums amounted to approximately $693 in 2006, $982 in 2005, and $908 in 2004.

GA Life also has facultative pro rata agreements for the long term disability insurance risk where GA Life reinsures 65% of the risk. Premiums ceded under this agreement amount to $4,494, $4,576, and $4,521 in 2006, 2005, and 2004, respectively.

The accidental death catastrophic reinsurance covers each and every accident arising out of one event or occurrence resulting in the death or dismemberment of five or more persons. GA Life's retention for each event is $250 with a maximum of $1,000 for each event and $2,000 per year. Under this treaty, the Company ceded premiums of $96 in 2006, $117 in 2005, and $82 in 2004.

GA Life has several reinsurance agreements, mostly on an excess of loss basis up to a maximum retention of $50. For certain new life products that have issued since 1999, the retention limit is $175. Premiums ceded under these agreements amount to approximately $1,740 in 2006.

(b) Reinsurance Assumed Activity

On December 22, 2005, the Company's former life insurance subsidiary SVTS entered into a coinsurance funds withheld agreement with GA Life. Under the terms of this agreement SVTS assumed 69% of all the business written as of and after the effective date of the agreement. On the effective date of the agreement, SVTS paid an initial ceding commission of $60,000 for its participation in the business written by GA Life as of and after the effective date of the agreement. This amount was considered a policy acquisition cost and was included within the DPAC as of December 31, 2005. This amount was recorded upon the acquisition of GA Life transferred to the value of business acquired then the agreement was cancelled.

As in other coinsurance funds withheld agreements, GA Life invests the premiums received from policyholders, pays commissions, processes claims and engages in other administrative activities. GA Life also carries the reserves for the policies written as well as the underlying investments purchased with the premiums received from policyholders.

As of December 31, 2005 SVTS's share of the reserves held by GA Life amounted to $118,635 and was included in the accompanying consolidated balance sheets as a liability for future policy benefits reserve related to funds withheld reinsurance. The funds withheld reinsurance receivable presented within the premium and other receivables; net in the accompanying consolidated balance sheets represents the subsidiary's share of the assets supporting the liabilities of the reinsured business and amounted to $118,635 as of December 31, 2005. The coinsurance funds withheld receivable was supported by certain GA Life's investments specified in the coinsurance funds withheld agreement. These investments consisted of fixed income securities (U.S. Treasury securities) and were included in a trust on behalf of SVTS.

On January 31, 2006 the Company completed the acquisition of 100% of the common stock of GA Life. The results of operations and financial position of GA Life are included in the Company's consolidated financial statements for the period following January 31, 2006. Effective June 30, 2006, the Company merged the operations of its former life insurance subsidiary, SVTS, into GA Life after receiving required regulatory approvals. The coinsurance funds withheld agreement was cancelled effective February 1, 2006, subsequent to the acquisition of GA Life. Premiums earned and claims incurred assumed during the month ended January 31, 2006 amounted to $4,413 and $2,292, respectively.

(17) Income Taxes

Under Puerto Rico income tax law, the Company is not allowed to file consolidated tax returns with its subsidiaries.

TSI and STS are taxed essentially the same as other corporations, with taxable income determined on the basis of the statutory annual statements filed with the insurance regulatory authorities. Also, operations are subject to an alternative minimum income tax, which is calculated based on the formula established by existing tax laws. Any alternative minimum income tax paid may be used as a credit against the excess, if any, of regular income tax over the alternative minimum income tax in future years.

GA Life operates as qualified domestic life insurance company and is subject to the alternative minimum tax and taxes on its capital gains. After the merger of GA Life and SVTS, SVTS ceased to exist and its tax responsibilities are now assumed by GA Life.

TSI, STS, and GA Life are also subject to federal income taxes for foreign source dividend income. Federal income taxes were recognized for 2006 amounting to $148, $139, and $384, approximately, in 2006, 2005, and 2004, respectively.

TSM, TCI, and ISI are subject to Puerto Rico income taxes as a regular corporation, as defined in the P.R. Code, as amended.

The income tax expense differs from the amount computed by applying the Puerto Rico statutory income tax rate to the income before income taxes as a result of the following:

	2006	2005	2004
Income before taxes	$ 67,559	$ 32,306	$ 60,138
Statutory tax rate	39.0%	39.0%	39.0%
Income tax expense at statutory rate of 39%	26,348	12,599	23,454
Increase (decrease) in taxes resulting from:			
Exempt interest income	(9,196)	(7,441)	(5,819)
Effect of taxing life insurance operations as a qualified domestic life insurance company instead of as a regular corporation	(1,674)	(752)	(327)
Effect of using earnings under statutory accounting principles instead of U.S. GAAP for TSI and STS	(1,718)	(84)	(487)
Effect of taxing capital gains at a preferential rate	(541)	(1,762)	(2,631)
Dividends received deduction	(325)	(430)	(424)
Other permanent disallowances, net	2,626	1,123	552
Adjustment to deferred tax assets and liabilities for changes in effective tax rates	(2,009)	1,500	
Other adjustments to deferred tax assets and liabilities	(399)	(723)	
Other	(86)	(157)	17
Total income tax expense	$ 13,026	$ 3,873	$ 14,335

Deferred income taxes reflect the tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and income tax purposes. The net deferred tax liability at December 31, 2006 and 2005 of the Company and its subsidiaries is composed of the following:

	2006	2005
Deferred tax assets:		
Allowance for doubtful receivables	$ 6,593	$ 4,756
Liability for pension benefits	12,492	5,303
Employee benefits plan	4,011	3,253
Postretirement benefits	1,863	1,770
Deferred compensation	1,343	1,819
Nondeductible depreciation	379	401
Impairment loss on investments	611	207
Contingency reserves	2,516	522
Other	471	457
Gross deferred tax assets	30,279	18,488

Deferred tax liabilities:		
Deferred policy acquisition costs	(8,903)	(7,757)
Catastrophe loss reserve trust fund	(3,752)	(5,090)
Unrealized gain upon acquisition of GA Life	(3,036)	
Unrealized gain on trading securities	(3,217)	(1,726)
Unrealized gain on securities available for sale	(2)	(805)
Unrealized gain on derivative instruments	(387)	(283)
Unamortized bond issue costs	(501)	(440)
Cash-flow hedges	(196)	(236)
Other	(993)	
Gross deferred tax liabilities	(20,987)	(16,337)
Net deferred tax asset	$ 9,292	$ 2,151

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management believes that it is more likely than not that the Company will realize the benefits of these deductible differences.

(18) Pension Plans

On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158, *Employers'Accounting for Defined Benefit Pension and Other Postretirement Plans.* This statement changed financial reporting by requiring employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income to the extent those changes are not included in the net periodic cost. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan the benefit obligation is the accumulated benefit obligation.

The incremental effect of applying SFAS No. 158 of the Company's noncontributory defined benefit pension plan and noncontributory supplemental pension plan on individual line items in the accompanying consolidated balance sheet as of December 31, 2006 is as follows:

	Before application of SFAS No. 158	Adjustments	After application of SFAS No. 158
Other assets	$ 62,770	$ (606)	$ 62,164
Net deferred tax asset (liability)	(910)	10,152	9,242
Liability for pension benefits	6,673	25,627	32,300
Accumulated other comprehensive loss, net of tax	(3,350)	(16,081)	(19,431)

The recognition provisions of SFAS No. 158 had no effect on the consolidated statements of earnings for the periods presented.

Noncontributory Defined benefit Pension Plan

The Company sponsors a noncontributory defined benefit pension plan for all of its employees and for the employees for certain of its subsidiaries who are age 21 or older and have completed one year of service. Pension benefits begin to vest after five years of vesting service, as defined, and are based on years of service and final average salary, as defined. The funding policy is to contribute to the plan as necessary to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, as amended, plus such additional amounts as the Company may determine to be appropriate from time to time. The measurement date used to determine pension benefit measures for the pension plan is December 31.

The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status as of December 31, 2006 and 2005, accordingly:

	2006	2005
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 84,272	$ 71,078
Service cost	5,459	4,737
Interest cost	4,655	4,145
Benefit payments	(4,614)	(5,106)
Actuarial losses (gains)	(1,102)	9,418
Plan amendments	104	
Projected benefit obligation at end of year	$ 88,774	$ 84,272
Accumulated benefit obligation at end of year	$ 64,366	$ 61,467
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	$ 49,501	$ 42,572
Actual return on assets (net of expenses)	6,633	3,214
Employer contributions	8,000	8,821
Benefit payments	(4,614)	(5,106)
Fair value of plan assets at end of year	$ 59,520	$ 49,501
Funded status at end of year	$ (29,254)	$ (34,771)
Amounts in accumulated other comprehensive income not yet recognized as a component of net periodic pension cost:		
Unrecognized prior service cost	$ 606	$ 550
Unrecognized actuarial loss	30,409	36,721
Sum of deferrals	$ 31,015	$ 37,271
Net amount recognized	$ 1,761	$ 2,500

The amounts recognized in the consolidated balance sheets as of December 31, 2006 and 2005 consist of the following:

	2006	2005
Liability for pension benefits:		
Pension liability	$ 29,254	$ 14,466
Prepaid pension cost		(2,500)
	$ 29,254	$ 11,966
Intangible asset	$	$ 550
Accumulated other comprehensive loss, net of a deferred tax asset of $12,017 and $5,303 in 2006 and 2005, respectively	$ 18,998	$ 8,613

The components of net periodic benefit cost and other amounts recognized in other comprehensive income for 2006, 2005, and 2004 were as follows:

	2006	2005	2004
Components of net periodic benefit cost:			
Service cost	$ 5,459	$ 4,737	$ 4,100
Interest cost	4,655	4,145	3,843
Expected return on assets	(3,858)	(3,467)	(2,549)
Amortization of prior service cost	48	48	48
Amortization of actuarial loss	2,435	2,017	1,706
Net periodic benefit cost	$ 8,739	$ 7,480	$ 7,148

Net periodic pension expense may include settlement charges as a result of retirees selecting lump sum distributions. Settlement charges may increase in the future if the number of eligible participants deciding to receive distributions and the amount of their benefits increases.

The estimated net loss and prior service cost that will be amortized from other comprehensive income into net periodic pension benefits cost during the next twelve months is as follows:

Prior service cost	$ 56
Actuarial loss	$ 1,887

The following assumptions were used on a weighted average basis to determine benefit obligations of the plan and in computing the periodic benefit cost as of and for the years ended December 31, 2006, 2005, and 2004:

	2006	2005	2004
Discount rate	5.75%	5.50%	5.75%
Expected return on plan assets	8.00%	8.00%	8.50%
Rate of compensation increase	Graded; 3.50% to 8.00%	Graded; 3.00% to 6.50%	Graded; 3.00% to 6.50%

The basis used to determine the overall expected long term rate of return on assets assumption was an analysis of the historical rate of return for a portfolio with a similar asset allocation. The assumed long term asset allocation for the plan is as follows: 53% 67% equity securities; 26% 36% debt securities; 4% 12% real estate; and 0% 3% cash. It is common on December 31 to have an increased cash position due to incoming cash contributions as well as outgoing cash disbursements.

Using historical investment returns, the plan's expected asset mix, and adjusting for the difference between expected inflation and historical inflation, the 25th to 75th percentile range of annual rates of return is 6.5% 9.0%.

The Company selected a rate from within this range of 8.00%, which reflects the Company's best estimate for this assumption based on the historical data described above, information on the historical returns on assets invested in the pension trust, and expected future conditions. This rate is net of both investment related expenses and a 0.25% reduction for other administrative expenses charged to the trust.

(a) Plan Assets

The Company's weighted average asset allocations at December 31, 2006 and 2005 were as follows:

Asset category	2006	2005
Equity securities	62%	59%
Debt securities	28	31
Real estate	8	8
Other	2	2
Total	100%	100%

The Company's plan assets are invested in the National Retirement Trust. The National Retirement Trust was formed to provide financial and legal resources to help members of the BCBSA offer retirement benefits to their employees.

The investment program for the National Retirement Trust is based on the precepts of capital market theory that are generally followed by institutional investors and who by definition, are long term oriented investors. This philosophy holds that:

- Increasing risk is rewarded with compensating returns over time, and therefore, prudent risk taking is justifiable for long term investors.

- Risk can be controlled through diversification of assets classes and investment approaches, as well as diversification of individual securities.

- Risk is reduced by time, and over time the relative performance of different asset classes is reasonably consistent. Over the long term, equity investments have provided and should continue to provide superior returns over other security types. Fixed income securities can dampen volatility and provide liquidity in periods of depressed economic activity.

- The strategic or long term allocation of assets among various asset classes is an important driver of long term returns.

- Relative performance of various asset classes is unpredictable in the short term and attempts to shift tactically between asset classes are unlikely to be rewarded.

Investments will be made for the sole interest of the participants and beneficiaries of the programs participating in the National Retirement Trust. Accordingly, the assets of the National Retirement Trust shall be invested in accordance with these objectives:

- Ensure assets are available to meet current and future obligations of the participating programs when due.

- Earn a minimum rate of return no less than the actuarial interest rate.

- Earn the maximum return that can be realistically achieved in the markets over the long term at a specified and controlled level of risk in order to minimize future contributions.

- Invest the assets with the care, skill, and diligence that a prudent person acting in a like capacity would undertake. The committee acknowledges that, in the process, it has the objective of controlling the costs involved with administering and managing the investments of the National Retirement Trust.

(b) Cash Flows

The Company expects to contribute $5,000 to its pension program in 2007.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year ending December 31:	
2007	$ 3,000
2008	3,060
2009	3,980
2010	4,430
2011	4,750
2012 2017	35,075

Noncontributory Supplemental Pension Plan

In addition, the Company sponsors a noncontributory supplemental pension plan. This plan covers employees with qualified defined benefit retirement plan benefits limited by the U.S. Internal Revenue Code maximum compensation and benefit limits. At December 31, 2006, the Company has recorded an accrued liability of $1,827 and a pension liability of $1,219 to bring this liability to the level of the unfunded pension benefit obligation, in accordance with the provisions of SFAS No. 158. The pension liability was recorded through a charge to accumulated other comprehensive income, net of a deferred tax asset of $475.

(19) Catastrophe Loss Reserve and Trust Fund

In accordance with Chapter 25 of the Insurance Code, STS is required to record a catastrophe loss reserve. This catastrophe loss reserve is supported by a trust fund for the payment of catastrophe losses. This trust may invest its funds in securities authorized by the Insurance Code, but not in investments whose value may be affected by hazards covered by the catastrophic insurance losses. The interest earned on these investments and any realized gains (loss) on investment transactions are recorded as income (expense) of the Company but become part of the trust fund and the catastrophe loss reserve. The assets in this fund, which amounted to $27,051 and $25,148 as of December 31, 2006 and 2005, respectively, are reported as other assets in the accompanying consolidated balance sheets and are to be used solely and exclusively to pay catastrophe losses covered under policies written in Puerto Rico.

STS is required to make deposits to the fund, if any, on or before January 30 of the following year. Contributions are determined by a rate (1.0% for 2006 and 2005), imposed by the Commissioner of Insurance for the catastrophe policies written in that year. In January 2007 and 2006, the Company deposited to the trust fund $772 and $721, respectively, corresponding to the contributions for catastrophic policies written in 2006 and 2005, respectively.

The amount in the trust fund may be withdrawn or released in the case that STS ceases to underwrite risks subject to catastrophe losses.

Additions to the catastrophe loss reserve and the trust fund are deductible for income tax purposes.

Retained earnings are restricted in the accompanying consolidated balance sheets by the total catastrophe loss reserve balance, which as of December 31, 2006 and 2005 amounted to $27,823 and $25,869, respectively.

(20) Commitments

The Company leases its regional offices, certain equipment, and warehouse facilities under noncancelable operating leases. Minimum annual rental commitments at December 31, 2006 under existing agreements are summarized as follows:

Year ending December 31:		
2007	$	4,632
2008		3,562
2009		3,061
2010		2,652
2011		2,686
Thereafter		195
Total	$	16,788

Rental expense for 2006, 2005, and 2004 was $3,962, $2,185, and $1,653, respectively, after deducting the amount of $348, $495, and $489, respectively, reimbursed by Medicare (see note 15).

(21) Contingencies

(a) Legal Proceedings

(i) At December 31, 2006, the Company is defendant in various lawsuits arising in the ordinary course of business. In the opinion of management, with the advice of its legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the consolidated financial position and results of operations of the Company.

(ii) The Company and others are defendants in a class action complaint alleging violations under the Racketeer Influenced and Corrupt Organizations Act, better know as the RICO Act. On May 4, 2006, the Court issued an Opinion and Order, which entered a summary judgment in favor of all the defendants, and dismissing the case. Plaintiffs filed a notice of appeal before the United States Court of Appeals for the First Circuit. The Appeals Court notified the briefing schedule, and plaintiffs filed their brief on August 21, 2006. Respondent filed theirs on September 30, 2006. The parties argued the case before the First Circuit on February 6, 2007, who took the case under advice. Judgment is expected within the next 90 days. The Company is unable to estimate the range of possible loss that may be ultimately realized upon the resolution of this case. In the opinion of management, with the advice of its legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the consolidated financial position and results of operations of the Company.

(iii) TSM, TSI, and others are defendants in a complaint where the plaintiffs allege that the defendants, among other things, violated provisions of the Puerto Rico Insurance Code, anti monopolistic practices and unfair business practices. After a preliminary review of the complaint, it appears that many of the allegations brought by the plaintiffs have been resolved in favor of TSM and TSI in previous cases brought by the same plaintiffs in the U.S. District Court for the District of Puerto Rico and by most of the plaintiffs in the local courts. The defendants, including TSM and TSI answered the complaint, filed a counter claim and filed several motions to dismiss this claim. On May 9, 2005, the plaintiffs filed the amended complaint and defendants are preparing the corresponding motions to dismiss this amended complaint. The plaintiffs amended the complaint to allege similar causes of action dismissed by the U.S. District Court for the District of Puerto Rico in another case described in bullet (ii) above. Defendants moved to dismiss the amended complaint. Plaintiffs have notified their opposition to some of the defendants' motion to dismiss, and the defendants filed the corresponding replies. In 2006 the Court held several hearings to argue dispositive motions. The Court has stayed all discovery until the motions are resolved. On January 19, 2007, the Court denied a motion by the plaintiffs to dismiss the defendants' counterclaim for malicious prosecution and abuse of process. The Court ordered plaintiffs to answer counterclaim by February 20, 2007. Plaintiffs failed to do so and the Company will move to enter the default against them. Also, on February 7, 2007 the Court decided the motions to dismiss that have been filed. In summary, the Court dismissed the following counts: charitable trust, RICO and violation of due process. The dismissal of these counts affects all the plaintiffs. Other counts of the complaint, torts, breach of contract and violation of the Puerto Rico corporations' law, were dismissed only against certain of the physician plaintiffs. The Court allowed the count based on antitrust. The Company will appeal the denial of the motion to dismiss the antitrust allegations. The Company is unable to estimate the range of possible loss that may be ultimately realized upon the resolution of this case. In the opinion of management, with the advice of its legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the consolidated financial position and results of operations of the Company.

(iv) On May 22, 2003 a putative class action suit was filed by Kenneth A. Thomas, M.D. and Michael Kutell, M.D., on behalf of themselves and all others similarly situated and the Connecticut State Medical Society against the BCBSA and substantially all of the other Blue plans in the United States, including TSI. The individual plaintiffs bring this action on behalf of themselves and a class of similarly situated physicians seeking redress for alleged illegal acts of the defendants, which they allege have resulted in a loss of their property and a detriment to their business, and for declaratory and injunctive relief to end those practices and prevent further losses. Plaintiffs alleged that the defendants, on their own and as part of a common scheme, systematically deny, delay and diminish the payments due to doctors so that they are not paid in a timely manner for the covered, medically necessary services they render. The class action complaint alleges that the healthcare plans are the agents of BCBSA licensed entities, and as such have committed the acts alleged above and acted within the scope of their agency, with the consent, permission, authorization and knowledge of the others, and in furtherance of both their interest and the interests of other defendants. Management believes that TSI was brought to this litigation for the sole reason of being associated with the BCBSA. However, on June 18, 2004 the plaintiffs moved to amend the complaint to include the Colegio de Médicos y Cirujanos de Puerto Rico (a compulsory association grouping all physicians in Puerto Rico), Marissel

Velázquez, MD, President of the Colegio de Médicos y Cirujanos de Puerto Rico, and Andrés Meléndez, MD, as plaintiffs against TSI. Later Marissel Velázquez, MD voluntarily dismissed her complaint against TSI. TSI, along with the other defendants, moved to dismiss the complaint on multiple grounds, including but not limited to arbitration and applicability of the McCarran Ferguson Act. The parties are currently engaged in mediation. Twenty four (24) plans have been actively participating in the mediation efforts. The Company has accrued its best estimate of the possible outcome of this case.

(v) On December 8, 2003, a putative class action was filed by Jeffrey Solomon, MD, and Orlando Armstrong, MD, on behalf of themselves and all other similarly situated and the American Podiatric Medical Association, Florida Chiropractic Association, California Podiatric Medical Association, Florida Podiatric Medical Association, Texas Podiatric Medical Association, and Independent Chiropractic Physicians, against the BCBSA and multiple other insurance companies, including TSI, all members of the BCBSA. The individual plaintiffs bring this action on behalf of themselves and a class of similarly situated physicians seeking redress for alleged illegal acts of the defendants, which they allege have resulted in a loss of their property and a detriment to their business, and for declaratory and injunctive relief to end those practices and prevent further losses. Plaintiffs alleged that the defendants, on their own and as part of a common scheme, systematically deny, delay, and diminish the payments due to doctors so that they are not paid in a timely manner for the covered, medically necessary services they render. Management believes that TSI was made a party to this litigation for the sole reason that TSI is associated with the BCBSA. TSI, along with the other defendants, moved to dismiss the complaint under multiple grounds, including but not limited to arbitration and applicability of the McCarran Ferguson Act. During September 2006, the Court, sua sponte, ordered the parties to engage in mediation. However, the defendants presented a joint position that they do not wish to mediate but to have the class certification issue decided by the Court. On March 6, 2007 the plaintiffs filed a notice of voluntary dismissal to dismiss the complaint without prejudice, against 52 of the 74 defendants. TSI was among those 52 defendants included in the voluntary dismissal notice.

(b) Guarantee Associations

Pursuant to the Insurance Code, STS is a member of Sindicato de Aseguradores para la Suscripción Conjunta de Seguros de Responsabilidad Profesional Médico Hospitalaria (SIMED) and of the Sindicato de Aseguradores de Responsabilidad Profesional para Médicos. Both syndicates were organized for the purpose of underwriting medical hospital professional liability insurance. As a member, the subsidiary shares risks with other member companies and, accordingly, is contingently liable in the event that the above mentioned syndicates cannot meet their obligations. During 2006, and 2005, no assessments or payments were made for this contingency.

Additionally, pursuant to Article 12 of Rule LXIX of the Insurance Code, STS is a member of the Compulsory Vehicle Liability Insurance Joint Underwriting Association (the Association). The Association was organized during 1997 to underwrite insurance coverage of motor vehicle property damage liability risks effective January 1, 1998. As a participant, STS shares the risk, proportionately with other members, based on a formula established by the Insurance Code. During the three year period ended December 31, 2006, the Association distributed good experience refunds. STS received refunds amounting to $769, $918, and $840, in 2006, 2005, and 2004, respectively.

STS is a member of the Asociación de Garantía de Seguros de Todas Clases, excepto Vida, Incapacidad y Salud and TSI, GA Life and SVTS are members of the Asociación de Garantía de Seguros de Vida, Incapacidad y Salud. As members, they are required to provide funds for the payment of claims and unearned premiums reimbursements for policies issued by insurance companies declared insolvent. During 2006, 2005, and 2004, STS paid assessments of $769, $965, and $1,121, respectively. Moreover, no assessments were attributable to TSI and GA Life during 2006, 2005, and 2004.

(22) Net Income Available to Stockholders and Basic Net Income per Share

The Company presents only basic earnings per share, which is comprised of the net income that could be available to common stockholders divided by the weighted average number of common shares outstanding for the period.

The following table sets forth the computation of basic earnings per share for the three year period ended December 31, 2006, giving retroactive effect to the stock split disclosed in note 28.

	2006	2005	2004
Numerator for basic earnings per share:			
Net income available to stockholders	$ 54,533	$ 28,433	$ 45,803
Denominator for basic earnings per share:			
Weighted average of common shares outstanding	26,733,000	26,712,000	26,757,000
Basic net income per share	$ 2.04	$ 1.06	$ 1.71

(23) Dividends

On January 13, 2006, the board of directors (the Board) declared a cash dividend of $6,231 to be distributed pro rata among all of the Company's issued and outstanding common shares, excluding those shares issued to the representatives of the community that are members of the Board (the qualifying shares). All stockholders of record as of the close of business on January 16, 2006, except those who only hold qualifying shares, received a dividend per share of $0.23 for each share held on that date.

(24) Statutory Accounting

TSI, GA Life, STS and SVTS (collectively known as the regulated subsidiaries) are regulated by the Commissioner of Insurance. The regulated subsidiaries are required to prepare financial statements using accounting practices prescribed or permitted by the Commissioner of Insurance, which differ from U.S. GAAP.

The accumulated earnings of TSI, GA Life, and STS are restricted as to the payment of dividends by statutory limitations applicable to domestic insurance companies. Such limitations restrict the payment of dividends by insurance companies generally to unrestricted unassigned surplus funds reported for statutory purposes. As more fully described in note 20, a portion of the accumulated earnings of STS are also restricted by the catastrophe loss reserve balance (amounting to $27,823 and $25,869 as of December 31, 2006 and 2005, respectively) as required by the Insurance Code.

The net admitted assets, unassigned surplus, and capital and surplus of the insurance subsidiaries at December 31, 2006 and 2005 are as follows:

	2006		
	TSI	**STS**	**GA Life**
Net admitted assets	$ 559,479	$ 258,033	$ 305,508
Unassigned surplus	192,363	47,717	32,673
Capital and surplus	193,363	84,041	35,233

	2005		
	TSI	**STS**	**SVTS**
Net admitted assets	$ 504,435	$ 246,429	$ 199,728
Unassigned surplus	167,812	41,796	16,454
Capital and surplus	194,812	76,164	19,014

The net income (loss) of the insurance subsidiaries for the years ended December 31, 2006, 2005, and 2004 is as follows:

	TSI	**STS**	**SVTS**	**GA Life**
2006	$ 11,349	$ 7,922	$	$ 7,097
2005	16,126	10,107	(58,046)	
2004	31,045	9,589	607	

(25) Supplementary Information on Noncash Transactions Affecting Cash Flow Activities

	2006	2005	2004
Supplementary information on noncash transactions affecting cash flows activities:			
Change in net unrealized gain on securities available for sale, including deferred income tax liability of $2, $805, and $3,330 in 2006, 2005, and 2004, respectively	$ (3,212)	$ (18,832)	$ 1,101
Retirement of fully depreciated items			13,054
Change in cash-flow hedges, including deferred income tax liability of $196 and $236 in 2006 and 2005 and deferred income tax asset of $56 in 2004	(65)	457	281
Change in minimum pension liability, including related intangible asset of $606, $550, and $598 and deferred income tax asset of $2,340, $5,303, and $3,576, in 2006, 2005, and 2004, respectively	4,952	(2,788)	(3)
Adjustment to initially apply SFAS No. 158, including deferred income tax effect of $10,152 in 2006.	(16,081)		

On January 31, 2006, the Company acquired GA Life. Refer to note 3 for a summary of assets acquired and liabilities assumed as part of the acquisition.

(26) Segment Information

The operations of the Company are conducted principally through three business segments: Managed Care, Life and Accident and Health Insurance (the Life Insurance segment), and Property and Casualty Insurance. In prior periods the Company presented the Managed Care segment segregated in two segments: Health Insurance Commercial and Health Insurance Reform. Both of these segments are now aggregated under the caption of Managed Care segment in accordance with the aggregation criteria established by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. Business segments were identified according to the type of insurance products offered. These segments and a description of their respective operations are as follows:

Managed Care segment TSI is engaged in the sale of managed care products to the Commercial market sector (including corporate accounts, U.S. federal government employees, local government employees, individual accounts and Medicare supplement) as well as to the Medicare Advantage, the Government of Puerto Rico Health Reform (the Reform) and stand-alone PDP. The following represents a description of the major contracts by sector:

Commercial The premiums for this business are mainly originated through TSI's internal sales force and a network of brokers and independent agents. TSI is a qualified contractor to provide health coverage to federal government employees within Puerto Rico. Earned premiums revenue related to this contract amounted to $113,355, $113,181, and $108,143 for the three year period ended December 31, 2006, 2005, and 2004, respectively (see note 10). Under its Commercial business, TSI also provides health coverage to certain employees of the Commonwealth of Puerto Rico and its instrumentalities. Earned premium revenue related to such health plans amounted to $54,143, $64,623, and $67,082, for the three year period ended December 31, 2006, 2005, and 2004, respectively. TSI also processes and pays claims as fiscal intermediary for the Medicare Part B Program in Puerto Rico and is reimbursed for operating expenses (see note 15).

Medicare Advantage and Stand-alone PDP TSI provides services through its Medicare Advantage health plans pursuant to a limited number of contracts with CMS. These contracts generally have terms of one year and must be renewed each year. Each of our contracts with CMS is terminable for cause if TSI breaches a material provision of the contract or violate relevant laws or regulations. The premiums for this business are mainly originated through TSI's internal sales force and a network of brokers and independent agents. Earned premium revenue related to the Medicare Advantage business amounted to $170,820 and $34,236 for the years ended December 31, 2006 and 2005, respectively. There were no earned premiums for this business during the year ended December 31, 2004.

Reform TSI participates in the Reform to provide health coverage to medically indigent citizens in Puerto Rico. The Reform program provides health coverage to medically indigent citizens in Puerto Rico, as defined by the laws of the Commonwealth of Puerto Rico. The Reform consists of a single policy with the same benefits for each qualified medically indigent citizen. Earned premium revenue related to this business amounted to $455,891, $510,839, and $484,742, for three year period ended December 31, 2006, 2005, and 2004, respectively. During these periods, TSI was the sole provider in three of the eight Reform regions in Puerto Rico. Since the Reform's inception in 1995, TSI had been the sole provider for two to three regions each year. The contract for each geographical area is subject to termination in the event of any non-compliance by the insurance company, which is not corrected or cured to the satisfaction of the government entity overseeing the Reform, or on ninety days' prior written notice in the event that the government determines that there is an insufficiency of funds to finance the Reform. These contracts usually have one-year terms and expire on September 30. Upon the expiration of the contract for a geographical area, of the Commonwealth of Puerto Rico usually commences an open bidding process to select the carrier for each area. In October 2006, TSI was informed that the new contract to serve one of these regions, Metro-North, had been awarded to another managed care company effective November 1, 2006. The contracts for the other two areas were renewed for a one-year period ending September 2007. In addition, the Reform contracts stipulate that in the event that the net income for any given contract year, as defined, exceeds 2.5% of the premiums collected for the related contract year, TSI would need to return 75% of this excess to the Commonwealth of Puerto Rico.

Life Insurance segment This segment offers primarily life and accident and health insurance coverage, and annuity products. The premiums for this segment are mainly subscribed through GA Life's internal sales force and a network of independent brokers and agents.

Property and Casualty Insurance segment The predominant insurance lines of business of this segment are commercial multiple peril, auto physical damage, auto liability, and dwelling. The premiums for this segment are originated through a network of independent insurance agents and brokers. Agents or general agencies collect the premiums from the insureds, which are subsequently remitted to STS, net of commissions. Remittances are due 60 days after the closing date of the general agent's account current.

The Company evaluates performance based primarily on the operating revenues and operating income of each segment. Operating revenues include premiums earned, net, administrative service fees and net investment income. Operating costs include claims incurred and operating expenses. The Company calculates operating income or loss as operating revenues less operating costs.

The accounting policies for the segments are the same as those described in the summary of significant accounting policies included in the notes to consolidated financial statements. Services provided between reportable segments are done at transfer prices which approximate fair value. The financial data of each segment is accounted for separately; therefore no segment allocation is necessary. However, certain operating expenses are centrally managed, therefore requiring an allocation to each segment. Most of these expenses are distributed to each segment based on different parameters, such as payroll hours, processed claims, or square footage, among others. In addition, some depreciable assets are kept by one segment, while allocating the depreciation expense to other segments. The allocation of the depreciation expense is based on the proportion of asset used by each segment. Certain expenses are not allocated to the segments and are kept within TSM's operations.

The following tables summarize the operations by operating segment for each of the years in the three-year period ended December 31, 2006, 2005, and 2004.

	2006	2005	2004
Operating revenues:			
Managed care:			
Premiums earned, net	$ 1,337,070	$ 1,276,307	$ 1,196,289
Fee revenue	14,089	14,445	9,242
Intersegment premiums/fee revenue	5,531	4,274	3,945
Net investment income	18,852	16,958	16,020
Total managed care	1,375,542	1,311,984	1,225,496
Life:			
Premiums earned, net	86,595	17,130	16,442
Intersegment premiums	293		
Net investment income	13,749	3,018	2,778
Total life	100,637	20,148	19,220
Property and casualty:			
Premiums earned, net	87,961	86,767	86,228
Intersegment premiums	591		
Net investment income	9,589	8,706	7,668
Total property and casualty	98,141	95,473	93,896
Other segments intersegment service revenues*	53,375	50,004	47,971
Total business segments	1,627,695	1,477,609	1,386,583
TSM operating revenues from external sources	467	456	354
Elimination of intersegment premiums	(6,415)	(4,274)	(3,945)
Elimination of intersegment service revenue	(53,375)	(50,004)	(47,971)
Consolidated operating revenues	$ 1,568,372	$ 1,423,787	$ 1,335,021

* Includes segments that are not required to be reported separately. These segments include the data processing services organization as well as the third-party administrator of health insurance services.

	2006	2005	2004
Operating revenues:			
Managed care	$ 45,472	$ 16,112	$ 36,204
Life	11,196	3,045	642
Property and casualty	11,250	12,244	7,737
Other segments*	1,115	543	1,115
Total business segments	69,033	31,944	45,698
TSM operating revenues from external sources	467	456	354
TSM unallocated operating expenses	(6,648)	(5,271)	(4,787)
Elimination of TSM charges	10,474	6,588	6,084
Consolidated operating income	73,326	33,717	47,349
Consolidated net realized investment gains	837	7,161	10,968
Consolidated net unrealized gain (loss) on trading securities	7,699	(4,709)	3,042
Consolidated interest expense	(16,626)	(7,595)	(4,581)
Consolidated other income, net	2,323	3,732	3,360
Consolidated income before taxes	$ 67,559	$ 32,306	$ 60,138
Depreciation expense:			
Managed care	$ 3,788	$ 3,640	$ 3,630
Life	750	439	418
Property and casualty	775	62	177
Total business segments	5,313	4,141	4,225
TSM depreciation expense	1,130	1,089	1,118
Consolidated depreciation expense	$ 6,443	$ 5,230	$ 5,343

* Includes segments that are not required to be reported separately. These segments include the data processing services organization as well as the third-party administrator of health insurance services.

	2006	2005
Assets:		
Managed care	$ 600,948	$ 541,973
Life	407,994	271,615
Property and casualty	326,894	307,228
Other segments*	7,807	4,310
Total business segments	1,343,643	1,125,126
Unallocated amounts related to TSM:		
Cash, cash equivalents, and investments	11,879	11,054
Property and equipment, net	23,792	24,760
Other assets	4,096	5,227
	39,767	41,041
Elimination entries intersegment receivables and others	(37,901)	(28,705)
Consolidated total assets	$ 1,345,509	$ 1,137,462

	2006	2005
Significant noncash items:		
Net change in unrealized gain on securities available for sale:		
Managed care	$ (1,560)	$ (13,733)
Life	(1,457)	(1,844)
Property and casualty	(183)	(3,090)
Total business segments	(3,200)	(18,667)
Amount related to TSM	(12)	(165)
Consolidated net change in unrealized gain on securities available for sale	$ (3,212)	$ (18,832)
Net change in minimum pension liability:		
Managed care	$ 3,795	$ (2,048)
Life and Disability	212	(76)
Property and casualty	197	(142)
Other segments*	614	(453)
Total business segments	4,818	(2,719)
Amount related to TSM	134	(69)
Consolidated net change in minimum pension liability	$ 4,952	$ (2,788)
Adjustment to initially apply SFAS No. 158, net of tax:		
Managed care	$ (10,959)	
Life	(1,145)	
Property and casualty	(144)	
Other segments*	(3,278)	
Total business segments	(15,526)	
Amount related to TSM	(555)	

	2006	2005
Consolidated net change in minimum pension liability	$ (16,081)	

* Includes segments that are not required to be reported separately. These segments include the data processing services organization as well as the third-party administrator of health insurance services.

(27) Quarterly Financial Information (Unaudited)

The results of operations of GA Life are included in the quarterly financial information for the period following January 31, 2006.

	2006				
	March 31	June 30	September 30	December 31	Total
Revenues:					
Premiums earned, net	$ 382,104	$ 389,210	$ 392,004	$ 348,308	$ 1,511,626
Administrative service fees	3,429	3,202	3,725	3,733	14,089
Net investment income	10,050	10,766	10,509	11,332	42,657
Total operating revenues	395,583	403,178	406,238	363,373	1,568,372
Net realized investment gains (losses)	528	433	363	(487)	837
Net unrealized investment gain (loss) on trading securities	2,556	(2,245)	3,407	3,981	7,699
Other income (loss), net	1,199	(1,286)	1,295	1,115	2,323
Total revenues	399,866	400,080	411,303	367,982	1,579,231
Benefits and expenses					
Claims incurred	326,684	334,186	319,365	278,746	1,258,981
Operating expenses	57,730	56,932	55,810	65,593	236,065
Total operating costs	384,414	391,118	375,175	344,339	1,495,046
Interest expense	3,394	3,692	4,089	5,451	16,626
Total benefits and expenses	387,808	394,810	379,264	349,790	1,511,672
Income before taxes	12,058	5,270	32,039	18,192	67,559
Income tax expense (benefit):					
Current	2,636	779	6,130	5,862	15,407
Deferred	41	(128)	1,079	(3,373)	(2,381)
Total income taxes	2,677	651	7,209	2,489	13,026
Net income	$ 9,381	$ 4,619	$ 24,830	$ 15,703	$ 54,533
Basic net income per share (note 28)	$ 0.35	$ 0.17	$ 0.93	$ 0.59	$ 2.04

	2005				
	March 31	June 30	September 30	December 31	Total
Revenues:					
Premiums earned, net	$ 333,389	$ 339,618	$ 345,728	$ 361,469	$ 1,380,204
Administrative service fees	3,375	3,137	3,234	4,699	14,445
Net investment income	7,064	7,217	7,158	7,699	29,138
Total operating revenues	343,828	349,972	356,120	373,867	1,423,787
Net realized investment gains	3,314	1,363	1,857	627	7,161
Net unrealized investment gain (loss) on trading securities	(5,793)	(634)	905	813	(4,709)
Other income (loss), net	632	(142)	1,576	1,666	3,732
Total revenues	341,981	350,559	360,458	376,973	1,429,971
Benefits and expenses:					
Claims incurred	302,923	297,901	299,577	307,966	1,208,367
Operating expenses	43,766	45,453	44,568	47,916	181,703
Total operating costs	346,689	343,354	344,145	355,882	1,390,070
Interest expense	1,788	1,856	1,880	2,071	7,595
Total benefits and expenses	348,477	345,210	346,025	357,953	1,397,665
Income (loss) before taxes	(6,496)	5,349	14,433	19,020	32,306
Income tax expense (benefit):					
Current	1,221	758	802	1,252	4,033
Deferred	(2,510)	183	1,758	409	(160)
Total income taxes	(1,289)	941	2,560	1,661	3,873
Net income (loss)	$ (5,207)	$ 4,408	$ 11,873	$ 17,359	$ 28,433
Basic net income (loss) per share	(0.20)	0.17	0.44	0.65	1.06

(28) Subsequent Events

After an amendment to the Company's Articles of Incorporation that was effective February 2007, the Company was authorized to issue 100,000,000 shares of common stock with a par value of $1.00 per share.

On April 24, 2007, the Company's Board of Directors authorized a 3,000-for-one stock split to be effected in the form of a dividend. This stock split is effective on May 1, 2007 to all stockholders of record at the close of business on April 24, 2007. The total number of authorized shares and par value, as described in the preceding paragraph, were unchanged by this action. The par value of the additional shares resulting from the stock split was reclassified from additional paid in capital to common stock. All references to the number of shares and per share amounts in these consolidated financial statements are presented after giving retroactive effect to the stock split.

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(Dollar amounts in thousands, except per share data)

	(Unaudited) September 30, 2007	December 31, 2006
ASSETS		
Investments and cash:		
Securities held for trading, at fair value:		
Equity securities	$ 69,968	$ 83,447
Securities available for sale, at fair value:		
Fixed maturities	728,649	702,566
Equity securities	73,406	61,686
Securities held to maturity, at amortized cost:		
Fixed maturities	46,331	47,989
Policy loans	5,491	5,194
Cash and cash equivalents	95,973	81,564
Total investments and cash	1,019,818	982,446
Premiums and other receivables, net	205,034	165,626
Deferred policy acquisition costs and value of business acquired	114,352	111,417
Property and equipment, net	42,529	41,615
Net deferred tax asset	8,363	9,292
Other assets	34,465	35,113
Total assets	$ 1,424,561	$ 1,345,509
LIABILITIES AND STOCKHOLDERS' EQUITY		
Claim liabilities:		
Claims processed and incomplete	$ 168,914	$ 147,211
Unreported losses	162,401	150,735
Unpaid loss-adjustment expenses	17,244	16,736
Total claim liabilities	348,559	314,682
Liability for future policy benefits	190,508	180,420
Unearned premiums	98,838	113,582
Policyholder deposits	46,136	45,425
Liability to Federal Employees' Health Benefits Program	19,637	13,563
Accounts payable and accrued liabilities	134,345	110,609
Borrowings	171,357	183,087
Income tax payable		9,242
Liability for pension benefits	32,315	32,300
Total liabilities	1,041,695	1,002,910
Stockholders' equity:		
Common stock	26,772	26,733
Additional paid-in capital	123,993	124,031
Retained earnings	249,618	211,266
Accumulated other comprehensive loss	(17,517)	(19,431)

	(Unaudited) September 30, 2007	December 31, 2006
Total stockholders' equity	382,866	342,599
Total liabilities and stockholders' equity	$ 1,424,561	$ 1,345,509

See accompanying notes to unaudited consolidated financial statements.

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings (Unaudited)

For the three months and nine months ended September. 30, 2007 and 2006

(Dollar amounts in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
REVENUES:				
Premiums earned, net	$ 375,803	390,431	$ 1,101,614	1,158,599
Administrative service fees	3,908	3,725	11,034	10,356
Net investment income	11,229	10,509	33,397	31,325
Total operating revenues	390,940	404,665	1,146,045	1,200,280
Net realized investment gains	1,183	363	6,163	1,324
Net unrealized investment gain (loss) on trading securities	588	3,407	(764)	3,718
Other income (expense), net	(525)	1,295	1,842	1,208
Total revenues	392,186	409,730	1,153,286	1,206,530
BENEFITS AND EXPENSES:				
Claims incurred	$ 310,033	317,388	$ 915,374	974,304
Operating expenses	57,944	55,810	173,439	170,472
Total operating costs	367,977	373,198	1,088,813	1,144,776
Interest expense	3,938	4,493	11,948	12,387
Total benefits and expenses	371,915	377,691	1,100,761	1,157,163
Income before taxes	20,271	32,039	52,525	49,367
INCOME TAX EXPENSE (BENEFIT):				
Current	$ 4,575	6,130	$ 11,573	9,545
Deferred	206	1,079	152	992
Total income taxes	4,781	7,209	11,725	10,537
Net income	$ 15,490	24,830	$ 40,800	38,830
Basic net income per share (note 7)	$ 0.58	0.93	$ 1.53	1.45

See accompanying notes to unaudited consolidated financial statements.

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Unaudited)

For the nine months ended September 30, 2007 and 2006

(Dollar amounts in thousands, except per share data)

	2007	2006
BALANCE AT JANUARY 1	$ 342,599	$ 308,703
Dividends	(2,448)	(6,231)
Other	1	
Comprehensive income (loss):		
Net income	40,800	38,830
Net unrealized change in fair value of available for sale securities	1,137	(3,487)
Defined benefit pension plan:		
Actuarial loss, net	935	
Prior service cost, net	27	
Net change in fair value of cash flow hedges	(185)	(30)
Total comprehensive income	42,714	35,313
BALANCE AT SEPTEMBER 30	$ 382,866	$ 337,785

See accompanying notes to unaudited consolidated financial statements.

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

For the nine months ended September 30, 2007 and 2006

(Dollar amounts in thousands, except per share data)

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Net income	$ 40,800	$ 38,830
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,413	4,486
Net amortization of investments	556	135
Provision for doubtful receivables	1,902	1,588
Deferred tax expense	152	992
Net gain on sale of securities	(6,163)	(1,324)
Net unrealized (gain) loss of trading securities	764	(3,718)
Proceeds from trading securities sold:		
Equity securities	38,309	14,137
Acquisition of securities in trading portfolio:		
Equity securities	(19,172)	(14,599)
Loss on sale of property and equipment	2	22
(Increase) decrease in assets:		
Premiums receivable	(21,258)	(34,552)
Agent balances	2,084	(528)
Accrued interest receivable	(1,314)	(21)
Other receivables	(4,289)	(2,843)
Reinsurance recoverable on paid losses	(16,409)	(3,637)
Deferred policy acquisition costs and value of business acquired	(2,935)	(4,066)
Prepaid income tax	(2,598)	3,353
Other assets	2,942	459
Increase (decrease) in liabilities:		
Claims processed and incomplete	21,703	18,971
Unreported losses	11,666	17,402
Unpaid loss-adjustment expenses	508	1,414
Liability for future policy benefits	10,088	10,254
Unearned premiums	(14,744)	(3,832)
Policyholder deposits	1,192	1,356
Liability to FEHBP	6,074	(1,812)
Accounts payable and accrued liabilities	5,459	3,970
Income tax payable	(9,242)	4,677
Net cash provided by operating activities	$ 51,490	$ 51,114

(continued)

(continued from previous page)		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	$ 101,828	$ 16,151
Fixed maturities matured	25,733	30,895
Equity securities	1,000	1,209
Fixed maturity securities held to maturity	7,172	342
Acquisition of investments:		
Securities available for sale:		
Fixed maturities	(147,357)	(54,221)
Equity securities	(16,759)	(11,517)
Securities held to maturity:		
Fixed maturities	(4,891)	(1,688)
Acquisition of business, net of $10,403 of cash acquired		(27,793)
Net disbursements for policy loans	(297)	(502)
Capital expenditures	(6,329)	(9,468)
Net cash used in investing activities	(39,900)	(56,592)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in outstanding checks in excess of bank balances	$ 17,477	$ 490
Repayments of short-term borrowings	(43,559)	(119,547)
Proceeds from short-term borrowings	43,559	117,807
Repayments of long-term borrowings	(11,730)	(2,093)
Proceeds from long-term borrowings		35,000
Dividends paid	(2,448)	(6,231)
Proceeds from policyholder deposits	5,133	4,389
Surrenders of policyholder deposits	(5,614)	(10,213)
Other	1	
Net cash provided by financing activities	2,819	19,602
Net increase in cash and cash equivalents	14,409	14,124
Cash and cash equivalents at beginning of the period	81,564	49,050
Cash and cash equivalents at end of the period	$ 95,973	$ 63,174

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2007

(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 (the Corporation) are unaudited, except for the balance sheet information as of December 31, 2006, which is derived from the Corporation's audited consolidated financial statements, pursuant to the rules and regulations of the United States Securities and Exchange Commission. The consolidated interim financial statements do not include all of the information and the footnotes required by U.S. generally accepted accounting principles 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, 2006.

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 and nine months ended September 30, 2007 are not necessarily indicative of the results for the full year.

Certain amounts in the 2006 consolidated financial statements were reclassified to conform to the 2007 presentation.

(2) Recent Accounting Standards

There were no new accounting pronouncements issued during the first six months of 2007 that have not been disclosed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006.

The Corporation adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48) on January 1, 2007. See note 9 for details.

(3) Segment Information

The operations of the Corporation are conducted principally through three business segments: Managed Care, Life and Accident and Health Insurance (the Life Insurance segment), 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 and net investment income. 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 major operating segment for the three months and nine months ended September 30, 2007 and 2006:

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Operating revenues:				
Managed Care:				
Premiums earned, net	$ 330,366	346,668	$ 965,909	1,028,452
Administrative service fees	3,908	3,725	11,034	10,356
Intersegment premiums /service fees	1,309	1,335	4,717	4,224
Net investment income	4,848	4,770	14,338	13,842
Total managed care	340,431	356,498	995,998	1,056,874
Life Insurance:				
Premiums earned, net	21,974	21,936	66,837	64,434
Intersegment premiums	92	79	264	235
Net investment income	3,695	3,285	11,054	10,117
Total life	25,761	25,300	78,155	74,786
Property and Casualty Insurance:				
Premiums earned, net	23,463	21,827	68,868	65,713
Intersegment premiums	154	154	462	438
Net investment income	2,566	2,340	7,645	7,020
Total property and casualty	26,183	24,321	76,975	73,171
Other segments intersegment service revenues*	10,683	12,855	32,325	38,320
Total business segments	403,058	418,974	1,183,453	1,243,151
TSM operating revenues from external sources	120	114	360	346
Elimination of intersegment premiums	(1,555)	(1,568)	(5,433)	(4,897)
Elimination of intersegment service fees	(10,683)	(12,855)	(32,325)	(38,320)
Consolidated operating revenues	$ 390,940	404,665	$ 1,146,045	1,200,280

* Includes segments that are not required to be reported separately. These segments include the data processing services organization as well as the third-party administrator of managed care services.

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Operating income:				
Managed care	$ 17,499	22,377	$ 39,396	33,165
Life insurance	2,605	3,089	8,260	9,069
Property and casualty insurance	1,508	3,756	6,494	7,946
Other segments*	509	505	787	1,009
Total business segments	22,121	29,727	54,937	51,189
TSM operating revenues from external sources	120	114	360	346
TSM unallocated operating expenses	(2,006)	(1,120)	(6,279)	(3,762)
Elimination of TSM intersegment charges	2,728	2,746	8,214	7,731
Consolidated operating income	22,963	31,467	57,232	55,504
Consolidated net realized investment gains	1,183	363	6,163	1,324
Consolidated net unrealized gain (loss) on trading securities	588	3,407	(764)	3,718
Consolidated interest expense	(3,938)	(4,493)	(11,948)	(12,387)
Consolidated other income, net	(525)	1,295	1,842	1,208
Consolidated income before taxes	$ 20,271	32,039	$ 52,525	49,367
Depreciation expense:				
Managed care	$ 1,167	977	$ 2,925	2,786
Life insurance	193	195	532	512
Property and casualty insurance	377	101	1,114	340
Total business segments	1,737	1,273	4,571	3,638
TSM depreciation expense	281	283	842	1,121
Consolidated depreciation expense	$ 2,018	1,556	$ 5,413	4,759

* Includes segments that are not required to be reported separately. These segments include the data processing services organization as well as the third-party administrator of managed care services.

		September 30, 2007	December 31, 2006
Assets:			
Managed care	$	633,847	600,948
Life insurance		424,326	407,994
Property and casualty insurance		354,444	326,894
Other segments*		8,350	7,807
Total business segments		1,420,507	1,343,643
Unallocated amounts related to TSM:			
Cash, cash equivalents, and investments		10,346	11,879
Property and equipment, net		22,801	23,792
Other assets		3,044	4,096
		36,191	39,767
Elimination entries-intersegment receivables and others		(32,137)	(37,901)
Consolidated total assets	$	1,424,561	1,345,509
Significant noncash items:			
Net change in unrealized gain on securities available for sale:			
Managed care	$	(449)	(1,560)
Life insurance		(690)	(1,457)
Property and casualty insurance		2,184	(183)
Total business segments		1,045	(3,200)
Amount related to TSM		92	(12)
Consolidated net change in unrealized gain on securities available for sale	$	1,137	(3,212)
Net change in defined benefit pension plan liability:			
Managed care	$	658	3,795
Life		9	212
Property and casualty		69	197
Other segments*		205	614
Total business segments		941	4,818
Amount related to TSM		21	134
Consolidated net change in defined benefit pension plan liability	$	962	4,952

* Includes segments that are not required to be reported separately. These segments include the data processing services organization as well as the third-party administrator of managed care services.

(4) Investment in Securities

The amortized cost for debt securities and equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for trading, available-for-sale and held-to-maturity securities by major security type and class of security at September 30, 2007 and December 31, 2006, were as follows:

	September 30, 2007			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Trading securities:				
Equity securities	$ 54,215	16,525	(772)	69,968
Securities available for sale:				
Fixed maturities	735,033	1,969	(8,353)	728,649
Equity securities	65,586	10,200	(2,380)	73,406
	800,619	12,169	(10,733)	802,055
Securities held to maturity:				
Fixed maturities	46,331	53	(710)	45,674
	$ 901,165	28,747	(12,215)	917,697

	December 31, 2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Trading securities:				
Equity securities	$ 66,930	17,436	(919)	83,447
Securities available for sale:				
Fixed maturities	714,113	590	(12,137)	702,566
Equity securities	50,132	13,112	(1,558)	61,686
	764,245	13,702	(13,695)	764,252
Securities held to maturity:				
Fixed maturities	47,989	383	(1,491)	46,881
	$ 879,164	31,521	(16,105)	894,580

Investment in securities at September 30, 2007 are mostly comprised of U.S. Treasury securities, obligations of government sponsored enterprises and obligations of U.S. government instrumentalities (58.9%), mortgage backed and collateralized mortgage obligations that are U.S. agency-backed (7.6%) and obligations of the government of Puerto Rico and its instrumentalities (6.9%). The remaining 26.6% of the investment portfolio is comprised of corporate bonds, equity securities and mutual funds.

The Corporation regularly monitors the difference between the cost and estimated fair value of investments. For investments with a fair value below cost, the process includes evaluating the length of time and the extent to which cost exceeds fair value, the prospects and financial condition of the issuer, and the Corporation's intent and ability to retain the investment to allow for recovery in fair value, among other factors. This process is not exact and further requires consideration of risks such as credit and interest rate risks. Consequently, if an investment's cost exceeds its fair value solely due to changes in interest rates, impairment may not be appropriate. If after monitoring and analyzing, the Corporation determines that a decline in the estimated fair value of any available-for-sale or held-to-maturity security below cost is other than temporary, the carrying amount of the security is reduced to its fair value. The impairment is charged to operations and a new cost basis for the security is established. During the nine months ended September 30, 2007 and 2006 the Corporation recognized other-than-temporary impairments amounting to $564 and $1,350, respectively, on its equity securities classified as available for sale.

(5) Premiums and Other Receivables

Premiums and other receivables as of September 30, 2007 and December 31, 2006 were as follows:

		September 30, 2007	**December 31, 2006**
Premium	$	68,696	53,377
Self-funded group receivables		30,038	24,854
FEHBP		9,942	9,187
Agents balances		26,729	28,813
Accrued interest		9,368	8,054
Reinsurance recoverable on paid losses		57,294	40,885
Other		23,099	18,686
		225,166	183,856
Less allowance for doubtful receivables:			
Premium	$	13,195	12,128
Other		6,937	6,102
		20,132	18,230
Total premiums and other receivables	$	205,034	165,626

(6) Claim Liabilities

The activity in the total claim liabilities for the three months and nine months ended September 30, 2007 and 2006 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Claim liabilities at beginning of period	$ 344,816	341,598	$ 314,682	297,563
Reinsurance recoverable on claim liabilities	(50,003)	(29,173)	(32,066)	(28,720)
Net claim liabilities at beginning of period	294,813	312,425	282,616	268,843
Claim liabilities acquired from GA Life				8,771
Incurred claims and loss-adjustment expenses:				
Current period insured events	311,925	317,413	931,605	975,170
Prior period insured events	(4,815)	(6,163)	(25,753)	(12,471)
Total	307,110	311,250	905,852	962,699
Payments of losses and loss-adjustment expenses:				
Current period insured events	288,469	289,548	711,175	748,093
Prior period insured events	14,776	20,010	178,615	178,103
Total	303,245	309,558	889,790	926,196
Net claim liabilities at end of period	298,678	314,117	298,678	314,117
Reinsurance recoverable on claim liabilities	49,881	30,416	49,881	30,416
Claim liabilities at end of period	$ 348,559	344,533	$ 348,559	344,533

As a result of differences between actual amounts and estimates of insured events in prior periods, the amounts included as incurred claims for prior period insured events differ from anticipated claims incurred.

The amount included in the incurred claims and loss-adjustment expenses for prior period insured events for the three months and nine months ended September 30, 2007 and 2006 represents a favorable development of claim liabilities due primarily to better than expected utilization trends.

(7) Capital Stock

The Corporation is authorized to issue 100,000,000 shares of common stock with a par value of $1.00 per share pursuant to an amendment to the Corporation's Article of Incorporation that became effective in February 2007.

On April 24, 2007, the Corporation's Board of Directors (the Board) authorized a 3,000-for-one stock split effected in the form of a dividend of 2,999 shares for every one share outstanding. This stock split was effective on May 1, 2007 to all stockholders of record at the close of business on April 24, 2007. The total number of authorized shares and par value per share were unchanged by this action. The par value of the additional shares resulting from the stock split was reclassified from additional paid in capital to common stock. All references to the number of shares and per share amounts in this consolidated financial statements are presented after giving retroactive effect to the stock split.

On May 2007, the Corporation cancelled 24,000 director qualifying shares. As of February 2007, Board members are no longer required to hold qualifying shares to participate in the Board of Directors of the Corporation.

(8) Borrowings

A summary of the Corporation's borrowings at September 30, 2007 and December 31, 2006 is as follows:

	September 30, 2007	December 31, 2006
Secured loan payable of $20,000, payable in various installments through August 1, 2007, with interest payable on a monthly basis at a rate reset periodically of 130 basis points over selected LIBOR maturity (which was 6.67% at December 31, 2006).	$	$ 10,500
Senior unsecured notes payable of $50,000 due September 2019. Interest is payable semiannually at a fixed rate of 6.30%.	50,000	50,000
Senior unsecured notes payable of $60,000 due December 2020. Interest is payable monthly at a fixed rate of 6.60%.	60,000	60,000
Senior unsecured notes payable of $35,000 due January 2021. Interest is payable monthly at a fixed rate of 6.70%.	35,000	35,000
Secured loan payable of $41,000, payable in monthly installments of $137 through July 1, 2024, plus interest at a rate reset periodically of 100 basis points over selected LIBOR maturity (which was 6.72% and 6.35% at September 30, 2007 and December 31, 2006, respectively).	26,357	27,587
Total borrowings	$ 171,357	$ 183,087

(9) Comprehensive Income

The accumulated balances for each classification of other comprehensive income are as follows:

		Unrealized gain (loss) on securities	Liability for pension benefits	Cash flow hedges	Accumulated other comprehensive income
BALANCE AT JANUARY 1	$	5	(19,742)	306	(19,431)
Net current period change		1,137	962	(185)	1,914
BALANCE AT SEPTEMBER 30	$	1,142	(18,780)	121	(17,517)

(10) Income Taxes

Under Puerto Rico income tax law, the Corporation is not allowed to file consolidated tax returns with its subsidiaries. The Corporation and its subsidiaries are subject to Puerto Rico income taxes. The Corporation's insurance subsidiaries are also subject to U.S. federal income taxes for foreign source dividend income. As of January 1, 2007, tax years 2003 through 2006 for the Corporation and its subsidiaries are subject to examination by Puerto Rico taxing authorities.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of earnings in the period that includes the enactment date. Quarterly income taxes are calculated using the effective tax rate determined based on the income forecasted for the full fiscal year.

In June 2006, FASB issued FIN 48, which among other things, provides guidance to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing a minimum recognition threshold which income tax positions must achieve before being recognized in the financial statements. In addition, FIN 48 requires expanded annual disclosures, including a rollforward of the beginning and ending aggregate unrecognized taxes as well as specific detail related to tax uncertainties for which it is reasonably possible the amount of unrecognized taxes will significantly increase or decrease within twelve months. The Corporation adopted FIN 48 on January 1, 2007; no adjustment was required upon the adoption of this accounting pronouncement.

(11) Pension Plan

The components of net periodic benefit cost for the three months and nine months ended September 30, 2007 and 2006 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Components of net periodic benefit cost:				
Service cost	$ 1,254	1,350	$ 4,194	4,042
Interest cost	1,195	1,151	3,916	3,454
Expected return on assets	(1,034)	(954)	(3,395)	(2,880)
Prior service cost	14	12	44	36
Actuarial loss	501	602	1,526	1,794
Net periodic benefit cost	$ 1,930	2,161	$ 6,285	6,446

Employer contributions

The Corporation disclosed in its audited consolidated financial statements for the year ended December 31, 2006 that it expected to contribute $5,000 to its pension program in 2007. As of September 30, 2007, the Corporation contributed $5,000 to the pension program.

(12) Net Income Available to Stockholders and Net Income per Share

The Corporation presents only basic earnings per share, which consists of the net income that is available to common stockholders divided by the weighted-average number of common shares outstanding for the period.

The following table sets forth the computation of basic net income per share after giving retroactive effect to the stock split disclosed in note 7:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Numerator for basic earnings per share:				
Net income available to stockholders	$ 15,490	24,830	$ 40,800	38,830
Denominator for basic earnings per share:				
Weighted average of outstanding common shares giving effect to 3,000-for-one stock split	26,772,000	26,733,000	26,741,333	26,728,333
Basic net income per share giving effect to 3,000-for-one stock split	$ 0.58	0.93	$ 1.53	1.45

(13) Contingencies

Various litigation claims and assessments against the Corporation have arisen in the ordinary course of business, including but not limited to, its activities as an insurer and employer. Furthermore, the Commissioner of Insurance, as well as other Federal and Puerto Rico government authorities, regularly make inquiries and conduct audits concerning our compliance with applicable insurance and other laws and regulations. Management believes, based on the opinion of legal counsel, that the aggregate liabilities, if any, arising from such claims, assessments, audits and lawsuits would not have a material adverse effect on the consolidated financial position or results of operations of the Corporation. However, given the inherent unpredictability of these matters, it is possible that an adverse outcome in certain matters could have a material adverse effect on our operating results and/or cash flows. Where the Corporation believes that a loss is both probable and estimable, such amounts have been recorded. In other cases, it is at least reasonably possible that the Corporation may have incurred a loss related to one or more of the mentioned pending lawsuits or investigations, but the Corporation is unable to estimate the range of possible loss which may be ultimately realized, either individually or in the aggregate, upon their resolution.

Sánchez Litigation

On September 4, 2003, José Sánchez and others filed a putative class action complaint against us, present and former directors of the board of directors and our managed care subsidiary, and others, in the United States District Court for the District of Puerto Rico, alleging violations under the Racketeer Influenced and Corrupt Organizations Act (RICO). The class action complaint, which was amended on March 24, 2005, seeks damages in excess of $40 million. The plaintiffs purport to represent, among others, providers of medical products and services covered under policies issued or administered by the defendants, as well as the subscribers to those policies. Among other allegations, the suit alleges a scheme to defraud the plaintiffs by acquiring control of our managed care subsidiary through illegally capitalizing our managed care subsidiary and later converting it to a for profit corporation and depriving the shareholders of their ownership rights. The plaintiffs base their allegations on the alleged decisions of our managed care subsidiary's board of directors and shareholders, purportedly made in 1979, to operate with certain restrictions in order to turn our managed care subsidiary into a charitable corporation. On May 4, 2006, the Court issued an Opinion and Order awarding summary judgment in favor of all the defendants, thereby dismissing the case. Plaintiffs filed a notice of appeal before the United States Court of Appeals for the First Circuit. On June 13, 2007, the First Circuit issued its Opinion confirming the summary judgment entered by the District Court. The plaintiffs did not move for any type of post-judgment relief before the Court of Appeals. On September 11, 2007, the plaintiffs filed a petition for certiorari with the U.S. Supreme Court, which was docketed on September 17, 2007. We filed an opposition to the petition for certiorari on October 17, 2007.

Jordán et al Litigation

On April 24, 2002, Octavio Jordán, Agripino Lugo, Ramón Vidal, and others filed a suit against the Corporation, TSI and others in the Court of First Instance for San Juan, Superior Section, alleging, among other things, violations by the defendants of provisions of the Puerto Rico Insurance Code, antitrust violations, unfair business practices, breach of contract with providers, and damages in the amount of $12.0 million. The plaintiffs also asserted that, in light of TSI's former tax-exempt status, the assets of TSI belong to a charitable trust held in the benefit of the people of Puerto Rico (the "charitable trust claim"). They also requested that we sell shares to them pursuant to a contract with TSI dated August 16, 1989 regarding the acquisition of shares. We believe that many of the allegations brought by the plaintiffs in this complaint have been resolved in favor of the Corporation and TSI in previous cases brought by the same plaintiffs in the United States District Court for the District of Puerto Rico and in the local courts. The defendants, including us and TSI, answered the complaint, filed a counterclaim and filed several motions to dismiss.

On May 9, 2005, the plaintiffs amended the complaint to allege causes of action similar to those dismissed in the Sánchez case and to seek damages of approximately $207.0 million. Defendants moved to dismiss all claims in the amended complaint. Plaintiffs opposed the motions to dismiss and defendants filed corresponding replies. In 2006, the Court held several hearings concerning these dispositive motions and stayed all discovery until the motions were resolved.

On January 19, 2007, the Court denied a motion by the plaintiffs to dismiss the defendants' counterclaim for malicious prosecution and abuse of process. The Court ordered plaintiffs to answer the counterclaim by February 20, 2007. Although they filed after the required date, plaintiffs have filed an answer to the counterclaim.

On February 7, 2007, the Court dismissed the charitable trust, RICO and violation of due process claims as to all of the plaintiffs. The tort, breach of contract and violation of the Puerto Rico corporations' law claims were dismissed only against certain of the physician plaintiffs. The Court allowed the count based on antitrust to proceed, and in reconsideration allowed the charitable trust and RICO claims to proceed. We appealed to the Puerto Rico Court of Appeals the denial of the motion to dismiss as to the antitrust allegations and the Court's decision to reconsider the claims previously dismissed.

On May 30, 2007 the Puerto Rico Court of Appeals granted leave to replead the RICO and antitrust claims only to the physician plaintiffs, consistent with certain requirements set forth in its opinion, to allow the physician plaintiffs the opportunity to cure the deficiencies and flaws the Court found in plaintiffs allegations. The Court dismissed the charitable trust claim as to all plaintiffs, denying them the opportunity to replead that claim, and dismissed the RICO and antitrust claims as to the non-physician plaintiffs. Also, the Court of Appeals granted leave to replead a derivative claim capacity on behalf of the Corporation to the lone shareholder plaintiff. The plaintiffs moved for the reconsideration of this judgment. On July 18, 2007 the Court of Appeals denied the plaintiffs motion for reconsideration, which has granted plaintiffs leave to replead certain matters. On August 17, 2007, plaintiffs filed a petition for certiorari by the Puerto Rico Supreme Court, which we opposed on August 27, 2007. On October 16, 2007, the plaintiffs filed an Urgent Motion for acceptance of their petition for certiorari in light of the allegations of improper political contributions made with the Corporation's funds by our former CEO, Miguel Vázquez-Deynes, while in office. We do not believe that the alleged activity referenced by Mr. Vázquez-Deynes relates to the claims asserted in this case by plaintiffs or to legal issues presented in the petition for certiorari. We opposed the Urgent Motion on October 30, 2007. The plaintiffs' petition for certiorari was denied by the Puerto Rico Supreme Court on November 9, 2007.

Thomas Litigation

On May 22, 2003, a putative class action suit was filed by Kenneth A. Thomas, M.D. and Michael Kutell, M.D., on behalf of themselves and all others similarly situated and the Connecticut State Medical Society against BCBSA and substantially all of the other Blue Cross and Blue Shield plans in the United States, including our managed care subsidiary. The case is pending before the U.S. District Court for the Southern District of Florida, Miami District.

The individual plaintiffs bring this action on behalf of themselves and a class of similarly situated physicians seeking redress for alleged illegal acts of the defendants, which they allege have resulted in a loss of their property and a detriment to their business, and for declaratory and injunctive relief to end those practices and prevent further losses. Plaintiffs alleged that the defendants, on their own and as part of a common scheme, systematically deny, delay and diminish the payments due to doctors so that they are not paid in a timely manner for the covered, medically necessary services they render.

The class action complaint alleges that the health care plans are the agents of BCBSA licensed entities, and as such have committed the acts alleged above and acted within the scope of their agency, with the consent, permission, authorization and knowledge of the others, and in furtherance of both their interest and the interests of other defendants.

Management believes that our managed care subsidiary was brought to this litigation for the sole reason of being associated with the BCBSA. However, on June 18, 2004 the plaintiffs moved to amend the complaint to include the Colegio de Médicos y Cirujanos de Puerto Rico (a compulsory association grouping all physicians in Puerto Rico), Marissel Velázquez, M.D., President of the Colegio de Médicos y Cirujanos de Puerto Rico, and Andrés Meléndez, M.D., as plaintiffs against our managed care subsidiary. Later Marissel Velázquez, M.D. voluntarily dismissed her complaint against our managed care subsidiary.

Our managed care subsidiary, along with the other defendants, moved to dismiss the complaint on multiple grounds, including but not limited to arbitration and applicability of the McCarran Ferguson Act.

The parties have been ordered to engage in mediation by the District Court, and twenty four plans, including our managed care subsidiary, are actively participating in the mediation efforts. The mediation resulted in the creation of a Settlement Agreement that was filed with the Court on April 27, 2007, and on May 31, 2007, the District Court preliminarily approved the Settlement Agreement. We have recorded an accrual for the estimated settlement, which is included within the accounts payable and accrued liabilities in our unaudited consolidated financial statements as of and for the nine months ended September 30, 2007. A final approval hearing for the Settlement Agreement was held on November 14, 2007, but no order approving the settlement had been issued as of the date of this prospectus.

Lens Litigation

On October 23, 2007, Ivonne Houellemont, Ivonne M. Lens and Antonio A. Lens, heirs of Dr. Antonio Lens-Aresti, a former shareholder of TSI, filed a suit against TSI in the Court of First Instance for San Juan, Superior Section. The plaintiffs are seeking the return of 16 shares (prior to giving effect to the 3,000-for-one stock split) that were redeemed in 1996, a year after the death of Dr. Lens-Aresti, or compensation in the amount of $40,000 per share which they allege is a share's present value, alleging that they were fraudulently induced to submit the shares for redemption in 1996. At the time of Dr. Lens-Aresti's death, the bylaws of TSI would not have permitted the plaintiffs to inherit Dr. Lens-Aresti's shares, as those bylaws provided that in the event of a shareholder's death, shares could be redeemed at the price originally paid for them or could be transferred only to an heir who was either a doctor or dentist. The plaintiffs' complaint also states that they purport to represent as a class all heirs of the TSI's former shareholders whose shares were redeemed upon such shareholders' deaths. On October 31, 2007, the Corporation filed a motion to dismiss the claims as barred by the applicable statute of limitations.

Colón Litigation

On October 15, 2007, Jose L. Colón-Dueño, a former holder of one share of TSI predecessor stock, filed suit against TSI and the Commissioner of Insurance in the Court of First Instance for San Juan, Superior Section. Mr. Colón-Dueño owned one share of TSI predecessor stock that was redeemed in 1999 for its original purchase price pursuant to an order issued by the Commissioner of Insurance requiring the redemption of a total of 1,582 shares that had been previously sold by the company. The Company appealed this Commissioner of Insurance's order to the Puerto Rico Court of Appeals, which upheld that order by decision dated March 31, 2000. The plaintiff requests that the court direct TSI to return his share of stock and pay damages in excess of $500,000 and attorney's fees. TSI believes that this claim is meritless, as the validity of the share repurchase was decided by the Court of Appeals in 2000, and plans to vigorously contest this matter.

Puerto Rico Center for Municipal Revenue Collection

On March 1, 2006 and March 3, 2006, respectively, the Puerto Rico Center for Municipal Revenue Collection (CRIM) imposed a real property tax assessment of approximately $1.3 million and a personal property tax assessment of approximately $4.0 million upon TSI for the fiscal years 1992 1993 through 2002-2003, during which time TSI qualified as a tax-exempt entity under Puerto Rico law pursuant to rulings issued by the Puerto Rico tax authorities. In imposing the tax assessments, CRIM contends that because a for-profit corporation, such as TSI, is not entitled to such an exemption, the rulings recognizing the tax exemption that were issued should be revoked on a retroactive basis and property taxes should be applied to TSI for the period when it was exempt. On March 28, 2006 and March 29, 2006, respectively, TSI challenged the real and personal property tax assessments in the

Court of First Instance for San Juan, Superior Section. On October 29, 2007, the Court entered summary judgment for CRIM affirming the real property tax assessment of approximately $1.3 million. TSI filed a motion for reconsideration of the Court's summary judgment decision on November 14, 2007. The Court has not issued a decision with respect to the personal property tax assessment. Management believes that these municipal tax assessments are improper and currently expects to prevail in this litigation.

Puerto Rico House of Representatives Investigation

On October 25, 2007, the House of Representatives of the Legislative Assembly (the "House") of the Commonwealth of Puerto Rico approved a resolution ordering the House's Committee on Health to investigate TSI, our managed care subsidiary. The resolution states that TSI originally intended to operate as a not-for-profit entity in order to provide low-cost health insurance and improve the health services offered by certain government agencies. The resolution orders the Committee to investigate the effects of TSI's alleged failure to provide low-cost health insurance, among other obligations, and requires the Committee to prepare and submit a report to the House detailing its findings, conclusions and recommendations on or prior to sixty (60) days from the approval of the resolution. The Committee may refer any finding of wrongdoing to the Secretary of Justice of the Commonwealth for further investigation. We believe that TSI and its predecessor managed care companies have complied with such obligations in all material respects, but cannot predict the outcome of the proposed investigation and are currently unable to ascertain the impact these matters may have on our business, if any.

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

Unaudited Pro Forma Combined Financial Statements
(Dollar amounts in thousands, except per share data)

On January 31, 2006, Triple-S Management Corporation (TSM or the "Corporation") completed the acquisition of 100% of the issued and outstanding shares of common stock of Great American Life Assurance Company of Puerto Rico ("GA Life") for $37.5 million. The closing was made in conformity with the terms of the Stock Purchase Agreement between the Corporation and Great American Financial Resources, Inc. that was executed on December 15, 2005. To finance this acquisition, on January 31, 2006, the Corporation closed the issuance of $35.0 million of its 6.70% Senior Unsecured Notes due January 2021 (the "Notes") in a private placement to various institutional investors pursuant to a Note Purchase Agreement. Pursuant to the Note Purchase Agreement, the Corporation pays interest on the outstanding balance of the Notes at the rate of 6.70% per annum from the date of the issuance of the Notes, payable monthly commencing on March 1, 2006, until such principal becomes due and payable.

For accounting purposes, this transaction was accounted for as a purchase business combination with TSM treated as the acquirer, using TSM's historical financial information and applying fair value estimates to the acquired assets and liabilities of GA Life as of January 31, 2006.

TSM's historical consolidated balance sheet at December 31, 2006 already consolidates the financial position of GA Life. The preliminary unaudited pro forma combined statement of earnings for the year ended December 31, 2006 combines the historical consolidated statement of earnings of the Corporation and GA Life giving effect to the acquisition as if it had occurred on January 1, 2006. The historical financial statements have been adjusted to give effect to pro forma events that are (i) directly attributable to the acquisition, (ii) expected to have a continuing impact on the Corporation, and (iii) factually supportable.

The information provided in these unaudited pro forma combined financial statement should be read in conjunction with the:

- Accompanying notes to the unaudited pro forma combined financial statements;
- The Corporation's separate historical audited consolidated financial statements as of and for the year ended December 31, 2006 included in this filing;
- GA Life's separate historical audited financial statements as of and for the year ended December 31, 2005, included in this filing.

The unaudited pro forma combined financial statements has been prepared for information purposes only. The unaudited pro forma combined financial statements are not necessarily indicative of what the financial position or results of operations actually would have been had the acquisition been completed at the date indicated. In addition, the unaudited pro forma combined financial statement does not pretend to project the future results of operations of the combined company. The unaudited pro forma combined financial statement does not consider the impact of possible revenue enhancements, expense efficiencies, synergies or asset dispositions.

The unaudited pro forma combined financial statement has been prepared using the purchase method of accounting with TSM treated as the acquirer. Accordingly, TSM's costs to acquire GA Life have been allocated to the acquired assets and liabilities based upon their estimated fair values at January 1, 2006.

Unaudited Pro Forma Combined Statement of Earnings
For the Year Ended December 31, 2006
(Dollar amounts in thousands, except per share data)

	Historical TSM	Historical GA Life	Pro Forma Adjustments	Pro Forma Combined
Revenue:				
Premiums earned, net	$ 1,511,626	$ 1,983	$	$ 1,513,609
Administrative services fees	14,089			14,089
Net investment income	42,657	390	(36)(a)	43,011
Total operating revenues	1,568,372	2,373	(36)	1,570,709
Net realized investment gains	837			837
Net unrealized investment loss on trading securities	7,699			7,699
Other income, net	2,323			2,323
Total revenues	1,579,231	2,373	(36)	1,581,568
Benefits and expenses:				
Claims incurred	1,258,981	990	(31)(b)	1,259,940
Operating expenses	236,065	826	25 (c)	236,916
Total operating costs	1,495,046	1,816	(6)	1,496,856
Interest expense	16,626	40	195 (d)	16,861
Total benefits and expenses	1,511,672	1,856	189	1,513,717
Income before taxes	67,559	517	(225)	67,851
Income tax expense (benefit):				
Current	15,407	54	(79)(e)	15,382
Deferred	(2,381)			(2,381)
Total income taxes	13,026	54	(79)	13,001
Net income	$ 54,533	$ 463	$ (146)	$ 54,850
Basic net income per share	$ 2.04	$	$ (f)	$ 2.05
Weighted average of common shares outstanding	26,730,000		(f)	26,730,000

Notes to the Unaudited Pro Forma Combined Financial Statements

December 31, 2006

(Dollar amounts in thousands, except per share data)

Pro Forma Adjustments

TSM's historical consolidated balance sheet included in the unaudited pro forma combined balance sheet at December 31, 2006 already consolidates the financial position of GA Life; therefore no pro forma adjustments were necessary. The pro forma adjustments to the unaudited combined statement of earnings for the year ended December 31, 2006 assume that the acquisition occurred on January 1st. Since the results of operations of GA Life subsequent to the acquisition date are consolidated within TSM's historical income statement, in order to determine the pro forma amounts we considered only the historical results of operations of GA Life for the one month period ended January 31, 2006.

The following pro forma adjustments result from the estimated allocation of the purchase price for the acquisition based on the fair value of the assets and liabilities acquired from GA Life. The amounts and description related to the preliminary adjustments are as follows:

Adjustments to the Unaudited Pro Forma Combined Statement of Earnings

(a) Net investment income This pro forma adjustment represents GA Life's anticipated additional bond premium amortization for the one month ended January 31, 2006 of approximately $36 due to the fair value accounting of its investment in securities.

(b) Claims incurred Represents the effect in the statement of earnings of the adjustment to the value of the liability for future policy benefits. As part of the purchase accounting the value of the liability for future policy benefits of GA Life was adjusted to its estimated fair value.

(c) Operating expenses Represents the effect in the statement of earnings of the adjustment to the value of business acquired upon the application of the purchase accounting.

(d) Interest expense Represents the interest expense related to the 6.7% Senior Unsecured Notes amounting to $35,000. The monthly interest expense of this note amounts to $195.

(e) Current income tax expense Represents the tax effect of the other pro forma adjustments to the statement of earnings. The tax effect was estimated using a blended effective tax rate of 35% since TSM and GA Life are taxed differently under Puerto Rico income tax law. TSM is subject to Puerto Rico income taxes as a regular corporation at an enacted tax rate of 39%. GA Life, as a qualified domestic life insurance company doing business in Puerto Rico, is only subject to the alternative minimum tax and taxes on its capital gains, as applicable. The alternative minimum tax results in an effective tax rate of 11%.

(f) Earnings per share Amount was calculated based on the historical combined net income of the Corporation and GA Life giving effect to the pro forma adjustments done to the statement of earnings as described above. TSM's historical weighted average of shares after giving effect to the 3,000-for-one stock split was used to calculate the pro forma earnings per share.

SCHEDULE II

TRIPLE-S MANAGEMENT CORPORATION
Schedule II Condensed Financial Information of the Registrant

(Parent Company Only)
Financial Statements
December 31, 2006, 2005, and 2004
(With Independent Auditors' Report Thereon)

S-1

KPMG
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Under date of March 7, 2007, we reported on the consolidated balance sheets of Triple-S Management Corporation and Subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006 as contained in the 2006 annual report to stockholders. Our report refers to the adoption of the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of December 31, 2006. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year 2006. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedules as listed in the Item 15. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

San Juan, Puerto Rico
March 7, 2007, except as to note 11, which is as of May 1, 2007

Stamp No. 2221754 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

TRIPLE-S MANAGEMENT CORPORATION

(Parent Company Only)

Balance Sheets

Years ended December 31, 2006 and 2005

(Dollar amounts in thousands, except per share data)

	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	$ 1,224	$ 50
Receivables:		
Due from subsidiaries*	360	1,436
Other	29	15
Total receivables	389	1,451
Investment in securities	9,655	10,004
Prepaid income tax		92
Net deferred tax assets	218	316
Accrued interest	79	96
Other assets	523	621
Total current assets	12,088	12,630
Notes receivable from subsidiaries*	79,000	83,000
Investment in securities	1,000	1,000
Accrued interest on note receivable from subsidiaries	4,001	2,142
Net deferred tax assets	574	312
Investments in wholly owned subsidiaries*	377,341	299,421
Property and equipment, net	23,792	24,760
Pension asset	719	2,135
Other assets	912	1,275
Total assets	$ 499,427	$ 426,675
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 12,140	$ 1,640
Due to subsidiary*	15,159	10,509
Accounts payable and accrued expenses	8,291	6,873
Income taxes payable	291	
Total current liabilities	35,881	19,022
Long-term debt	120,947	98,950
Total liabilities	156,828	117,972
Stockholders' equity:		
Common stock at $1.00 par value. Authorized 100,000,000 shares; issued and outstanding 26,733,000 and 26,712,000 shares at December 31, 2006 and 2005 (note 11)	26,733	26,712
Additional paid-in capital (note 11)	124,031	124,052
Retained earnings	211,266	162,964

	2006	2005
Accumulated other comprehensive loss, net	(19,431)	(5,025)
	342,599	308,703
Commitments and contingencies:		
Total liabilities and stockholders' equity	$ 499,427	$ 426,675

*

Eliminated in consolidation.

See accompanying independent registered public accounting firm's report and notes to financial statements.

TRIPLE-S MANAGEMENT CORPORATION

(Parent Company Only)

Statements of Earnings

Years ended December 31, 2006, 2005, and 2004

(Dollar amounts in thousands, except per share data)

	2006	2005	2004
Rental income*	$ 6,897	$ 6,724	$ 6,290
Management fees	3,650		
General and administrative expenses	(6,648)	(5,271)	(4,787)
Operating income	3,899	1,453	1,503
Other revenue (expenses):			
Equity in net income of subsidiaries*	53,632	27,604	45,451
Interest expense, net of interest income of $6,088, $1,809, and $1,088 in 2006, 2005, and 2004, respectively*	(2,078)	(336)	(863)
Total other revenue, net	51,554	27,268	44,588
Income before income taxes	55,453	28,721	46,091
Income tax expense (benefit):			
Current	772	208	306
Deferred	148	80	(18)
Total income tax expense, net	920	288	288
Net income	$ 54,533	$ 28,433	$ 45,803

* Eliminated in consolidation (see note 8).

See accompanying independent registered public accounting firm's report and notes to financial statements.

TRIPLE-S MANAGEMENT CORPORATION

(Parent Company Only)

Statements of Stockholders' Equity and Comprehensive Income

Years ended December 31, 2006, 2005, and 2004

(Dollar amounts in thousands, except per share data)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, December 31, 2003	$ 27,090	$ 123,678	$ 88,728	$ 14,759	$ 254,255
Stock redemption	(378)	374			(4)
Comprehensive income:					
Net income			45,803		45,803
Net unrealized change in investment securities				1,101	1,101
Net change in minimum pension liability				(3)	(3)
Net change in fair value of cash-flow hedges				281	281
Total comprehensive income					47,182
Balance, December 31, 2004	26,712	124,052	134,531	16,138	301,433
Comprehensive income:					
Net income			28,433		28,433
Net unrealized change in investment securities				(18,832)	(18,832)
Net change in minimum pension liability				(2,788)	(2,788)
Net change in fair value of cash-flow hedges				457	457
Total comprehensive income					7,270
Balance, December 31, 2005	26,712	124,052	162,964	(5,025)	308,703
Dividends declared			(6,231)		(6,231)
Adjustment to initially apply SFAS No. 158, net of tax				(16,081)	(16,081)
Other	21	(21)			
Comprehensive income:					
Net income			54,533		54,533
Net unrealized change in investment securities				(3,212)	(3,212)
Net change in minimum pension liability				4,952	4,952
Net change in fair value of cash-flow hedges				(65)	(65)
Total comprehensive income					33,896
Balance, December 31, 2006	26,733	124,031	211,266	(19,431)	342,599

See accompanying independent registered public accounting firm's report and notes to financial statements.

TRIPLE-S MANAGEMENT CORPORATION

(Parent Company Only)

Statements of Cash Flows

Years ended December 31, 2006, 2005, and 2004

(Dollar amounts in thousands, except per share data)

	2006	2005	2004
Cash flows from operating activities:			
Net income	$ 54,533	$ 28,433	$ 45,803
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in net income of subsidiaries*	(53,632)	(27,604)	(45,451)
Depreciation and amortization	1,130	1,090	1,118
Accretion in value of securities			(1)
Provision for obsolescence	(83)	(25)	(44)
Deferred income tax benefit	148	80	(18)
Changes in assets and liabilities:			
Receivables*	1,062	(583)	(699)
Accrued interest*	(1,842)	(1,354)	(729)
Prepaid income tax, pension asset, and other assets	1,256	(2,553)	(1,245)
Accounts payable, accrued expenses, and due to subsidiary*	6,068	3,948	5,834
Income taxes payable	291		(14,339)
Net cash provided by (used in) operating activities	8,931	1,432	(9,771)
Cash flows from investing activities:			
Acquisition of investment in securities classified as available for sale		(3,000)	(1,430)
Proceeds from sale and maturities of investment in securities classified as available for sale	335		1,280
Notes receivable from subsidiaries*	4,000	(57,000)	
Acquisition of business	(38,196)		
Acquisition of property and equipment, net	(162)	(273)	(39)
Net cash used in investing activities	(34,023)	(60,273)	(189)
Cash flows from financing activities:			
Dividends paid	(6,231)		
Dividend received from wholly owned subsidiaries*			15,000
Repayments of long-term borrowings	(2,503)	(5,140)	(2,645)
Proceeds from long-term borrowings	35,000	60,000	
Redemption of common stock			(4)
Net cash provided by financing activities	26,266	54,860	12,351
Net increase (decrease) in cash and cash equivalents	1,174	(3,981)	2,391
Cash and cash equivalents, beginning of year	50	4,031	1,640
Cash and cash equivalents, end of year	$ 1,224	$ 50	$ 4,031
Supplemental information:			
Income taxes paid	$ 402	$ 170	$ 14,774
Interest paid	7,809	2,093	1,951

	2006	2005	2004
Noncash activities:			
Change in net unrealized gain on securities available for sale, including deferred income tax liability of $2, $805, and $3,330 in 2006, 2005 and 2004, respectively	$ (3,212)	$ (18,832)	$ 1,101
Change in cash-flow hedges, including deferred tax liability of $196 and $236 in 2006 and 2005, respectively, and deferred income tax asset of $56 in 2004	(65)	457	281
Change in minimum pension liability, including related intangible asset of $606, $550, and $598 and deferred income tax asset of $2,340, $5,303, and $3,576, in 2006, 2005, and 2004, respectively	4,952	(2,788)	(3)
Adjustment to initially apply SFAS No. 158, including deferred income tax effect of $10,152 in 2006	(16,081)		

* Eliminated in consolidation.

See accompanying independent registered public accounting firm's report and notes to financial statements.

TRIPLE-S MANAGEMENT CORPORATION

(Parent Company Only)

Notes to Financial Statements

Years ended December 31, 2006, 2005, and 2004

(Dollar amounts in thousands, except per share data)

(1) Organization

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): (a) Triple-S, Inc. (TSI) a managed care organization, that provides health benefits services to subscribers through contracts with hospitals, physicians, dentists, laboratories, and other organizations located mainly in Puerto Rico; (b) Great American Life Assurance Company of Puerto Rico (GA Life), which is engaged in the underwriting of life and accident and health insurance policies and the administration of annuity contracts; and (c) Seguros Triple-S, Inc. (STS), which is engaged in the underwriting of property and casualty insurance policies. The Company and TSI are members of the Blue Cross and Blue Shield Association (BCBSA).

Effective January 31, 2006, the Company completed the acquisition of 100% of the common stocks of GA Life and effective June 30, 2006, the Company merged the operations of its former life and accident and health insurance subsidiary, Seguros de Vida Triple-S, Inc. (SVTS), into the GA Life. The results of operations and financial position of GA Life are included as part of equity in net income of subsidiaries in the accompanying statements of earnings for the period following January 31, 2006.

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 TSI in the administration of the Commonwealth of Puerto Rico Health Care Reform's business (the Reform). Also, TC provides health care advisory services to TSI and other health insurance-related services to the health insurance industry.

A substantial majority of the Company's business activity through its subsidiaries is with insureds 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 significant accounting policies followed by the Company are set forth in the notes to the consolidated financial statements of the Company incorporated by reference into Item 15 to the Annual Report on Form 10-K.

(3) Business Combinations

Effective January 31, 2006, the Company acquired 100% of the common stock of GA Life. As a result of this acquisition, the Corporation became one of the leading providers of life insurance policies in Puerto Rico. The acquisition was accounted by the Company in accordance with the provisions of SFAS No. 141, *Business Combinations*. The equity in net income of GA Life is included in the accompanying financial statements for the period following the effective date of the acquisition. The aggregate purchase price of the acquired entity amounted to $38,196; of this amount $37,500 was paid in cash on January 31, 2006 and $696 are direct costs related to the acquisition.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$ 219,747
Property and equipment	1,500
Value of business acquired	22,823
Total assets acquired	244,070
Total liabilities assumed	(205,874)
Net assets acquired	$ 38,196

The estimated fair value of the value of business acquired was actuarially determined by discounting after-tax profits at a risk rate of return equal to approximately 12%. After-tax profits were forecasted based upon models of the insurance in force, actual invested assets as of acquisition date and best-estimate actuarial assumptions regarding premium income, claims, persistency, expenses and investment income accruing from invested assets plus reinvestment of positive cash flows. The best-estimate actuarial assumptions were based upon GA Life's recent experience in each of its major life and health insurance product lines. The amount of value of business acquired is to be amortized, considering interest, over the anticipated premium-paying period of the related policies in proportion to the ratio of annual premium revenue to the expected total premium revenue to be received over the life of the policies.

(4) Property and Equipment, Net

Property and equipment as of December 31 are composed of the following:

	2006	2005
Land	$ 6,531	$ 6,531
Buildings and leasehold improvements	27,927	27,765
	34,458	34,296
Less accumulated depreciation and amortization	(10,666)	(9,536)
Property and equipment, net	$ 23,792	$ 24,760

(5) Investment in Wholly Owned Subsidiaries

Summarized combined financial information for the Company's wholly owned subsidiaries as of and for the years ended December 31, 2006 and 2005 is as follows:

	2006	2005
Assets		
Cash, cash equivalents, and investments	$ 943,784	$ 704,252
Receivables, net	186,919	257,531
Other assets	212,940	163,343
Total assets	$ 1,343,643	$ 1,125,126
Liabilities and Equity		
Claim liabilities	$ 314,682	$ 297,563
Future policy benefits related to funds withheld reinsurance	180,420	118,635
Unearned premiums	113,582	95,703
Annuity contracts	45,509	41,738
Accounts payable and other liabilities	312,109	272,066
Total liabilities	966,302	825,705
Stockholders' equity	377,341	299,421
Total liabilities and equity	$ 1,343,643	$ 1,125,126

The net income of the subsidiaries during the three-year period ended December 31, 2006 was $53,632, $27,604, and $45,451. The Company allocates to its subsidiaries certain expenses incurred in the administration of their operations. Total charges including other expenses paid on behalf of the subsidiaries amounted to $4,346, $3,828 and $3,945, in the three-year period ended December 31, 2006.

(6) Long-Term Borrowings

A summary of the long-term borrowings entered by the Company at December 31, 2006 and 2005 follows:

	2006	2005
Secured note payable of $20,000, payable in various installments through August 31, 2007, with interest payable on a monthly basis at a rate reset periodically of 130 basis points over selected LIBOR maturity (which was 6.67% and 5.71% at December 31, 2006 and 2005, respectively)	$ 10,500	$ 11,500
Senior unsecured notes payable of $60,000 due December 2020. Interest is payable monthly at a fixed rate of 6.60%	60,000	60,000
Senior unsecured notes payable of $35,000 due January 2021. Interest is payable monthly at a fixed rate of 6.70%	35,000	
Secured loan payable of $41,000, payable in monthly installments of $137 through July 1, 2024, plus interest at a rate reset periodically of 100 basis points over selected LIBOR maturity (which was 6.35% and 5.29% at December 31, 2006 and 2005, respectively)	27,587	29,090
	133,087	100,590
Less current maturities	(12,140)	(1,640)
Total loans payable to bank	$ 120,947	$ 98,950

Aggregate maturities of the Company's long term borrowings as of December 31, 2006 are summarized as follows:

2007	$ 12,140
2008	1,640
2009	1,640
2010	1,640
2011	1,640
Thereafter	114,387
	$ 113,087

On January 23, 2006 the Company issued and sold $35,000 of its 6.70% senior unsecured notes payable due January 2021. These notes were privately placed to various accredited institutional investors. All of the Company's senior notes can be prepaid at par, in total or partially, five years after issuance as determined by the Company.

TSI has a senior unsecured note payable amounting to $50,000 due in September 2019 with interest rate of 6.30% that is guaranteed by the Company as to payment of principal, premium, if any, and interest. The Company's senior unsecured notes and the senior unsecured note of its subsidiary contain certain covenants with which the Company and its subsidiary have complied with at December 31, 2006.

Debt issuance costs related to each of the Company's senior unsecured notes were deferred and are being amortized using the straight-line method over the term of its respective senior note. Unamortized debt issuance costs related to these senior unsecured notes as of December 31, 2006 and 2005 amounted to $828 and $579, respectively, and are included within the other assets in the accompanying balance sheets.

The credit agreement related to the $20,000 secured note payable calls for repayments of principal amount of not less than $250 and in integral multiples of $50.

The loan and note payable previously described are guaranteed by a first position held by the bank on the Company's and its subsidiaries land, building, and substantially all leasehold improvements, as collateral for the term of the loans under a continuing general security agreement. These credit facilities contain certain covenants, which are normal in this type of credit facility, which the Company and its subsidiaries have complied with at December 31, 2006 and 2005.

Interest expense on the above long-term borrowings amounted to $8,545, $2,018, and $1,217 in the three-year period ended December 31, 2006.

(7) Income Taxes

The Company is subject to Puerto Rico income taxes. Under Puerto Rico income tax law, the Company is not allowed to file consolidated tax returns with its subsidiaries.

The income tax expense differs from the amount computed by applying the Puerto Rico statutory income tax rate to net income before income taxes as a result of the following:

	2006	2005	2004
Income tax expense at statutory rate of 39%	$ 21,626	$ 11,201	$ 17,975
Increase (decrease) in taxes resulting from:			
Equity in net income of wholly owned subsidiaries	(20,916)	(10,765)	(17,726)
Disallowances	37	(68)	97
Other, net	173	(80)	(58)
Total income tax expense	$ 920	$ 288	$ 288

Deferred income taxes reflect the tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and income tax purposes. The net deferred tax asset at December 31, 2006 and 2005 is composed of the following:

	2006	2005
Deferred tax assets:		
Reserve for obsolete inventory	$	$ 32
Liability for pension benefits	406	136
Employee benefits plan	292	208
Postretirement benefits	17	16
Deferred compensation	121	238
Nondeductible depreciation	379	402
Unrealized loss on securities available for sales	60	58
Total gross deferred tax assets	1,275	1,090
Deferred tax liabilities:		
Unamortized bond issue costs	(211)	(226)
Cash-flow hedges	(196)	(236)
Other	(76)	
Gross deferred tax liabilities	(483)	(462)
Net deferred tax asset	792	628

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management believes that it is more likely than not that the Company will realize the benefits of these deductible differences.

(8) Transaction with Related Parties

The following are the significant related-party transactions made for the three-year period ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
Rent charges to subsidiaries	$ 6,824	$ 6,588	$ 6,083
Interest charged to subsidiary on notes receivable	5,620	1,353	734

(9) Contingencies

At December 31, 2006 and 2005, the Company is defendant in various lawsuits in the ordinary course of business. In the opinion of management, with the advice of its legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the position and results of operations of the Company.

(10) Dividends

On January 13, 2006, the board of directors (the Board) declared a cash dividend of $6,231 to be distributed pro rata among all of the Company's issued and outstanding common shares, excluding those shares issued to the representatives of the community that are members of the Board (the qualifying shares). All stockholders of record as of the close of business on January 16, 2006, except those who only hold qualifying shares, received a dividend per share of $0.23 for each share held on that date.

(11) Subsequent Events

After an amendment to the Company's Articles of Incorporation that was effective February 2007, the Company was authorized to issue 100,000,000 shares of common stock with a par value of $1.00 per share.

On April 24, 2007, the Company's Board of Directors authorized a 3,000-for-one stock split to be effected in the form of a dividend. This stock split is effective on May 1, 2007 to all stockholders of record at the close of business on April 24, 2007. The total number of authorized shares and par value, as described in the preceding paragraph, were unchanged by this action. The par value of the additional shares resulting from the stock split was reclassified from additional paid in capital to common stock. All references to the number of shares and per share amounts in these financial statements are presented after giving retroactive effect to the stock split.

SCHEDULE III

TRIPLE-S MANAGEMENT CORPORATION

Schedule III Supplementary Insurance Information

For the years ended December 31, 2006, 2005 and 2004

(Dollar amounts in thosands)

Segment	Deferred Policy Acquisition Costs and Value of Business Acquired	Claim Liabilities	Liability for Future Policy Benefits	Unearned Premiums	Other Policy Claims and Benefits Payable	Premium Revenue	Net Investment Income	Claims Incurred	Amortization of Deferred Acquisition Policy Costs and Value of Business Acquired	Other Operating Expenses	Net Premiums Written
2006											
Managed care	$	$ 185,249	$	$ 17,812	$	$ 1,339,807	$ 18,852	$ 1,173,622	$	$ 156,448	$ 1,339,807
Life insurance	88,590	35,164	180,420	1,960		86,888	13,749	43,619	16,339	29,483	84,752
Property and casualty insurance	22,827	94,269		93,810		88,552	9,589	41,740	25,118	20,033	93,252
Other non-reportable segments, parent company operations and net consolidating entries						(3,621)	467			(11,356)	
Total	$ 111,417	$ 314,682	$ 180,420	$ 113,582	$	$ 1,511,626	$ 42,657	$ 1,258,981	$ 41,457	$ 194,608	$ 1,517,811
2005											
Managed care	$	$ 178,978	$ 8,829	$ 8,829	$	$ 1,279,511	$ 16,849	$ 1,155,878	$	$ 139,994	$ 1,279,511
Life insurance	61,677	22,478	181	181	118,635	17,130	3,018	8,902	264	7,937	17,130
Property and casualty insurance	19,891	96,107	86,693	86,693		86,767	8,706	43,587	23,137	16,505	91,883
Other non-reportable segments, parent company operations and net consolidating entries						(3,204)	456			(6,134)	
Total	$ 81,568	$ 297,563	$ 95,703	$ 95,703	$ 118,635	$ 1,380,204	$ 29,029	$ 1,208,367	$ 23,401	$ 158,302	$ 1,388,524
2004											
Managed care	$	$ 168,910	$ 6,249	$ 6,249	$	$ 1,199,184	$ 15,699	$ 1,058,585	$	$ 130,707	$ 1,199,184
Life insurance	887	20,788	481	481		16,442	2,778	11,231	66	7,281	16,442

Segment	Deferred Policy Acquisition Costs and Value of Business Acquired	Claim Liabilities	Liability for Future Policy Benefits	Unearned Premiums	Other Policy Claims and Benefits Payable	Premium Revenue	Net Investment Income	Claims Incurred	Amortization of Deferred Acquisition Policy Costs and Value of Business Acquired	Other Operating Expenses	Net Premiums Written
Property and casualty insurance	17,825	89,627	77,853	77,853		86,228	7,668	45,977	22,388	17,794	89,659
Other non reportable segments, parent company operations and net consolidating entries						(2,895)	354			(6,357)	
Total	$ 18,712	$ 279,325	$ 84,583	$ 84,583	$	$ 1,298,959	$ 26,499	$ 1,115,793	$ 22,454	$ 149,425	$ 1,305,285

SCHEDULE IV

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Schedule IV Reinsurance

For the years ended December 31, 2006, 2005 and 2004

	Gross Amount	Ceded to Other Companies(1)	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
	(Dollar amounts in thosands)				
2006					
Life insurance in force	$ 10,433,690	$ 6,957,946	$	$ 3,475,744	0.0%
Premiums:					
Life insurance	$ 89,736	$ 9,397	$ 4,413	$ 84,752	5.2%
Accident and health insurance	1,341,952	2,145		1,339,807	0.0%
Property and casualty insurance	158,975	65,723		93,252	0.0%
Total premiums	$ 1,590,663	$ 77,265	$ 4,413	$ 1,517,811	0.3%
2005					
Life insurance in force	$ 4,443,620	$ 1,887,180	$	$ 2,556,440	0.0%
Premiums:					
Life insurance	$ 24,195	$ 7,465	$ 400	$ 17,130	2.3%
Accident and health insurance	1,285,805	6,294		1,279,511	0.0%
Property and casualty insurance	151,127	59,244		91,883	0.0%
Total premiums	$ 1,461,127	$ 73,003	$ 400	$ 1,388,524	0.0%
2004					
Life insurance in force	$ 4,575,470	$ 2,443,567	$	$ 2,131,903	0.0%
Premiums:					
Life insurance	$ 23,709	$ 7,267	$	$ 16,442	0.0%
Accident and health insurance	1,200,292	1,108		1,199,184	0.0%
Property and casualty insurance	141,874	52,215		89,659	0.0%

	Gross Amount	Ceded to Other Companies(1)	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
Total premiums	$ 1,365,875	$ 60,590	$	$ 1,305,285	0.0%

(1) Premiums ceded on the life insurance business are net of commission income on reinsurance amounting to $275, $541 and $699 for the years ended December 31, 2006, 2005 and 2004.

SCHEDULE V

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Schedule V Valuation and Qualifying Accounts

For the years ended December 31, 2006, 2005 and 2004

		Additions			
	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts Describe(1)	Deductions Describe(2)	Balance at End of Period
	(Dollar amounts in thosands)				
2006					
Allowance for doubtful receivables	$ 12,240	$ 8,570	$ 1,380	$ (3,960)	$ 18,230
2005					
Allowance for doubtful receivables	$ 11,173	$ 3,829	$	$ (2,762)	$ 12,240
2004					
Allowance for doubtful receivables	$ 9,015	$ 5,166	$	$ (3,008)	$ 11,173

(1) Represents amount of allowance for doubtful accounts acquired upon the purchase of GA Life and other adjustments.

(2) Dedutions represent the write-off of accounts deemed uncollectible.

* Less than one percent

Annex A

The following table contains information with respect to the beneficial ownership of our common stock by the selling shareholders immediately prior to the completion of this offering and as adjusted to reflect the sale of the shares of common stock pursuant to this offering, including the sale of shares pursuant to the over-allotment option. To our knowledge, the selling shareholders have sole voting and investment power with respect to their shares of common stock listed.

			Shares of Common Stock Beneficially Owned before this Offering		Shares of Common Stock Sold in this Offering	Shares of Common Stock Beneficially Owned after this Offering	
Last Name	**First Name**	**MI**	**Number**	**Percentage**	**Number**	**Number**	**Percentage**
Abreu Elias	Federico		6,000	*	4,000	2,000	*
Acevedo Guevara	Tomas		6,000	*	2,000	4,000	*
Acevedo Lazzarini	Luis	G	3,000	*	1,500	1,500	*
Acevedo Maldonado	Jaime		6,000	*	4,000	2,000	*
Acevedo Montes	Enrique	J	3,000	*	2,000	1,000	*
Acevedo Montes	Gloria	E	3,000	*	2,000	1,000	*
Acosta Duarte	Mario		6,000	*	2,000	4,000	*
Acosta Otero	Andres		3,000	*	2,000	1,000	*
Acosta Ruiz	Melvyn		3,000	*	2,000	1,000	*
Acosta Velez	Heriberto	A	12,000	*	8,000	4,000	*
Alcover Miranda	Amador	J	15,000	*	10,000	5,000	*
Aldrich Diaz	Ismael		3,000	*	1,000	2,000	*
Aleman Acevedo	Rosa	E	12,000	*	8,000	4,000	*
Alemañy Arana	Domingo	S	18,000	*	12,000	6,000	*
Alemañy Gonzalez	Alfonso	R	63,000	*	42,000	21,000	*
Alemañy Pons	Jaime	J	3,000	*	2,000	1,000	*
Alicea Cruz	Valeriano		6,000	*	2,000	4,000	*
Alicea Ortiz	Juan	R	6,000	*	4,000	2,000	*
Alonso Alonso	Jorge		18,000	*	12,000	6,000	*
Alonso Alonso	Jose	A	18,000	*	12,000	6,000	*
Alonso Alonso	Ricardo		15,000	*	10,000	5,000	*
Alvarado Jimenez	Jose	R	15,000	*	10,000	5,000	*
Alvarado Norat	Frankie		27,000	*	18,000	9,000	*
Alvarez Pagan	Milton		15,000	*	10,000	5,000	*
Alvarez Pont	Antolin	J	3,000	*	1,000	2,000	*
Alvarez Ramirez	Flavio	E	15,000	*	10,000	5,000	*
Alvarez Reid	Restituto		33,000	*	11,000	22,000	*
Alvarez Sepulveda	Nereida	L	15,000	*	10,000	5,000	*
Alvarez Suarez	Maria	L	15,000	*	10,000	5,000	*
Anduze Roig	Ada		25,500	*	17,000	8,500	*
Ansa Vila	Ramon	M	15,000	*	10,000	5,000	*
Antommattei Frontera	Osvaldo		27,000	*	9,000	18,000	*
Anzalota Hernandez	Jose		27,000	*	18,000	9,000	*
Apellaniz Barreto	Luis Francisco		6,000	*	4,000	2,000	*
Aponte Martinez	Lydiana		3,000	*	2,000	1,000	*
Aponte Rodriguez	Elba	G	6,000	*	2,000	4,000	*
Aragon	Guillermo	E	63,000	*	21,000	42,000	*
Arboleda-Osorio	Bolivar		3,000	*	2,000	1,000	*
Arce Lopez	Emilio	A	15,000	*	3,000	12,000	*
Arce Ortiz	Emilio	A	12,000	*	8,000	4,000	*
Archevald Mathew	Carlos	L	63,000	*	42,000	21,000	*
Arias Maldonado	Luis	A	3,000	*	2,000	1,000	*
Ark	Phillip	R	3,000	*	2,000	1,000	*
Armstrong Mayoral	Raul	A	48,000	*	20,000	28,000	*
Arroyo Alvarez	Jorge	G	27,000	*	18,000	9,000	*
Arroyo Fernandez	Angel		3,000	*	1,000	2,000	*
Arroyo Rosas	Juan	G	3,000	*	2,000	1,000	*
Arroyo Wangen	Esther	N	15,000	*	5,000	10,000	*
Arsuaga Collazo	Jose	L	3,000	*	2,000	1,000	*

				Shares of Common Stock Sold in this Offering		
Arzeno Lopez	George	15,000	*	10,000	5,000	*

A-1

Astor Casalduc	Frank	C	3,000	*	2,000	1,000	*
Avila Cortes	Lynnette		15,000	*	10,000	5,000	*
Axtmayer Vaello	Alfred	L	63,000	*	42,000	21,000	*
Ayala Colon	Angel	R	6,000	*	4,000	2,000	*
Ayala Colon	Jorge	L	3,000	*	2,000	1,000	*
Ayala Rivera	Marco	A	6,000	*	4,000	2,000	*
Ayuso Batista	Juan	J	3,000	*	2,000	1,000	*
Baco Bague	Priscila	L	15,000	*	7,500	7,500	*
Badia Calderon	Jose	M	48,000	*	32,000	16,000	*
Badillo Echevarria	Salvador		27,000	*	18,000	9,000	*
Badillo Quiñones	Jose	A	36,000	*	12,000	24,000	*
Baez Estevensasso	Ignacio	J	48,000	*	32,000	16,000	*
Baez Murphy	Raymond		63,000	*	42,000	21,000	*
Baez Quiñones	Pedro	A	3,000	*	1,000	2,000	*
Baez Santiago	Eric	A	6,000	*	4,000	2,000	*
Bajandas Daly	Ahmed		15,000	*	5,000	10,000	*
Balaguer Cros	Juan	L	15,000	*	10,000	5,000	*
Balzac Lizardi	Rafael		63,000	*	42,000	21,000	*
Balzac Mercader	Jaime		36,000	*	12,000	24,000	*
Banuchi Domenech	Ivan	B	48,000	*	32,000	16,000	*
Barnes Colom	Francisco	J	33,000	*	21,998	11,002	*
Barnes Español	Ricardo		21,000	*	7,000	14,000	*
Basora de Garcia	Graciela		27,000	*	18,000	9,000	*
Bassa	Ramon	A	3,000	*	2,000	1,000	*
Battistini Rodriguez	Miguel	A	3,000	*	1,000	2,000	*
Bauza Hernandez	Antonio		33,000	*	22,000	11,000	*
Bauza Higuera	Ana	E	7,500	*	5,000	2,500	*
Bayonet Rivera	Natalio	P	30,000	*	10,000	20,000	*
Bello Valentin	Maria	A	9,000	*	6,000	3,000	*
Beltran Fernandez	Virgilio	A	6,000	*	4,000	2,000	*
Benavent Rico	Carlyle		27,000	*	9,000	18,000	*
Benavent Stoner	Harry	H	30,000	*	10,000	20,000	*
* Less than one percent							
Berio Suarez	Maria Teresa		48,000	*	32,000	16,000	*
Bernal Rosa	Jose	F	15,000	*	5,000	10,000	*
Berrios Aponte	Cruz	M	12,000	*	8,000	4,000	*
Berrios Latorre	Antonio	O	3,000	*	2,000	1,000	*
Berrios Lopez	Cesar		27,000	*	18,000	9,000	*
Berrios Ortiz	Pedro	A	63,000	*	42,000	21,000	*
Berrios Pagan	Brigido	E	3,000	*	2,000	1,000	*
Berrocal Sanchez	Carlos	S	63,000	*	23,000	40,000	*
Berrocal Velez	Jose	A	15,000	*	10,000	5,000	*
Bills	Zaida	R	9,000	*	6,000	3,000	*
Bladuell Ramos	Wallace		18,000	*	12,000	6,000	*
Blanco Peck	Richard	M	2,500	*	1,666	834	*
Blanco Plard	Arturo	L	5,500	*	3,600	1,900	*
Blanco Plard	Vivian	L	2,500	*	1,666	834	
Blanco Ramos	Carlos		51,000	*	34,000	17,000	*
Blasini Rivera	Marino		48,000	*	32,000	16,000	*
Bocanegra Acevedo	Ubaldo		3,000	*	1,000	2,000	*
Boneta Garcia	Eliseo		63,000	*	21,000	42,000	*
Bonilla Argudo	Jorge	I	33,000	*	11,000	22,000	*
Bonilla Colon	Jorge		33,000	*	22,000	11,000	*
Bonnet Alvarez	Mayra	Z	3,000	*	1,000	2,000	*
Borras Blasco	Pedro	J	63,000	*	42,000	21,000	*
Borras Fernandez	Carlos		30,000	*	20,000	10,000	*
Borras Fernandez	Isabel	C	33,000	*	10,890	22,110	*
Borrego Cidoncha	Amalia	M	1,500	*	1,000	500	*
Borrego Cidoncha	Marta	I	1,500	*	1,000	500	*
Botello Arache	Lepido		15,000	*	10,000	5,000	*
Bou Gauthier	Elias	H	3,000	*	2,000	1,000	*
Brau Ramirez	Ricardo	H	6,000	*	2,000	4,000	*

Bravo Castro	Jaime	J	6,000	*	2,000	4,000	*
Bravo Nones	Alfredo	A	15,000	*	10,000	5,000	*
Bravo Serrano	Miguel	A	30,000	*	20,000	10,000	*
Brea-Pimentel	Jose	A	6,000	*	4,000	2,000	*
Brito Arache	Rafael	A	45,000	*	30,000	15,000	*
Buitrago Santos	Hector	C	15,000	*	10,000	5,000	*
Bunker Soler	Antonio	L	12,000	*	4,000	8,000	*
Bunker Soler	Frances	M	12,000	*	4,000	8,000	*
Bunker Soler	George	A	12,000	*	6,000	6,000	*
Bunker Soler	Rex	J	12,000	*	6,000	6,000	*
Buonomo-Morales	Emigdio	A	3,000	*	1,000	2,000	*
Bures Miguel	Aleida		3,000	*	2,000	1,000	*
Burgos Calderon	Rafael	A	3,000	*	2,000	1,000	*
Burgos Mercado	Luis	A	3,000	*	2,000	1,000	*
Busquets Llorens	Antonio	R	30,000	*	20,000	10,000	*
Busquets Llorens	David		15,000	*	10,000	5,000	*
Busquets Llorens	Miguel	S	15,000	*	10,000	5,000	*
Busquets Llorens	Salvador		15,000	*	10,000	5,000	*
Buxeda Dacri	Roberto	M	3,000	*	2,000	1,000	*
Caballero Lopez	Celso	R	3,000	*	1,500	1,500	*
Cabrera Chico	Carmen	E	6,000	*	2,000	4,000	*
Cabrera Maldonado	Nereida		20,820	*	13,880	6,940	*
Caceres Muskus	Juan	B	3,000	*	2,000	1,000	*
Cacho Tossas	Jose	R	3,000	*	2,000	1,000	*
Cadilla Rebolledo	Maria	T	48,000	*	32,000	16,000	*
Calderon Rodriguez	Rafael	E	3,000	*	1,000	2,000	*
Calzada Santiago	Manuel	E	48,000	*	32,000	16,000	*
Campoamor Redin	Orlando		6,000	*	4,000	2,000	*
Campos Jovel	Jose	F	6,000	*	2,000	4,000	*
Canabal Lopez	Manuel	A	18,000	*	12,000	6,000	*
Cangiano Rivera	Jose	L	27,000	*	18,000	9,000	*
Canino Laporte	Godofredo		6,000	*	3,000	3,000	*
Capella Acevedo	Antonio		30,000	*	15,000	15,000	*
Capellan Cuevas	Jose	A	6,000	*	4,000	2,000	*
* Less than one percent							
Capo Garza	Leticia		4,000	*	1,500	2,500	*
Capo Truyol	Enrique	R	18,000	*	9,000	9,000	*
Carazo Castillo	Jorge	A	18,000	*	9,000	9,000	*
Cardona Martinez	Alicia		9,000	*	6,000	3,000	*
Cardona Miranda	Ivan		3,000	*	2,000	1,000	*
Cardona Ramirez	Oscar		15,000	*	10,000	5,000	*
Carlo Izquierdo	Jose	R	6,000	*	1,000	5,000	*
Carlos Ortega	Ramon		48,000	*	32,000	16,000	*
Carrera	Lilliam	B	63,000	*	12,000	51,000	*
Carrera del Moral	Jorge	D	63,000	*	31,500	31,500	*
Carreras Davila	Jose	A	15,000	*	10,000	5,000	*
Carro Soto	Ana del P.		4,125	*	2,750	1,500	*
Carro Soto	Jose	A	4,125	*	2,750	1,500	*
Carro Soto	Luis	E	4,125	*	2,750	1,500	*
Carro Soto	Manuel	F	4,125	*	2,750	1,500	*
Cartagena Garcia	Horacio		18,000	*	12,000	6,000	*
Casals	Ana		33,000	*	22,000	11,000	*
Casanova Diaz	Angel	S	63,000	*	42,000	21,000	*
Casanova Gonzalez	Antonio	J	3,000	*	2,000	1,000	*
Cases Mayoral	Hector	J	12,000	*	3,000	9,000	*
Casillas Jimenez	Salvador	G	6,000	*	4,000	2,000	*
Castaing Torres Jr	Pedro	A	21,000	*	14,000	7,000	*
Castaner Barcelo	Juan	C	18,000	*	12,000	6,000	*
Castañer Mattei	Alberto	A	45,000	*	30,000	15,000	*
Castells Rodriguez	Martina		3,000	*	2,000	1,000	*
Castillo Rivera	Ruben	I	15,000	*	10,000	5,000	*
Castrillo Cruz	Rafael	H	18,000	*	12,000	6,000	*

Castro Borges	Jose	R	27,000	*	18,000	9,000	*
Castro de Suarez	Carmen		6,000	*	4,000	2,000	*
Catasus	Ubaldo	A	6,000	*	4,000	2,000	*
Cerra Fernandez	María	D	9,000	*	6,000	3,000	*
Cerra Fernandez	Domingo		9,000	*	6,000	3,000	*
Cerra Fernandez	Javier		12,000	*	8,000	4,000	*
Cestero Aguilar	Herman	J	15,000	*	10,000	5,000	*
Chiques Byer	Carlos	M	18,000	*	12,000	6,000	*
Cintron Clos	Sonia	M	3,000	*	2,000	1,000	*
Cintron Colon	Marie		3,000	*	2,000	1,000	*
Cintron Rivera	Angel	A	36,000	*	24,000	12,000	*
Cintron Valle	Cesar		33,000	*	22,000	11,000	*
Claudio Villamil	Jaime	J	15,000	*	10,000	5,000	*
Clavell Mayoral	Ulises	M	15,000	*	10,000	5,000	*
Clavell Rodriguez	Luis	A	51,000	*	17,000	34,000	*
Cobian Tormos	Modesto	L	63,000	*	42,000	21,000	*
Colberg Comas	Wallace	A	33,000	*	22,000	11,000	*
Colberg Pujols	Pedro	N	30,000	*	20,000	10,000	*
Collazo Leandry	Armando	J	21,000	*	14,000	7,000	*
Collazo Lizardi	Diego	H	27,000	*	18,000	9,000	*
Collazo Lopez	Leonardo		3,000	*	2,000	1,000	*
Colom Aviles	Jesus	A	63,000	*	41,000	22,000	*
Colom Aviles	Vicente		15,000	*	10,000	5,000	*
Colon Arvelo	Cristino	R	63,000	*	42,000	21,000	*
Colon Bennett	Jeffrey	E	63,000	*	42,000	21,000	*
Colon de Jimenez	Ana	L	6,000	*	4,000	2,000	*
* Less than one percent							
Colon Leon	Jose	R	3,000	*	1,998	1,002	*
Colon Marcano	Jose	A	6,000	*	4,000	2,000	*
Colon Morales	Miguel	A	45,000	*	14,850	30,150	*
Colon Pagan	Juan	R	6,000	*	4,000	2,000	*
Colon Perez	Jose	R	9,000	*	6,000	3,000	*
Colon Perez	Miguel		9,000	*	3,000	6,000	*
Colon Perez	Rene		15,000	*	7,500	7,500	*
Colon Rodriguez	Filiberto		6,000	*	2,000	4,000	*
Colon Santini	Juan luis	L	15,000	*	4,000	11,000	*
Colon Trabal	Carmen		3,000	*	1,000	2,000	*
Colon Vaquer	Jose	M	9,000	*	6,000	3,000	*
Colon Vega	Gildred		3,000	*	2,000	1,000	*
Colon Vicenty	Marta	I	15,000	*	10,000	5,000	*
Comas Rosado	Francisco		6,000	*	4,000	2,000	*
Comas Urrutia	Arsenio	C	6,000	*	4,000	2,000	*
Cordero Casillas	Jose		6,000	*	4,000	2,000	*
Cordova Lopez	Arturo	R	3,000	*	1,000	2,000	*
Correa Agosto	Maritza		3,000	*	1,000	2,000	*
Correa Aponte	Jose	N	27,000	*	12,000	15,000	*
Correa Ayala	Roberto		18,000	*	12,000	6,000	*
Correa Jusino	Francisco		15,000	*	8,000	7,000	*
Corretjer Benvenutti	Antonio	L	63,000	*	21,000	42,000	*
Corretjer Benvenutti	Otto		3,000	*	1,000	2,000	*
Corretjer Charneco	Rafael		15,000	*	10,000	5,000	*
Corretjer Vicente	Ileana	A	3,000	*	2,000	1,000	*
Costas Elena	Antonio		63,000	*	21,000	42,000	*
Crespo Roman	Carmelo		15,000	*	10,000	5,000	*
Cruz Cruz	Jose	R	27,000	*	18,000	9,000	*
Cruz Garcia	Cesar	P	3,000	*	2,000	1,000	*
Cruz Hernandez	Hector	B	15,000	*	10,000	5,000	*
Cruz Mena	Rafael	A	3,000	*	2,000	1,000	*
Cruz Minguela	Marian	L	3,000	*	2,000	1,000	*
Cruz Santana	Alma	M	3,000	*	2,000	1,000	*
Cruz-Igartua Rivera	Ariel		3,000	*	2,000	1,000	*
Cuesta Rodriguez	Alfonso		3,000	*	2,000	1,000	*

* Less than one percent

			Shares of Common Stock Beneficially Owned before this Offering		Shares of Common Stock Sold in this Offering	Shares of Common Stock Beneficially Owned after this Offering	
Last Name	First Name	MI	Number	Percentage	Number	Number	Percentage
Cuevas Brunet	Edwin		3,000	*	2,000	1,000	*
Cuevas Soldevila	Giselle	M	3,000	*	2,000	1,000	*
Cuevas Soldevila	Maria	C	3,000	*	2,000	1,000	*
Cuevas Soldevila	Mayra	M	3,000	*	1,000	2,000	*
Cuevas Soldevila	Orlando	S	3,000	*	2,000	1,000	*
Cummings Carrero	Luis	E	6,000	*	1,000	5,000	*
Cummings Carrero	Roberto		3,000	*	1,500	1,500	*
Cummings Garcia	Luis	E	57,000	*	19,000	38,000	*
Curbelo Piza	Pablo	G	9,000	*	6,000	3,000	*
Curet Crespo	Jose	A	18,000	*	12,000	6,000	*
Curet Cuevas	Jose Orlando		6,000	*	4,000	2,000	*
Davila Acosta	Rafael	A	18,000	*	12,000	6,000	*
Davila Fernandez	Mario	R	18,000	*	6,000	12,000	*
Davila Lopez	Juan	A	6,000	*	4,000	2,000	*
Davila Martinez	Gladimiro		6,000	*	2,000	4,000	*
Davila Rotger	Carmen		27,000	*	18,000	9,000	*
De Cardona Greaves	Ethel	B	12,000	*	8,000	4,000	*
De Cardona Greaves	Jose	N	12,000	*	8,000	4,000	*
De Cardona Greaves	Richard	D	12,000	*	8,000	4,000	*
De Jesus	Manuel	A	63,000	*	21,000	42,000	*
De Jesus Carbonell	Ramon		3,000	*	2,000	1,000	*
De Jesus Quiñones	Felipe	N	24,000	*	16,000	8,000	*
De Jesus Toro	Jose Alberto		3,000	*	2,000	1,000	*
De Juan Gatell	Manuel	R	3,000	*	2,000	1,000	*
De Leon Prieto	Jose Noel		21,000	*	14,000	7,000	*
De Leon Roig	Noel	S	6,000	*	4,000	2,000	*
De Paz Reyes	Bernardo	A	30,000	*	20,000	10,000	*
Del Valle Biascoechea	Carlos		6,000	*	4,000	2,000	*
Delgado Ortiz	Blas		3,000	*	2,000	1,000	*
Delgado Rodriguez	Juan	A	15,000	*	10,000	5,000	*
Delgado Rodriguez	Ruben	N	60,000	*	15,000	45,000	*
Dexter	Donald	F	15,000	*	10,000	5,000	*
Diaz Bonnet	Victor	M	36,000	*	18,000	18,000	*
Diaz Canales	Fernando	L	30,000	*	20,000	10,000	*
Diaz Cuevas	Bernardo		3,000	*	2,000	1,000	*
Diaz del Valle	Eduardo		6,000	*	4,000	2,000	*
Diaz Lugo	Maritza	I	3,000	*	2,000	1,000	*
Diaz Martinez	Hector	F	27,000	*	10,000	17,000	*
Diaz Martinez	Rafael	A	15,000	*	10,000	5,000	*
Diaz Mendez	Rafael	B	15,000	*	10,000	5,000	*
Diaz Negron	Severiano		15,000	*	3,000	12,000	*
Diaz Pinto	Hector	F	6,000	*	2,000	4,000	*
Diaz Ramos	Nestor	E	30,000	*	20,000	10,000	*
Diaz Sanchez	Eduardo	R	3,000	*	2,000	1,000	*
Diaz Torres	Heriberto		27,000	*	18,000	9,000	*
Diaz Torres	Porfirio	E	9,000	*	3,000	6,000	*
Diaz Vazquez	Ruben		3,000	*	1,000	2,000	*
Diez Rivas	Federico		63,000	*	42,000	21,000	*
Dorrington de Gutierrez	Elsie		3,000	*	1,000	2,000	*
Encarnacion Canino	Gaspar		36,000	*	24,000	12,000	*
Etienne Pierre	Rufus		3,000	*	1,000	2,000	*
Falcon Matos	Carlos	A	3,000	*	2,000	1,000	*
Faura Clavell	Luis	E	15,000	*	10,000	5,000	*
Feijoo Gonzalez	Jose	E	6,000	*	2,000	4,000	*
Feliciano Rodriguez	Hector	A	15,000	*	5,000	10,000	*
Feliciano Rodriguez	Lino		48,000	*	32,000	16,000	*
Feliciano Sepulveda	Jose	I	15,000	*	7,500	7,500	*
Fernandez Carbia	Alberto		3,000	*	2,000	1,000	*

				Shares of Common Stock Sold in this Offering		
Fernandez Cerra	Eugenio	63,000	*	42,000	21,000	*
Fernandez Duran	Antonio	15,000	*	10,000	5,000	*

A-5

Fernandez Duran	Guillermo		3,000	*	1,000	2,000	*
Fernandez Feliberti	Rafael		27,000	*	18,000	9,000	*
Fernandez Fernandez-Vanga	Carmen	T	18,000	*	12,000	6,000	*
Fernandez Grovas	Guillermo		12,000	*	4,000	8,000	*
Fernandez Jaquete	Enrique		6,000	*	1,000	5,000	*
Fernandez Lugo	Orlando	S	3,000	*	2,000	1,000	*
Fernandez Martinez	Jose		24,000	*	16,000	8,000	*
Fernandez Maymi	Carlos		3,000	*	2,000	1,000	*
Fernandez Pedro	Cesar		18,000	*	12,000	6,000	*
Fernandez Pereyo	Jose	L	3,000	*	2,000	1,000	*
Fernandez Pla	Restituto		63,000	*	40,000	23,000	*
Fernandez Rivera	Sonia		3,000	*	2,000	1,000	*
Fernandez Santos	Francisco	J	63,000	*	21,000	42,000	*
Fernandez Sein	Alicia		3,000	*	1,000	2,000	*
Ferre	Tiody		12,000	*	4,000	8,000	*
Ferrer Montalvo	Norman	S	18,000	*	12,000	6,000	*
Ferrer Piñero	Lilliane		63,000	*	21,000	42,000	*
Ferrer Torres	Dimas	J	6,000	*	4,000	2,000	*
Ferrer Vicente	Ana Maria		9,000	*	6,000	3,000	*
Figueroa Colon	Jose	J	33,000	*	22,000	11,000	*
Figueroa Lebron	Ramon	E	27,000	*	9,000	18,000	*
Figueroa Longo	Juan	G	6,000	*	4,000	2,000	*
Figueroa Otero	Ivan		39,000	*	13,000	26,000	*
Figueroa Roure	Myrna	S	3,000	*	1,000	2,000	*
Fiol Lay	Carol	J	8,250	*	5,500	2,750	*
Fiol Lay	Lidia	A	8,250	*	5,500	2,750	*
Fiol Lay	Mary	E	8,250	*	5,500	2,750	*
Fiol Lay	Gloria		8,250	*	5,500	2,750	*
* Less than one percent							
Flax Jaffe	Herman	J	63,000	*	3,000	60,000	*
Fleisher Roseman	Tobias	L	30,000	*	20,000	10,000	*
Flores Cheverez	Victor	L	15,000	*	5,000	10,000	*
Flores de Hostos	Eddy		3,000	*	1,000	2,000	*
Flores Gallardo	Arturo		15,000	*	10,000	5,000	*
Font Zelinski	Vicente		63,000	*	42,000	21,000	*
Fontanet Perfecto	Hector	O	27,000	*	9,000	18,000	*
Fortuna Evangelista	Andres		6,000	*	1,000	5,000	*
Fortuño Carmona	Roberto	F	48,000	*	16,000	32,000	*
Fortuño Moscoso	Luis	E	33,000	*	11,000	22,000	*
Fossas Feliu	Jose	A	3,000	*	2,000	1,000	*
Fossas Lopez-Cepero	Jose	L	27,000	*	18,000	9,000	*
Fraguada Perez	Luis Antonio		9,000	*	6,000	3,000	*
Frame de Marie	Stephen	J	15,000	*	10,000	5,000	*
Franceschi Conde	Raul		30,000	*	18,000	12,000	*
Franceschini Ortiz	Rene		6,000	*	4,000	2,000	*
Franceschini Pascual	Carmen	N	3,000	*	1,000	2,000	*
Franco Linares	Alejandro	E	9,000	*	6,000	3,000	*
Franco Molini	Carlos	M	6,000	*	4,000	2,000	*
Fred Santana	Roberto	R	3,000	*	2,000	1,000	*
Frias Arias	Alberto	E	3,000	*	2,000	1,000	*
Frontera Colley	Antonio		18,000	*	12,000	6,000	*
Frontera Lluch	Enrique		3,000	*	1,000	2,000	*
Frontera Mayoral	Fernando	E	15,000	*	5,000	10,000	*
Frontera Rodriguez	Herminio		6,000	*	4,000	2,000	*
Frontera Vicens	Miguel	A	3,000	*	2,000	1,000	*
Fuentes Ramos	Jose	A	9,000	*	6,000	3,000	*
Fuertes Bachman	Alberto		9,000	*	6,000	3,000	*
Fuertes Bachman	Jorge Luis	B	9,000	*	3,000	6,000	*
Fuertes Bachman	Jose Alberto	R	9,000	*	3,000	6,000	*
Fuertes Bachman	Lillian	R	9,000	*	3,000	6,000	*
Fuertes Bachman	Maria	A	9,000	*	6,000	3,000	*

Fuertes Bachman	Miguel	A	9,000	*	3,000	6,000	*
Fuertes Bachman	Ricardo	T	9,000	*	3,000	6,000	*
Fumero Aguilo	Jose	O	9,000	*	6,000	3,000	*
Fuste Gonzalez	Mercedes del	R	15,000	*	7,500	7,500	*
Fuster Gonzalez	Jaime	L	6,000	*	2,000	4,000	*
Galindez Antelo	William		30,000	*	20,000	10,000	*
Gallardo Mendez	Rafael	A	6,000	*	4,000	2,000	*
Gamble	Elsie	G	9,000	*	6,000	3,000	*
Gandara Gonzalez	Maria	T	6,000	*	2,000	4,000	*
Gandia Mantaras	Luis	T	15,000	*	5,000	10,000	*
Garau Diaz	Guillermo		3,000	*	2,000	1,000	*
Garau Diaz	Ivan		3,000	*	2,000	1,000	*
Garayalde Cotroneo	Glenn	J	3,000	*	1,000	2,000	*
Garcia Aguirre	Augusto	C	15,000	*	5,000	10,000	*
Garcia Bird	Jorge		30,000	*	20,000	10,000	*
Garcia Bulls	Aureo	B	3,000	*	2,000	1,000	*
Garcia Gubern	Carlos	F	18,000	*	12,000	6,000	*
Garcia Margarida	Miguel	A	18,000	*	12,000	6,000	*
Garcia Moliner	Lucio		18,000	*	12,000	6,000	*
Garcia Montes de Oca	Carlos		63,000	*	42,000	21,000	*
Garcia Narvaez	Maria	T	6,000	*	4,000	2,000	*
Garcia Normandia	Hector Luis		3,000	*	2,000	1,000	*
Garcia Quiroga	Judith		63,000	*	15,000	48,000	*
Garcia Ramirez	Ivan	H	63,000	*	42,000	21,000	*
Garcia Ramos	Carlos	H	12,000	*	8,000	4,000	*
Garcia Rivera	Olga	N	3,000	*	2,000	1,000	*
Garcia Saavedra	Jaime		18,000	*	12,000	6,000	*
Garcia Santaliz	Domingo		3,000	*	2,000	1,000	*
Garcia Santiago	Jose	G	9,000	*	3,000	6,000	*
Garcia Trias	David	E	9,000	*	4,500	4,500	*
Garcia Trias	Edgardo	A	9,000	*	5,000	4,000	*
Garraton Martin	Fanny	M	15,000	*	10,000	5,000	*
Garraton Martin	Luis		15,000	*	10,000	5,000	*
Garrido Carrascon	Jose		6,000	*	3,000	3,000	*
Garza de Capo	Judith	G	15,000	*	7,500	7,500	*
Gavillan Pabon	Pedro		27,000	*	18,000	9,000	*
Geigel de Olivieri	Ana	A	15,000	*	10,000	5,000	*
Gelabert Paredes	Ramon	E	6,000	*	1,500	4,500	*
Gil de Rubio Ocasio	Eduardo		3,000	*	2,000	1,000	*
Giusti de Jesus	Juan	B	15,000	*	5,000	10,000	*
Golderos Rodriguez	Carmen	G	6,000	*	3,000	3,000	*
Golderos Sanabria	Francisco	R	3,000	*	2,000	1,000	*
Gomez Lopez	Juan Ramon		6,000	*	4,000	2,000	*
Gomez Madrazo	Emilio	J	12,000	*	8,000	4,000	*
Gomez Vazquez	Maria	A	3,000	*	2,000	1,000	*
Gonzalez Berdecia	Carlos		6,000	*	4,000	2,000	*
Gonzalez Boneta	Benigno	T	18,000	*	12,000	6,000	*
Gonzalez Cordova	Olga	B	15,000	*	10,000	5,000	*
Gonzalez Cruz	Julio	E	6,000	*	4,000	2,000	*
Gonzalez del Rosario	Segundo		6,000	*	4,000	2,000	*
Gonzalez Diaz	Juan		9,000	*	6,000	3,000	*
Gonzalez Flores	Bernardino		15,000	*	5,000	10,000	*
Gonzalez Flores	Jose R	R	15,000	*	10,000	5,000	*

* Less than one percent

Gonzalez Inclan	Carlos	A	3,000	*	2,000	1,000	*
Gonzalez Inclan	Carmen	E	3,000	*	2,000	1,000	*
Gonzalez Inclan	Eduardo	J	3,000	*	2,000	1,000	*
Gonzalez Inclan	Jose	R	6,000	*	4,000	2,000	*
Gonzalez Inclan	Maria de L.		3,000	*	2,000	1,000	*
Gonzalez Mendez	Mabel		3,000	*	2,000	1,000	*
Gonzalez Navedo	Edwin		3,000	*	1,000	2,000	*
Gonzalez Pimentel	Victor	M	6,000	*	4,000	2,000	*

Gonzalez Ramos	Reinaldo		9,000	*	6,000	3,000	*
Gonzalez Rios	Antonio		18,000	*	6,000	12,000	*
Gonzalez Robison	Gloria	G	1,000	*	666	334	*
Gonzalez Robison	Hugh		1,000	*	666	334	*
Gonzalez Robison	Jaime	E	1,000	*	666	334	*
Gonzalez Sanchez	German		6,000	*	2,000	4,000	*
Gonzalez Sepulveda	Jose	A	27,000	*	9,000	18,000	*
Grillo Alverio	Juan	E	6,000	*	4,000	2,000	*
Guardiola Cruzado	Armando	J	18,000	*	8,000	10,000	*
Guerra Ibanez	Juan	C	9,000	*	4,500	4,500	*
Guerra Ibanez	Ricardo		9,000	*	6,000	3,000	*
Guerrero Preston	Juan		3,000	*	2,000	1,000	*
Guerrero Preston	Margarita		3,000	*	2,000	1,000	*
Guerrero Preston	Maria del Carmen		3,000	*	2,000	1,000	*
Guerrero Preston	Maria	E	3,000	*	2,000	1,000	*
Guerrero Preston	Rafael	E	3,000	*	2,000	1,000	*
Guerrero Preston	Teresa	E	3,000	*	2,000	1,000	*
Gutierrez Camacho	Jorge	H	3,000	*	1,000	2,000	*
Guzman Acosta	Manuel		18,000	*	12,000	6,000	*
Guzman Freire	Julio	E	3,000	*	2,000	1,000	*
Guzman Lopez	Luis	R	63,000	*	42,000	21,000	*
Guzman Rodriguez	Norma	J	3,000	*	1,000	2,000	*
Haddad Zouain	Mario	A	3,000	*	1,000	2,000	*
Hammerschmidt Razuri	Cesar	R	63,000	*	42,000	21,000	*
Hau Rosa	Roberto	H	3,000	*	2,000	1,000	*
Hawayek Alemañy	Jose		30,000	*	5,000	25,000	*
Hernandez Denton	Federico		21,000	*	7,000	14,000	*
Hernandez Denton	Gabriel		36,000	*	15,000	21,000	*
Hernandez Feliciano	Tomas		15,000	*	10,000	5,000	*
Hernandez Garcia	Cesar	R	6,000	*	4,000	2,000	*
Hernandez Guash	Rayda	N	3,000	*	2,000	1,000	*
Hernandez Lopez	Oscar	A	3,000	*	2,000	1,000	*
Hernandez Lopez de Victoria	Juan	D	3,000	*	2,000	1,000	*
Hernandez Martinez	Pedro		21,000	*	11,000	10,000	*
Hernandez Michels	Angela		33,000	*	22,000	11,000	*
Hernandez Perez	Victor	M	15,000	*	10,000	5,000	*
Hernandez Ramos	Prisco		27,000	*	18,000	9,000	*
* Less than one percent							
Hernandez Ricoff	Bethzaida		15,000	*	7,500	7,500	*
Hernandez Rodriguez	Eduardo		3,000	*	2,000	1,000	*
Hernandez Velazquez	Jose		45,000	*	30,000	15,000	*
Herrero Rovira	Francisco		3,000	*	2,000	1,000	*
Hidalgo	Hector	O	21,000	*	14,000	7,000	*
Hidalgo Gorbea	Hector	L	21,000	*	14,000	7,000	*
Hidalgo Walker	Karen		21,000	*	14,000	7,000	*
Hoyos Precssas	Guillermo	J	6,000	*	4,000	2,000	*
Iguina de la Rosa	María del C.		15,000	*	1,500	13,500	*
Iguina Mora	Martin	A	63,000	*	20,790	42,210	*
Inclan Fontanals	Carmina		42,000	*	28,000	14,000	*
Infanzon Olivieri	Julia	I	63,000	*	21,000	42,000	*
Irizarry Bonilla	Pablo	E	3,000	*	2,000	1,000	*
Irizarry Bulls	Edgar		63,000	*	39,000	24,000	*
Irizarry Colon	Nilda		15,000	*	5,000	10,000	*
Irizarry Perez	Luis	A	18,000	*	12,000	6,000	*
Isales Davis	Luis	M	63,000	*	21,000	42,000	*
Isales Davis	Ramon		48,000	*	32,000	16,000	*
Iturrino Rodriguez	Jose	L	63,000	*	21,000	42,000	*
Izquierdo Mora	Luis	A	63,000	*	42,000	21,000	*
Jaskille Erdmann	Francisco	M	3,000	*	2,000	1,000	*
Jimenez Amadeo	Frances Ann		15,000	*	10,000	5,000	*
Jimenez Barreras	Jose Luis		6,000	*	1,500	4,500	*

* Less than one percent

			Shares of Common Stock Beneficially Owned before this Offering		Shares of Common Stock Sold in this Offering	Shares of Common Stock Beneficially Owned after this Offering	
Last Name	**First Name**	**MI**	**Number**	**Percentage**	**Number**	**Number**	**Percentage**
Jimenez Blazquez	Fausto		27,000	*	9,000	18,000	*
Jimenez Garcia	Jose	C	3,000	*	2,000	1,000	*
Jimenez Mercado	Juan	F	15,000	*	10,000	5,000	*
Jimenez Ortiz	Emilio		6,000	*	4,000	2,000	*
Jimenez Robinson	Carlos	E	30,000	*	10,000	20,000	*
Jimenez Robinson	Tomas		39,000	*	26,000	13,000	*
Jimenez Rodriguez	Juan	A	3,000	*	1,000	2,000	*
Jimenez Torres	Carlos	F	63,000	*	31,500	31,500	*
Jimenez Velez	Jose	L	63,000	*	42,000	21,000	*
Juarbe Santos	Charles		3,000	*	1,000	2,000	*
Julia de Hernandez	Carmen		6,000	*	4,000	2,000	*
Jurado Perez	Juan	A	6,000	*	4,000	2,000	*
Justiniano Justiniano	Eric		3,000	*	1,000	2,000	*
Kerr Selgas	David		6,000	*	4,000	2,000	*
Key Nieves	Carlos	E	18,000	*	12,000	6,000	*
Kindy Schrock	Paul	E	15,000	*	10,000	5,000	*
Laborde	Ida		5,000	*	1,666	3,334	*
Laboy Figueroa	Ernesto	R	9,000	*	6,000	3,000	*
Laboy Ramos	Vicente		3,000	*	2,000	1,000	*
Laguillo Rodriguez	Pascasio		3,000	*	2,000	1,000	*
Laguillo Torres	Edgardo	R	15,000	*	3,000	12,000	*
Landron Guardiola	Jose	R	15,000	*	10,000	5,000	*
Lao Sam	Florencio		9,000	*	6,000	3,000	*
Laracuente Vazquez	Pedro		3,000	*	1,000	2,000	*
Lasala Aleman	Javier		12,000	*	8,000	4,000	*
Lasala Rois	Victoria	E	6,000	*	4,000	2,000	*
Lastra Calderon	Pedro	L	3,000	*	2,000	1,000	*
Latimer	Jose	R	18,000	*	12,000	6,000	*
Latoni Cabanillas	David		15,000	*	5,000	10,000	*
Lazaro Garcia	Pedro		18,000	*	12,000	6,000	*
Lazzarini Lugo	Sigfrido		18,000	*	9,000	9,000	*
Lebron de Sanz	Benicia		3,000	*	2,000	1,000	*
Lebron Laborde	Alexis	J	3,000	*	2,000	1,000	*
Lebron Lebron	Roberto		3,000	*	2,000	1,000	*
Lee Pimentel	Charles	J	15,000	*	10,000	5,000	*
Leon Garcia	Ana	M	13,500	*	3,000	10,500	*
Lespier Santiago	Rosa	M	15,000	*	5,000	10,000	*
Levy Anduze	Alicia	M	12,750	*	8,500	4,250	*
Levy Anduze	Elaine	M	12,750	*	8,500	4,250	*
Liaño Mera	Angel	L	3,000	*	2,000	1,000	*
Lightbourn	Evelyn	G	27,000	*	8,910	18,090	*
Lizardo Vidal	Francis		48,000	*	32,000	16,000	*
Llado Gonzalez	Ivan Jose		15,000	*	10,000	5,000	*
Llavona Folguera	Alexia	T	10,800	*	7,200	3,600	*
Llavona Folguera	Angel	M	10,800	*	7,200	3,600	*
Llavona Folguera	Angel	R	10,800	*	7,200	3,600	*
Llavona Folguera	Frances	J	10,800	*	7,200	3,600	*
Llavona Folguera	Sonia	P	10,800	*	7,200	3,600	*
Llompart Garcia	Juan		63,000	*	42,000	21,000	*
Llompart Zeno	Juan	A	3,000	*	2,000	1,000	*
Llona Sanchez	Antonio		18,000	*	6,000	12,000	*
Llorens Perez	Santiago		3,000	*	2,000	1,000	*
Lluberas Gonzalez	Arturo	F	3,000	*	1,000	2,000	*
Lluberas Gonzalez	Lourdes	T	3,000	*	2,000	1,000	*
Lluberas Gonzalez	Wilma	M	3,000	*	2,000	1,000	*
Lluberas Ortiz	Arturo	F	33,000	*	11,000	22,000	*
Longo Cordero	Rafael		48,000	*	32,000	16,000	*
Longo Rodriguez	Fernando	L	6,000	*	4,000	2,000	*

					Shares of Common Stock Sold in this Offering		
Lopez	Jose Eugenio		18,000	*	6,000	12,000	*
Lopez Bauza	Rafael	J	3,000	*		1,000	*
					2,000		

A-9

Lopez Busquets	Roberto	H	27,000	*	9,000	18,000	*
Lopez Castañon	Luis		27,000	*	18,000	9,000	*
Lopez de Victoria del Valle	Jose	R	3,000	*	2,000	1,000	*
Lopez de Victoria Vicario	Manuel	A	15,000	*	7,500	7,500	*
Lopez Enriquez	Alberto	T	30,000	*	10,000	20,000	*
Lopez Enriquez	Reynold	E	15,000	*	10,000	5,000	*
Lopez Hernandez	Wilfredo		6,000	*	2,000	4,000	*
Lopez Lopez	Edson	R	27,000	*	18,000	9,000	*
Lopez Mujica	Ricardo	J	3,000	*	2,000	1,000	*
Lopez Nieves	Myrna	I	6,000	*	4,000	2,000	*
Lopez Poueymirou	Waldo	E	27,000	*	9,000	18,000	*
Lopez Rivera	Agapito		6,000	*	4,000	2,000	*
Lopez Somolinos	Carlos		27,000	*	18,000	9,000	*
Lopez Velez	Leslie	H	25,500	*	17,000	8,500	*
Lugo d'Acosta	Samuel	E	18,000	*	12,000	6,000	*
Lugo del Toro	Alberto	E	63,000	*	42,000	21,000	*
Lugo Figueroa	Nitza		3,000	*	2,000	1,000	*
Lugo Santos	Nelson		30,000	*	10,000	20,000	*
Lugo Somolinos	Aida		6,000	*	4,000	2,000	*
Luna Flores	Luis	A	6,000	*	3,000	3,000	*
Maeso Schroder	Andres		27,000	*	18,000	9,000	*
Magraner Suarez	Miguel		6,000	*	2,000	4,000	*
Malaret Ponce de Leon	German	E	48,000	*	16,000	32,000	*
Malave Gomez	Angel	B	18,000	*	3,000	15,000	*
Maldonado Acevedo	Carlos	I	3,000	*	1,333	1,667	*
Maldonado Gonzalez	Antonio		15,000	*	10,000	5,000	*
Maldonado Guzman	Carlos	N	63,000	*	42,000	21,000	*
Maldonado Moll	Jaime	L	6,000	*	4,000	2,000	*
Maldonado Velazquez	Carlos	J	3,000	*	2,000	1,000	*
Manes Horta	Raul	B	6,000	*	4,000	2,000	*
Marcano Marcano	Rafael	A	6,000	*	4,000	2,000	*
Marchand Boneta	Juan	R	63,000	*	23,000	40,000	*
Marchand Quintero	Arturo	E	15,000	*	5,000	10,000	*
Marcial Burgos	Victor	A	63,000	*	21,000	42,000	*
Marcial Rojas	Raul	A	6,000	*	3,000	3,000	*
Marcial Seoane	Alodia		3,000	*	2,000	1,000	*
* Less than one percent							
Marcial Seoane	Ana	R	3,000	*	2,000	1,000	*
Marcial Seoane	Manuel	A	6,000	*	4,000	2,000	*
Marco Borrull	Raul	V	6,000	*	3,960	2,040	*
Margarida	Carlos	J	36,000	*	23,760	12,240	*
Marin Maldonado	Daniel		9,000	*	3,000	6,000	*
Marin Rullan	Mimosa		78,000	*	24,000	54,000	*
Marini Mir	Luis	A	3,000	*	2,000	1,000	*
Marini Roman	Grace	A	3,000	*	1,000	2,000	*
Marques Goyco	Cecile		3,000	*	2,000	1,000	*
Marques Mera	Bernardo	J	6,000	*	4,000	2,000	*
Marquez Hernandez	Armando	J	3,000	*	2,000	1,000	*
Marquez Hiraldo	Carmen	M	6,000	*	4,000	2,000	*
Marrero Luna	Hector	R	3,000	*	2,000	1,000	*
Martell Ramos	Frank		6,000	*	3,000	3,000	*
Martin Casals	Aurelio	P	6,000	*	2,000	4,000	*
Martinez George	Jorge	L	3,000	*	2,000	1,000	*
Martinez Irizarry	Lorenzo		27,000	*	18,000	9,000	*
Martinez Martinez	Evelyn		6,000	*	4,000	2,000	*
Martinez Perez	Rosendo		36,000	*	12,000	24,000	*
Martinez	Maria		27,000	*	18,000	9,000	*
Martinez Rivera	Carmelo		3,000	*	2,000	1,000	*
Martinez Rodriguez	Diana	P	3,000	*	2,000	1,000	*
Martinez Rodriguez	Hugo	E	18,000	*	6,000	12,000	*
Martinez Sandin	Hugo	E	15,000	*	10,000	5,000	*

Martinez Santana	Lydia	E	3,000	*	2,000	1,000	*
Martinez Villafañe	Hector		51,000	*	17,000	34,000	*
Marty Laracuente	Emilio		3,000	*	2,000	1,000	*
Matos Malave	Jose	G	3,000	*	2,000	1,000	*
Matos Munera	Carlos	R	3,000	*	2,000	1,000	*
Matta de Juan	Belisario		6,000	*	4,000	2,000	*
Mattei Santiago	Eduardo		45,000	*	30,000	15,000	*
Mattos Nieves	Angel	M	18,000	*	9,000	9,000	*
Maymi Pagan	Gilberto		27,000	*	18,000	9,000	*
Mayol Bracero	Eduardo		6,000	*	4,000	2,000	*
Mayol Serrano	Pedro	M	3,000	*	1,000	2,000	*
Mayoral Bigas	Jorge		48,000	*	32,000	16,000	*
McConnie King	Randolph	J	63,000	*	14,000	49,000	*
Medina de la Baume	Eduardo		63,000	*	42,000	21,000	*
Medina Tollinche	Jose	T	27,000	*	18,000	9,000	*
Medina Torres	Angel	R	15,000	*	10,000	5,000	*
Mendez Beauchamp	Victor	M	27,000	*	13,500	13,500	*
Mendez Cortes	Evelyn	I	15,000	*	10,000	5,000	*
Mendez Rivera	Carmen	I	3,000	*	1,000	2,000	*
Mendez Rivera	Zenaida		6,000	*	2,000	4,000	*
Mendoza Ortiz	Juan	A	3,000	*	2,000	1,000	*
Mendoza Tesson	Mario	R	18,000	*	12,000	6,000	*
Mendoza Vallejo	Adalberto		3,000	*	2,000	1,000	*
Mennonite General Hospital			18,000	*	12,000	6,000	*
Michel Gomez	Rosa	L	3,000	*	2,000	1,000	*
Miguez Balseiro	Rafael	H	3,000	*	2,000	1,000	*
Milan Amadeo	Jose	E	15,000	*	2,500	12,500	*
Mirabal Rodriguez	Brenda		9,000	*	6,000	3,000	*
Mirabal Rodriguez	Eduardo		9,000	*	6,000	3,000	*
Miranda Ferrer	Manuel	N	33,000	*	22,000	11,000	*
Miranda Miranda	Hector	J	33,000	*	22,000	11,000	*
Miranda Rivera	Agapito		12,000	*	8,000	4,000	*
Miranda Rivera	Jose	R	3,000	*	2,000	1,000	*
Miranda Rivera	Manuel	N	33,000	*	22,000	11,000	*
Miranda Rodriguez	Ada	S	6,000	*	4,000	2,000	*
Miranda Rodriguez	Ricardo		3,000	*	1,000	2,000	*
Miranda Santiago	Valmin		15,000	*	10,000	5,000	*
* Less than one percent							
Miro Sotomayor	Pedro	A	6,000	*	3,000	3,000	*
Modesti Tañon	Ney		18,000	*	6,000	12,000	*
Molina Mieses	Jose	E	18,000	*	600	17,400	*
Monroig Alfonso	Arnaldo		18,000	*	12,000	6,000	*
Monserrate Canino	Pedro	E	15,000	*	10,000	5,000	*
Monserrate Costa	Salomon	A	6,000	*	4,000	2,000	*
Montalvo Fabrellas	Eladio	F	15,000	*	10,000	5,000	*
Montalvo Mafuz	Gilda		6,825	*	4,550	2,275	*
Montalvo Mafuz	Ivonne		6,825	*	4,500	2,325	*
Montalvo Mafuz	Jose	A	6,825	*	4,550	2,275	*
Montalvo Mafuz	Maria	E	6,825	*	4,500	2,325	*
Montalvo Marrero	Jose	C	6,000	*	3,000	3,000	*
Montalvo Rodriguez	Heriberto	J	3,000	*	2,000	1,000	*
Montalvo Vega	Carlos	N	18,000	*	12,000	6,000	*
Montes Burgos	Gloria	M	6,000	*	1,200	4,800	*
Montes Esteves	Santiago		63,000	*	42,000	21,000	*
Montes Palou	Maria	E	9,000	*	6,000	3,000	*
Montes Ruiz	Juan		9,000	*	6,000	3,000	*
Montilla Amy	Eduardo		15,000	*	10,000	5,000	*
Montilla Lopez	Fernando	J	63,000	*	42,000	21,000	*
Morales Cabranes	Manuel	C	6,000	*	4,000	2,000	*
Morales Carrasquillo	Jose	R	15,000	*	10,000	5,000	*
Morales Carrasquillo	Pablo	F	18,000	*	12,000	6,000	*

Morales Otero	Luis	A	15,000	*	5,000	10,000	*
Morales Rodriguez	Pablo	L	21,000	*	14,000	7,000	*
Mulero Hernandez	Guillermo		18,000	*	6,000	12,000	*
Mundo Lopez de Victoria	Jorge	A	3,000	*	1,000	2,000	*
Muñiz Echevarria	Oscar		3,000	*	2,000	1,000	*
Muñiz Vega	Radames		63,000	*	42,000	21,000	*
Muñoz Bermudez	Armando	L	6,000	*	4,000	2,000	*
Muñoz Busquets	Jose	R	3,000	*	2,000	1,000	*
Muñoz Dones	Eloisa		15,000	*	10,000	5,000	*
Muñoz Mattei	Jorge	C	30,000	*	10,000	20,000	*
Muñoz Mattei	Jose	R	63,000	*	42,000	21,000	*
Muñoz Riera	Carlos	E	63,000	*	42,000	21,000	*
Muñoz Rodriguez	Carlos	M	3,000	*	2,000	1,000	*
Muñoz Zayas	Roberto		63,000	*	21,000	42,000	*
Murcia Valcarcel	Francisco	E	18,000	*	12,000	6,000	*
Najul Zambrana	Neyda		12,000	*	8,000	4,000	*
Najul Zambrana	Zahira		12,000	*	8,000	4,000	*
Najul Zambrana	Jose	E	21,000	*	12,000	9,000	*
Nassar Rizek	Jose	A	54,000	*	36,000	18,000	*
Navarro Porrata	Ana		36,000	*	24,000	12,000	*
Navarro Rodriguez	Nyvia	M	3,000	*	2,000	1,000	*
Nazario Cintron	Efrain		6,000	*	4,000	2,000	*
Nazario Guirau	Armando		3,000	*	2,000	1,000	*
Negron Crespo	Roberto	A	27,000	*	18,000	9,000	*
Negron Luciano	Ivette	M	3,000	*	2,000	1,000	*
Negron Vazquez	Doralma	E	3,000	*	2,000	1,000	*
Nevarez Marrero	Juan	A	3,000	*	1,000	2,000	*

* Less than one percent

Nido Stella	Roque	C	48,000	*	18,000	30,000	*
Nieves Diaz	Gil	A	6,000	*	4,000	2,000	*
Nieves Diaz	Higinio		3,000	*	1,000	2,000	*
Nieves Garnica	Pedro	L	18,000	*	11,880	6,120	*
Nieves Rivera	Erick		3,000	*	2,000	1,000	*
Nieves Torres	Jose	A	3,000	*	2,000	1,000	*
Nigaglioni Loyola	Adan		18,000	*	12,000	6,000	*
Nina de la Rosa	Emiliano		3,000	*	2,000	1,000	*
Noriega de Quintero	Elizabeth		6,000	*	2,000	4,000	*
Noya Gonzalez	Carlos	J	3,000	*	2,000	1,000	*
Noya Murati	Laura	M	24,000	*	16,000	8,000	*
Nuñez Bautista	Nelson		3,000	*	2,000	1,000	*
Ocasio Cabrera	Karen		9,045	*	6,030	3,015	*
Ocasio Cabrera	Katia	M	9,045	*	6,030	3,015	*
Ocasio Cabrera	Kermell		15,045	*	7,500	7,545	*
Ocasio Cabrera	Kim	N	15,045	*	7,225	7,820	*
Ocasio Rodriguez	Arnaldo		9,000	*	6,000	3,000	*
Olazabal Feliu	Angel		6,000	*	4,000	2,000	*
Olivencia Rabell	Humberto		6,000	*	2,000	4,000	*
Olmeda Diaz	Vilma	I	3,000	*	2,000	1,000	*
Oms Loyola	Luis	J	6,000	*	4,000	2,000	*
Oquendo Cabrera	Angel		3,000	*	2,000	1,000	*
Orea Vela	Juana		3,000	*	2,000	1,000	*
Orobitg Brenes	Francisco	J	63,000	*	42,000	21,000	*
Oronoz Mendez	Joaquin		6,000	*	4,000	2,000	*
Orozco Bonnin	Pilar		30,000	*	20,000	10,000	*
Ortega Perez	Jose Luis		3,000	*	2,000	1,000	*
Ortega Torres	Leticia		3,000	*	1,000	2,000	*
Ortega Torres	Maximino		6,000	*	4,000	2,000	*
Ortiz Camacho	Martin		3,000	*	2,000	1,000	*
Ortiz Cerezo	Pablo		6,000	*	4,000	2,000	*
Ortiz Cruz	Jose	L	3,000	*	1,000	2,000	*
Ortiz Domenech	Ramon	E	6,000	*	4,000	2,000	*

* Less than one percent

			Shares of Common Stock Beneficially Owned before this Offering		Shares of Common Stock Sold in this Offering	Shares of Common Stock Beneficially Owned after this Offering	
Last Name	First Name	MI	Number	Percentage	Number	Number	Percentage
Ortiz Espada	Carlos	A	18,000	*	12,000	6,000	*
Ortiz Kidd	Enrique	O	15,000	*	10,000	5,000	*
Ortiz Matos	Edgardo	J	15,000	*	10,000	5,000	*
Ortiz Matos	Grace	M	9,000	*	6,000	3,000	*
Ortiz McWilliams	Julio	A	3,000	*	1,000	2,000	*
Ortiz Ortiz	Victor	A	15,000	*	10,000	5,000	*
Ortiz Pagan	Marta	R	3,000	*	2,000	1,000	*
Ortiz Quiñones	Julio	A	24,000	*	3,000	21,000	*
Ortiz Quiñones	Luis	A	6,000	*	4,000	2,000	*
Ortiz Ricard	Enid		15,000	*	10,000	5,000	*
Ortiz Rosado	Jose	A	3,000	*	1,000	2,000	*
Ortiz Sanchez	Miguel	A	15,000	*	10,000	5,000	*
Ortiz Soto	Esther		6,000	*	4,000	2,000	*
Ortiz Vega	Pablo		63,000	*	42,000	21,000	*
Otaño Davila	Manuel Etien		6,000	*	4,000	2,000	*
Otero Viera	Angel	M	12,000	*	3,000	9,000	*
Otero Viera	Carlos		6,000	*	2,000	4,000	*
Otero Viera	Jose	A	12,000	*	4,000	8,000	*
Ovalles Veloz	Eurgilia	O	3,000	*	2,000	1,000	*
Owen Bischoff	Clayton	E	15,000	*	10,000	5,000	*
Oyola Nieves	Edna	M	15,000	*	10,000	5,000	*
Pabon Vega	Angela	I	6,000	*	4,000	2,000	*
Pabon Vega	Hector	E	6,000	*	4,000	2,000	*
Pabon Vega	Maria del Pilar		6,000	*	4,000	2,000	*
Pacheco Hernandez	Eileen		3,000	*	2,000	1,000	*
Pacheco Vazquez	Roberto		3,000	*	2,000	1,000	*
Padilla Comas	Alma	L	3,000	*	2,000	1,000	*
Padilla Mendoza	Jose	S	63,000	*	42,000	21,000	*
Padilla Rosa	Eliud		15,000	*	10,000	5,000	*
Pagan Agostini	Walter		15,000	*	8,000	7,000	*
Pagan Ayala	Benjamin		6,000	*	1,000	5,000	*
Pagan Gonzalez	Benjamin		6,000	*	3,000	3,000	*
Pagan Gordils	Emilio	B	3,000	*	1,500	1,500	*
Pagani Diaz	Wilfredo		3,000	*	2,000	1,000	*
Pales Aguilo	Joaquin	R	15,000	*	10,000	5,000	*
Paoli Bruno	Ramon	N	3,000	*	2,000	1,000	*
Paravisini Vazquez	Ferdinand		54,000	*	36,000	18,000	*
Parjus Chidiac	Hector	N	3,000	*	2,000	1,000	*
Parra Montes	Raymond	M	15,000	*	10,000	5,000	*
Pasarell Juliao	Enrique	A	3,000	*	2,000	1,000	*
Pasarell Ventura	Margarita		54,000	*	36,000	18,000	*
Passalacqua Rodriguez	Fernando	A	63,000	*	16,000	47,000	*
Patron Perez	Daniel	A	9,000	*	6,000	3,000	*
Pavia Villamil	Antonio		63,000	*	42,000	21,000	*
Peguero Bodden	Digno	J	15,000	*	10,000	5,000	*
Perez Arzola	Miguel		27,000	*	9,000	18,000	*
Perez Caban	Wilfredo		15,000	*	10,000	5,000	*
Perez Diaz	Carlos	A	63,000	*	21,000	42,000	*
Perez Guadalupe	Marisol		3,000	*	2,000	1,000	*
Perez Llorens	Ibrahim		15,000	*	10,000	5,000	*
Perez Lopez	Cielomar		15,000	*	5,000	10,000	*
Perez Martinez	Rafael		3,000	*	1,500	1,500	*
Perez Ojeda	Raul	A	27,000	*	18,000	9,000	*
Perez Ortiz	Domingo		48,000	*	31,968	16,032	*
Perez Perez	Hilton	G	18,000	*	12,000	6,000	*
Perez Roig	Manuel		45,000	*	30,000	15,000	*
Perez Vega	Gladys		6,000	*	3,000	3,000	*
Perez Villamil	Rafael		3,000	*	2,000	1,000	*

					Shares of Common Stock Sold in this Offering		
Perez Vivas	Hector	F	63,000	*	38,000	25,000	*
Perez-Prieto	Manuel		18,000	*	12,000	6,000	*

Pesquera Garcia	Jose	R	3,000	*	2,000	1,000	
Petrovich Monllor	Diana		33,000	*	11,000	22,000	*
Pico Bauermeister	Jose	F	45,000	*	30,000	15,000	*
Pico Santiago	Guillermo		63,000	*	42,000	21,000	*
Pijem Garcia	Jesus	E	6,000	*	4,000	2,000	*
Pineyro Cruz	Juan	R	36,000	*	12,000	24,000	*
Piovanetti Keelan	Yvette	L	51,000	*	30,000	21,000	*
Piovanetti Pietri	Enrique	J	6,000	*	2,000	4,000	*
Planell Porrata	Carlos		6,000	*	4,000	2,000	*
Polanco	Jose	E	15,000	*	5,000	10,000	*
Portela Rodriguez	Ramon	M	6,000	*	4,000	2,000	*
Pou Lines	Angel	E	15,000	*	10,000	5,000	*
Preston Giusti	Maria	E	15,000	*	10,000	5,000	*
Prieto Alustiza	Jose	R	3,000	*	2,000	1,000	*
Puebla Melon	Bernardo		15,000	*	10,000	5,000	*
* Less than one percent							
Quetglas Alvarez	Miguel	A	18,000	*	12,000	6,000	*
Quevedo Bonilla	Gerardo		24,000	*	8,000	16,000	*
Quincoces Hernandez	Orlando		15,000	*	5,000	10,000	*
Quiñones Acevedo	Pablo		3,000	*	2,000	1,000	*
Quiñones Jimenez	Frank		15,000	*	10,000	5,000	*
Quiñones Segarra	Jose	G	27,000	*	18,000	9,000	*
Quiñones Whitmore	Gerardo		3,000	*	2,000	1,000	*
Quintana Peña	Julio	C	15,000	*	10,000	5,000	*
Quintero Aguilo	Mario	E	9,000	*	6,000	3,000	*
Quintero Alfaro	Jose	E	27,000	*	9,000	18,000	*
Quintero Noriega	Jose	E	3,000	*	1,000	2,000	*
Raffucci Caro	Ramon		3,000	*	2,000	1,000	*
Ramirez Ariza	Manuel	J	18,000	*	12,000	6,000	*
Ramirez Busigo	Erick	L	3,000	*	1,000	2,000	*
Ramirez Carmoega	Mario	R	63,000	*	42,000	21,000	*
Ramirez de Arellano	Ricardo		18,000	*	12,000	6,000	*
Ramirez Garcia	Joaquin	A	3,000	*	2,000	1,000	*
Ramirez Gonzalez	Carlos	E	3,000	*	1,500	1,500	*
Ramirez Irizarry	Angela	A	3,000	*	2,000	1,000	*
Ramirez Jimenez	Aurea	S	15,000	*	10,000	5,000	*
Ramirez Ortiz	Jose	M	27,000	*	18,000	9,000	*
Ramirez Pabon	Esther		3,000	*	2,000	1,000	*
Ramirez Pimentel	Jose	G	3,000	*	2,000	1,000	*
Ramirez Ramirez	Jorge	J	27,000	*	9,000	18,000	*
Ramirez Ramirez	Ricardo		48,000	*	32,000	16,000	*
Ramirez Silva	Amador		18,000	*	12,000	6,000	*
Ramirez Weiser	Rafael		63,000	*	21,000	42,000	*
Ramos Barroso	Antonio		63,000	*	42,000	21,000	*
Ramos Cruz	Alberto		63,000	*	42,000	21,000	*
Ramos Ferreri	Luis R		63,000	*	42,000	21,000	*
Ramos Gomez	Jacobo		18,000	*	12,000	6,000	*
Ramos Pereira	Raul		3,000	*	2,000	1,000	*
Ramos Ramos	Manuel		18,000	*	6,000	12,000	*
Ramos Santiago	Luis	B	18,000	*	12,000	6,000	*
Ramos Umpierre	Antonio		63,000	*	21,000	42,000	*
Ramos Umpierre	Enrique		6,000	*	4,000	2,000	*
Raub Hernandez	Joseph	R	3,000	*	2,000	1,000	*
Read	Pedro		18,000	*	12,000	6,000	*
Reichard	Roger		63,000	*	20,790	42,210	*
Rengel Mosquera	Ricardo	E	18,000	*	12,000	6,000	*
Renovales Carcador	Roberto		27,000	*	18,000	9,000	*
Reyes Laborde	Cesar	A	8,000	*	2,667	5,333	*
Riefkohl Ramirez	Waldemar		15,000	*	7,500	7,500	*
Riera Marrero	Ivan		27,000	*	18,000	9,000	*
Rifkinson	Nathan		63,000	*	42,000	21,000	*
Rios Collazo	Jose	A	3,000	*	2,000	1,000	*

Rios Roldan	Aida	M	15,000	*	10,000	5,000	*
Rios Rosa	Julio	D	63,000	*	42,000	21,000	*
Rivera Bello	Dennis	C	9,000	*	6,000	3,000	*
Rivera Bello	Maria	A	9,000	*	6,000	3,000	*
Rivera Biascochea	Zenon	A	3,000	*	1,000	2,000	*
Rivera Borges	Felix	M	18,000	*	12,000	6,000	*
Rivera Bracety	Ramon	D	15,000	*	10,000	5,000	*
Rivera Ceron	Rafael	I	6,000	*	4,000	2,000	*
Rivera Colon	Rafael		3,000	*	1,000	2,000	*
Rivera Diaz	Jorge		3,000	*	2,000	1,000	*
Rivera Gonzalez	Juan	E	6,000	*	4,000	2,000	*
Rivera Gonzalez	Luis	H	3,000	*	2,000	1,000	*
Rivera Gutierrez	Alberto	R	30,000	*	10,000	20,000	*
Rivera Gutierrez	Manuel	Z	30,000	*	10,000	20,000	*
* Less than one percent							
Rivera Laboy	Angel	J	3,000	*	1,000	2,000	*
Rivera Mass	Enrique		3,000	*	2,000	1,000	*
Rivera Melendez	Marta	M	3,000	*	2,000	1,000	*
Rivera Morales	Warren	C	3,000	*	2,000	1,000	*
Rivera Nazario	Yilda	M	3,000	*	1,000	2,000	*
Rivera Ofray	Crispulo	M	6,000	*	4,000	2,000	*
Rivera Perez	Maria	N	3,000	*	2,000	1,000	*
Rivera Rivera	Nestor	O	3,000	*	2,000	1,000	*
Rivera Rodriguez	Jose	J	15,000	*	10,000	5,000	*
Rivera Rodriguez	Rodolfo		18,000	*	12,000	6,000	*
Rivera Sanfeliz	Anamirta	M	31,500	*	21,000	10,500	*
Rivera Sanfeliz	Maria	L	31,500	*	21,000	10,500	*
Rivera Torres	Fernando		3,000	*	2,000	1,000	*
Rivera Umpierre	Agnes	M	2,250	*	1,500	750	*
Rivera Umpierre	Astrid	M	2,250	*	1,500	750	*
Rivera Umpierre	Enid		2,250	*	1,500	750	*
Rivera Umpierre	Frieda		2,250	*	1,500	750	*
Rizek Nassar	Rafael		18,000	*	12,000	6,000	*
Roach	Eileen	C	9,000	*	6,000	3,000	*
Robert Ortiz	Eduardo	C	3,000	*	1,500	1,500	*
Robles Orama	Carlos		6,000	*	4,000	2,000	*
Roca Franceschi	Diego		3,000	*	2,000	1,000	*
Rodriguez Balasquide	Victor	M	12,000	*	8,000	4,000	*
Rodriguez Bermudez	Victor		3,000	*	2,000	1,000	*
Rodriguez Burgos	Miguel	A	9,000	*	3,000	6,000	*
Rodriguez Cepeda	Aristides		15,000	*	10,000	5,000	*
Rodriguez Christensen	James	A	15,000	*	10,000	5,000	*
Rodriguez del Valle	Juan		6,000	*	4,000	2,000	*
Rodriguez Fernandez	Hector	L	6,000	*	4,000	2,000	*
Rodriguez Frontera	Jose	G	33,000	*	21,978	11,022	*
Rodriguez Garcia	Jesus		18,000	*	12,000	6,000	*
Rodriguez Ginorio	Henry	A	3,000	*	1,000	2,000	*
Rodriguez Gomez	Jose	M	18,000	*	6,000	12,000	*
Rodriguez Gonzalez	Benjamin		3,000	*	2,000	1,000	*
Rodriguez Hernandez	Luis	E	3,000	*	1,000	2,000	*
Rodriguez Irizarry	Jose	G	3,000	*	1,000	2,000	*
Rodriguez Lucca	Remy		18,000	*	12,000	6,000	*
Rodriguez Malave	Ovidio		51,000	*	34,000	17,000	*
Rodriguez Marrero	Virginio		63,000	*	42,000	21,000	*
Rodriguez Martinez	Hector		3,000	*	1,000	2,000	*
Rodriguez Martinez	Roberto		27,000	*	15,000	12,000	*
Rodriguez Merced	Rafael		33,000	*	22,000	11,000	*
Rodriguez Olazagasti	Herman	A	27,000	*	9,000	18,000	*
Rodriguez Quiñones	Jose	A	15,000	*	10,000	5,000	*
Rodriguez Ramon	Andres		18,000	*	12,000	6,000	*
Rodriguez Ramos	Ramon		15,000	*	9,000	6,000	*
Rodriguez Rivera	Gilberto	L	48,000	*	32,000	16,000	*

Rodriguez Rodriguez	Ernesto		6,000	*	4,000	2,000	*
Rodriguez Rodriguez	Julio Hiram		6,000	*	4,000	2,000	*
Rodriguez Rosa	Nidza	M	6,000	*	4,000	2,000	*
Rodriguez Ruiz	Jose	A	6,000	*	2,000	4,000	*
Rodriguez Segarra	Hector	M	27,000	*	9,000	18,000	*
Rodriguez Silva	Wilmer		45,000	*	15,000	30,000	*
Rodriguez Torres	Luis	N	6,000	*	4,000	2,000	*
Rodriguez Valle	Justo	P	3,000	*	2,000	1,000	*
Rodriguez Vallecillo	Edgardo		6,000	*	1,980	4,020	*
Rodriguez Vazquez	Anali		6,000	*	2,000	4,000	*
Rodriguez Vazquez	Luis	A	6,000	*	4,000	2,000	*
Rojas Davis	Carlos		27,000	*	18,000	9,000	*
Rojas Diaz	Eli	S	27,000	*	18,000	9,000	*
Rojas Diaz	Fernando		15,000	*	10,000	5,000	*
Rolon Rivera	Eduardo	J	6,000	*	1,000	5,000	*
Roman de Jesus	Jose	C	30,000	*	10,000	20,000	*
Roman Diaz	Ramiro		6,000	*	4,000	2,000	*
Roman Lopez	Maria	M	6,000	*	3,000	3,000	*
* Less than one percent							
Roman Morales	Reinaldo	L	30,000	*	20,000	10,000	*
Roman Roca	Gil	M	6,000	*	3,200	2,800	*
Romero Basso	Juan	L	63,000	*	21,000	42,000	*
Romero de Diaz	Iraida		6,000	*	4,000	2,000	*
Romero Perez Vda de Gelpi	Carmen	A	6,000	*	4,000	2,000	*
Roques Ortiz	Eliseo		30,000	*	3,000	27,000	*
Rosa Mendez	Elias	R	27,000	*	9,000	18,000	*
Rosa Perez	Cesar	E	63,000	*	42,000	21,000	*
Rosario Cardona	Regino		6,000	*	4,000	2,000	*
Rosario Lopez	Wilma	C	3,000	*	2,000	1,000	*
Rosario Sanchez	Francisco		15,000	*	10,000	5,000	*
Rosso Dominguez	Manuel	A	3,000	*	1,000	2,000	*
Ruiz Arroyo	Hiram	A	6,000	*	4,000	2,000	*
Ruiz Cestero	Sarabel		15,000	*	10,000	5,000	*
Ruiz Diaz	Nestor		3,000	*	2,000	1,000	*
Ruiz Rivera	Luis	R	15,000	*	10,000	5,000	*
Rullan Hryhorczuck	Johnny		30,000	*	20,000	10,000	*
Russe Santos	Jose	I	27,000	*	18,000	9,000	*
Saade Hurane	Guillermo	J	27,000	*	18,000	9,000	*
Sabater Quintana	Amelia		15,000	*	5,000	10,000	*
Saez Fontany	Florencio		63,000	*	42,000	21,000	*
Sainz de la Peña Bauza	Diego		3,000	*	1,000	2,000	*
Sais	Carlos	J	63,000	*	30,000	33,000	*
Saldaña Schmier	Raoul		30,000	*	20,000	10,000	*
Saldaña Sepulveda	Jose	M	30,000	*	20,000	10,000	*
Salgado Rodriguez	Carlos	A	6,000	*	4,000	2,000	*
Salichs Sotomayor	Orlando		63,000	*	42,000	21,000	*
Sampayo	Hector	M	15,000	*	10,000	5,000	*
Sanabria	John	F	48,000	*	16,000	32,000	*
Sanchez Baez	Raul		27,000	*	18,000	9,000	*
Sanchez Borrero	Rene		6,000	*	4,000	2,000	*
Sanchez Colon	Jesus	R	3,000	*	1,000	2,000	*
Sanchez Longo	Luis	P	18,000	*	12,000	6,000	*
Sanchez Martinez	Rafael	A	15,000	*	10,000	5,000	*
Sanchez Ocasio	Jose	F	3,000	*	2,000	1,000	*
Sanchez Quiñones	Alberto	E	63,000	*	31,500	31,500	*
Sanchez Valentin	Rafael	A	27,000	*	18,000	9,000	*
Sanchez Velez	Juan	M	3,000	*	2,000	1,000	*
Sanchez Velez	Nicolas	J	27,000	*	9,000	18,000	*
Santana Paracchini	Adrian	A	18,000	*	12,000	6,000	*
Santiago Acevedo	Nancy		27,000	*	9,000	18,000	*
Santiago Butler	William		3,000	*	2,000	1,000	*

* Less than one percent

			Shares of Common Stock Beneficially Owned before this Offering		Shares of Common Stock Sold in this Offering	Shares of Common Stock Beneficially Owned after this Offering	
Last Name	First Name	MI	Number	Percentage	Number	Number	Percentage
Santiago Correa	Pedro	O	27,000	*	18,000	9,000	*
Santiago de Lopez de Victoria	Olvido		12,000	*	4,000	8,000	*
Santiago Martinez	Myrta		6,000	*	3,000	3,000	*
Santiago Perez	Dwight	M	42,000	*	28,000	14,000	*
Santini Hernandez	Vanessa		3,000	*	1,000	2,000	*
Santos Fernandez	Julio	A	57,000	*	38,000	19,000	*
Santos Gonzalez	Carmen		3,000	*	1,500	1,500	*
Santos Lebron	Iris	M	15,000	*	10,000	5,000	*
Santos Otero	Milagros		6,000	*	2,000	4,000	*
Santos Torres	Armando	J	15,000	*	10,000	5,000	*
Santos Vazquez	Alberto	D	15,000	*	10,000	5,000	*
Sanz Gonzalez	Elias		36,000	*	24,000	12,000	*
Sanz Lebron	Carmen		3,000	*	1,000	2,000	*
Sanz Ortega	Gerardo		27,000	*	18,000	9,000	*
Sarraga Audinot	Jose	A	63,000	*	42,000	21,000	*
Scarano Garcia	Carlos	F	24,000	*	8,000	16,000	*
Scarano Garcia	Jenaro		24,000	*	8,000	16,000	*
Scarano Scarano	Jenaro		3,000	*	1,000	2,000	*
Schacht	Sarah	B	3,000	*	2,000	1,000	*
Seda Ramirez	Jesus	M	15,000	*	5,000	10,000	*
Segura Marquez	Kathleen	L	6,000	*	4,000	2,000	*
Segura Marquez	Mireya		6,000	*	4,000	2,000	*
Sein Siaca	Rafael		63,000	*	42,000	21,000	*
Selles Figueroa	Ramon		27,000	*	18,000	9,000	*
Señeriz Rodriguez	Rafael		6,000	*	4,000	2,000	*
Sepulveda Pellicier	Domingo		6,000	*	4,000	2,000	*
Serrano Millan	Rosa	A	63,000	*	21,000	42,000	*
Sheplan Wolpert	Bruce	R	63,000	*	13,000	50,000	*
Sierra Garcia	Radames		15,000	*	10,000	5,000	*
Sierra Zorita	Radames		3,000	*	2,000	1,000	*
Silva Bonar	Jose	M	15,000	*	5,000	10,000	*
Silva Iglecia	Antonio	R	3,000	*	2,000	1,000	*
Silva Monge	Luis	D	63,000	*	42,000	21,000	*
Simons Garcia	Jose	A	33,000	*	11,000	22,000	*
Simons Garcia	Julio	S	30,000	*	10,000	20,000	*
Snyder Calderon	Lawrence	J	15,000	*	10,000	5,000	*
Sojo Morales	Luis	A	3,000	*	2,000	1,000	*
Soler	Hiram	R	6,000	*	4,000	2,000	*
Soler Zapata	Jose	E	63,000	*	42,000	21,000	*
Somoza Martinez	Francisco		3,000	*	2,000	1,000	*
Sosa Padilla	Miguel	A	3,000	*	1,000	2,000	*
Sosa Padro	Maria de los	A	15,000	*	5,000	10,000	*
Soto Alarcon	Jose Luis		6,000	*	4,000	2,000	*
Soto Assiego	Ana		16,500	*	11,000	5,500	*
Soto Gautier	Cesar		6,000	*	4,000	2,000	*
Soto Sola	Jose	J	27,000	*	9,000	18,000	*
Soto Tapia	Edwin		15,000	*	5,000	10,000	*
Sotomayor	Zoilo	R	24,000	*	16,000	8,000	*
Sotomayor Sifontes	Iris	J	18,000	*	12,000	6,000	*
Sotomayor Vicenty	Carlos		15,000	*	5,000	10,000	*
Stacholy Hernandez	Pedro	A	6,000	*	4,000	2,000	*
Stella Arrillaga	Hector	R	6,000	*	4,000	2,000	*
Stella Estevez	Hector	J	3,000	*	2,000	1,000	*
Stella Perez	Edgar		15,000	*	10,000	5,000	*
Suarez Benitez	Ramon	M	48,000	*	32,000	16,000	*
Suarez Castro	Jose	E	63,000	*	40,000	23,000	*
Suria Colon	Jorge	L	15,000	*	10,000	5,000	*

					Shares of Common Stock Sold in this Offering		
Surillo Feliciano	Santiago		30,000	*	18,000	12,000	*
Tavares Valle	Jose	A	30,000	*		20,000	*
					10,000		

A-17

Timothee Rios	Miguel	A	63,000	*	42,000	21,000	*
Tirado Gracia	Raul		3,000	*	2,000	1,000	*
Tome Diaz	Jose	M	15,000	*	5,000	10,000	*
Toro Font	Jose	A	63,000	*	42,000	21,000	*
Toro Ramirez	Jorge	R	18,000	*	12,000	6,000	*
Toro Torres	Pedro	M	6,000	*	2,000	4,000	*
Torregrosa Gallart	Jose	R	3,000	*	2,000	1,000	*
Torres Aguiar	Roberto		15,000	*	10,000	5,000	*
Torres Borges	Arturo	J	6,000	*	2,000	4,000	*
Torres Castro	Efrain		3,000	*	2,000	1,000	*
Torres Gomez	Jose	M	48,000	*	32,000	16,000	*
Torres Machin	Arturo	E	30,000	*	20,000	10,000	*
Torres Maldonado	Jose	R	63,000	*	25,200	37,800	*
Torres de Vega	Carmen	A	18,000	*	12,000	6,000	*
Torres Ramos	Carlos	M	6,000	*	4,000	2,000	*
Torres Ramos	Jose	M	48,000	*	31,680	16,320	*
Torres Reyes	Emilio		30,000	*	20,000	10,000	*
Torres Rivera	Rolando		3,000	*	1,500	1,500	*
Torres Rodriguez	Victor	M	15,000	*	5,000	10,000	*
Torres Santiago	Timoteo		15,000	*	10,000	5,000	*
Torres Velazquez	Amaryllis		6,000	*	3,000	3,000	*
Torros Romeu	Salvador		6,000	*	4,000	2,000	*
* Less than one percent							
Tossas Vega	Alberto		3,000	*	2,000	1,000	*
Trautmann Peters	Mark	E	15,000	*	5,000	10,000	*
Trilla Piñero	Emilio	F	3,000	*	2,000	1,000	*
Trinidad Vidalor	Radhames		6,000	*	1,000	5,000	*
Ubiñas Burgos	Jeanne		15,000	*	10,000	5,000	*
Umpierre Zamora	Frieda		18,000	*	12,000	6,000	*
Urena Cruz	Miguel	A	9,000	*	6,000	3,000	*
Ureña Vargas	Amilcar		3,000	*	2,000	1,000	*
Urrutia Santiago	Carlos	R	15,000	*	10,000	5,000	*
Valcarcel Teruel	Marta	I	48,000	*	32,000	16,000	*
Valdes Menendez	Leoncio		15,000	*	5,000	10,000	*
Valdes Vaquero	Maritza	A	3,000	*	1,000	2,000	*
Van daalen Badillo	Larry	J	9,000	*	3,000	6,000	*
Van daalen Badillo	Marylin	M	6,000	*	4,000	2,000	*
Varela Fernandez	Alberto	M	15,000	*	10,000	5,000	*
Vargas Gonzalez	Oscar		15,000	*	5,000	10,000	*
Vargas Lopez	Margarita		15,000	*	10,000	5,000	*
Vargas Rivera	Abelardo		48,000	*	32,000	16,000	*
Vazquez Alvarez	Angel	M	3,000	*	2,000	1,000	*
Vazquez Balaguer	Salvador		3,000	*	2,000	1,000	*
Vazquez Casanova	Jose	O	36,000	*	24,000	12,000	*
Vazquez Cruz	Julio	A	3,000	*	2,000	1,000	*
Vazquez Valdes	Pedro		3,000	*	2,000	1,000	*
Vega Cortes	Carlos	F	63,000	*	42,000	21,000	*
Vega Soto	Jose	R	18,000	*	12,000	6,000	*
Vela Piñero	Rosendo	E	18,000	*	11,988	6,012	*
Velasco Cervilla	Miguel	A	9,000	*	3,000	6,000	*
Velasco Santos	Jaime	L	15,000	*	9,000	6,000	*
Velazquez de Vazquez	Esther		9,000	*	3,000	6,000	*
Velez Andujar	Wanda	G	15,000	*	10,000	5,000	*
Velilla Iglesias	Manuel		6,000	*	4,000	2,000	*
Vendrell	Nancy	W	15,000	*	7,500	7,500	*
Vendrell Benito	Gerardo	J	9,000	*	4,500	4,500	*
Vendrell Benito	Margarita	M	6,000	*	4,000	2,000	*
Vendrell Martin	Jorge		15,000	*	7,500	7,500	*
Vendrell Martin	Pedro	J	3,000	*	1,500	1,500	*
Vera Gil	Maria	O	6,000	*	4,000	2,000	*
Vicens Sastre	Enrique	A	63,000	*	42,000	21,000	*
Vidal Gilet	Jose	H	15,000	*	10,000	5,000	*

Viera Castro	Hector	J	3,000	*	2,000	1,000	*
Vigo Tosado	Miguel	A	3,000	*	2,000	1,000	*
Vila Sotomayor	Guillermo	I	6,000	*	4,000	2,000	*
Vilar Porrata	Ismael		18,000	*	12,000	6,000	*
Vilaro Grau	Juan	R	48,000	*	32,000	16,000	*
Vilella Suau	Felix	S	30,000	*	10,000	20,000	*
Villafañe Hernandez	Juan	A	3,000	*	1,500	1,500	*
Villanueva Arce	Jose	E	15,000	*	10,000	5,000	*
Viñas Sorba	Luis	A	63,000	*	42,000	21,000	*
Vives Pagan	Juan	R	15,000	*	10,000	5,000	*
Vizcarrondo Pine	Michelle	M	18,000	*	6,000	12,000	*
Walsh Davila	Alberto		9,000	*	6,000	3,000	*
Walsh Davila	Carmen	R	9,000	*	6,000	3,000	*
Walsh Davila	Frances		9,000	*	6,000	3,000	*
Walsh Davila	Mercedes		9,000	*	6,000	3,000	*
Wiltz Genova	Othon		6,000	*	4,000	2,000	*
Ysern Borras	Fernando	J	3,000	*	2,000	1,000	*
Yulian Valentin	Antonio		3,000	*	2,000	1,000	*
Yumet Chacón	Angel	M	36,000	*	23,760	12,240	*
Zambrana Ortiz	Fernando	A	3,000	*	2,000	1,000	*
Zegarra Paz	Myrna		3,000	*	2,000	1,000	*
Zerbi Ortiz	Alfonso		27,000	*	11,000	16,000	*
* Less than one percent							
Zorrilla Lassus	Ramon		12,000	*	8,000	4,000	*
Total			19,247,300	71.7	10,783,241	8,464,059	26.3

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the expenses to be incurred in connection with the issuance and distribution of the securities being registered under this Registration Statement, other than underwriting discount. All amounts, except the Securities and Exchange Commission registration fee, the National Association of Securities Dealers, Inc. filing fee and the Transfer Agent fee are estimated. All amounts will be paid by the registrant:

Securities and Exchange Commission Registration Fee	$	8,897
National Association of Securities Dealers, Inc. Filing Fee		29,480
New York Stock Exchange Listing Fee		114,780
Transfer Agent Fee		2,500
Blue Sky Fee and Expenses		0
Printing and Engraving Costs		150,000
Legal Fees and Expenses		2,750,000
Accounting Fees and Expenses		250,000
Miscellaneous		763,000
Total	$	4,068,657

Item 14. Indemnification of Directors and Officers

The Puerto Rico General Corporation Law (PRGCL) contains detailed and comprehensive provisions providing for indemnification of directors and officers of Puerto Rico corporations against expenses, judgments, fines and settlements in connection with litigation. Under the PRGCL, such indemnification is available if it is determined that the proposed indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to our best interests and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. In actions brought by or in the right of us, such indemnification is limited to expenses (including attorneys' fees) actually and reasonably incurred in the defense or settlement of such action if the indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to our best interests. No indemnification, however, shall be made in respect of any claim, issue or matter as to which such person has been adjudged to be liable to us unless and only to the extent that the Puerto Rico Court of First Instance or the court in which the action was brought determines upon application that in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper. To the extent that the proposed indemnitee has been successful on the merits or otherwise in defense of any action, suit or proceeding (or any claim, issue or matter therein), he or she must be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

Our articles provide that every person who:

- is or was a director, officer or employee; or
- is or was a director, officer, employee or agent of any other enterprise, serving as such at our request;

will be indemnified to the fullest extent permitted by law for all expenses and liabilities in connection with any proceeding involving the person in this capacity. We may also purchase and maintain insurance for the benefit of our present and former directors and officers.

Item 15. Recent Sales of Unregistered Securities

None.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits.

Number	Description
1.1*	Form of Underwriting Agreement.
3.1	Amended and Restated Articles of Incorporation (incorporated herein by reference to Exhibit 3(i) to TSM's Annual Report on Form 10-K for the Year Ended December 31, 2006 (File No. 0-49762) and to Exhibit 3(i) to TSM's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2007 (File No. 0-49762)).
3.2	Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3(ii) to TSM's Annual Report on Form 10-K for the Year Ended December 31, 2006 (File No. 0-49762)).
5.1*	Opinion of Fiddler, González & Rodríguez P.S.C.
8.1*	Opinion of Acosta & Ramirez, C.S.P., regarding certain tax matters
10.1	Puerto Rico Health Insurance Contract for the North and South-West Regions (incorporated herein by reference to Exhibit 10.1 to TSM's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2007 (File No. 0-49762)).
10.2	Amendment to agreement between Puerto Rico Health Insurance Administration and Triple-S, Inc. for the provision of health insurance coverage to eligible population in the North and South-West regions (incorporated herein by reference to Exhibit 10.1 of TSM's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2007 (File No. 0-49762)).
10.3	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. 0-49762)).
10.4	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. 0-49762)).
10.5	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. 0-49762)).
10.6	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. 0-49762)).
10.7	BCBSA Licensure Documents (incorporated herein by reference to Exhibit 10.10 to TSM's General Form of Registration of Securities on Form 10 (File No. 0-49762)).
10.8	Blue Shield License and other Agreements with Blue Cross Blue Shield Association (incorporated herein by reference to Exhibit 10.1 to TSM's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2007 (File No. 0-49762).
10.9*	Stock Purchase Agreement by and between Triple-S Management Corporation and Great American Financial Resources, Inc. dated December 15, 2005.

10.10	Reinsurance Agreement between Great American Life Assurance Company of Puerto Rico and Seguros de Vida Triple-S, Inc. dated December 15, 2005 (incorporated herein by reference to Exhibit 10.14 to TSM's Annual Report on Form 10-K for the Year Ended December 31, 2005 (File No. 0-49762)).
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 I of this Registration Statement on Form S-1.
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 I of this Registration Statement on Form S-1.
21.1	List of Subsidiaries of Triple-S Management Corporation (incorporated herein by reference to Exhibit 21 to TSM's General Form of Registration of Securities on Form 10 (File No. 0-49762)).
23.1*	Consent of KPMG LLP.
23.2*	Consent of Fiddler, González & Rodríguez P.S.C. (included in Exhibit 5.1).
23.3*	Consent of Acosta & Ramirez, C.S.P. (included in Exhibit 8.1)
24.1*	Power of attorney (included in signature page to the initial filing of this registration statement and this Amendment No. 1).

* Filed herein.

(b) Financial Statement Schedules

Item 17. Undertakings

(a) The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions referenced in Item 14 of this Registration Statement or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

(c) The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in

reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each posteffective amendment that contains a form of prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and this offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 1 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of San Juan, Commonwealth of Puerto Rico on this 16th day of November, 2007.

TRIPLE-S MANAGEMENT CORPORATION

By: /s/ Ramon M. Ruíz-Comas

Name: Ramon M. Ruíz-Comas
Title: President, Chief Executive Officer & Director

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Wilmer Rodríguez-Silva, Ramon M. Ruíz-Comas, and Juan Jose Román his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to the registration statement (including any post-effective amendments and any registration statements under Rule 462), and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to the registration statement has been signed by the following persons on November 16, 2007 in the capacities indicated.

Signature	Title
/s/ Ramon M. Ruiz-Comas Ramon M. Ruiz-Comas	President, Chief Executive Officer and Director
/s/ Juan Jose Roman Juan Jose Roman	Chief Financial Officer and Principal Accounting Officer
* Valeriano Alicea-Cruz	Director
* Jose Arturo Alvarez-Gallardo	Director
/s/ Antonio F. Faría-Soto Antonio F. Faría-Soto	Director

*	
Luis A. Clavell-Rodriguez	Director
*	
Arturo R. Cordova-Lopez	Director
*	
Carmen Ana Culpeper-Ramirez	Director
*	
Porfirio E. Diaz-Torres	Director
*	
Manuel Figueroa-Collazo	Director
*	
Jose Hawayek-Alemañy	Director
*	
Vicente J. Leon-Irizarry	Director
*	
Wilfredo Lopez-Hernandez	Director
*	
Miguel A. Nazario-Franco	Director
*	
Juan E. Rodriguez-Diaz	Director
*	
Wilmer Rodriguez-Silva	Director
*	
Jesus R. Sanchez-Colon	Director
*	
Adamina Soto-Martinez	Director
/s/ Jaime Morgan-Stubbe	
Jaime Morgan-Stubbe	Director

/s/ Roberto Muñoz-Zayas Roberto Muñoz-Zayas	Director

*By: /s/ Ramon M. Ruíz-Comas

Name: Ramon M. Ruíz-Comas
Title: Attorney-in-fact

EXHIBIT INDEX

Number	Description
1.1*	Form of Underwriting Agreement.
3.1	Amended and Restated Articles of Incorporation (incorporated herein by reference to Exhibit 3(i) to TSM's Annual Report on Form 10-K for the Year Ended December 31, 2006 (File No. 0-49762) and to Exhibit 3(i) to TSM's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2007 (File No. 0-49762)).
3.2	Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3(ii) to TSM's Annual Report on Form 10-K for the Year Ended December 31, 2006 (File No. 0-49762)).
5.1*	Opinion of Fiddler, González & Rodríguez P.S.C.
8.1*	Opinion of Acosta & Ramirez, C.S.P., regarding certain tax matters
10.1	Puerto Rico Health Insurance Contract for the North and South-West Regions (incorporated herein by reference to Exhibit 10.1 to TSM's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2007 (File No. 0-49762)).
10.2	Amendment to agreement between Puerto Rico Health Insurance Administration and Triple-S, Inc. for the provision of health insurance coverage to eligible population in the North and South-West regions (incorporated herein by reference to Exhibit 10.1 of TSM's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2007 (File No. 0-49762)).
10.3	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. 0-49762)).
10.4	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. 0-49762)).
10.5	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. 0-49762)).
10.6	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. 0-49762)).
10.7	BCBSA Licensure Documents (incorporated herein by reference to Exhibit 10.10 to TSM's General Form of Registration of Securities on Form 10 (File No. 0-49762)).
10.8	Blue Shield License and other Agreements with Blue Cross Blue Shield Association (incorporated herein by reference to Exhibit 10.1 to TSM's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2007 (File No. 0-49762).
10.9*	Stock Purchase Agreement by and between Triple-S Management Corporation and Great American Financial Resources, Inc. dated December 15, 2005.
10.10	Reinsurance Agreement between Great American Life Assurance Company of Puerto Rico and Seguros de Vida Triple-S, Inc. dated December 15, 2005 (incorporated herein by reference to Exhibit 10.14 to TSM's Annual Report on Form 10-K for the Year Ended December 31, 2005 (File No. 0-49762)).

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 I of this Registration Statement on Form S-1.
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 I of this Registration Statement on Form S-1.
21.1	List of Subsidiaries of Triple-S Management Corporation (incorporated herein by reference to Exhibit 21 to TSM's General Form of Registration of Securities on Form 10 (File No. 0-49762)).
23.1*	Consent of KPMG LLP.
23.2*	Consent of Fiddler, González & Rodríguez P.S.C. (included in Exhibit 5.1).
23.3*	Consent of Acosta & Ramirez, C.S.P. (included in Exhibit 8.1)
24.1*	Power of attorney (included in signature page to the initial filing of this registration statement and this Amendment No. 1).

* Filed herein.

QuickLinks