TRIPLE-S MANAGEMENT CORP
Form 10-Q
May 09, 2008

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United States
Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from __________ to __________

COMMISSION FILE NUMBER: 0-49762

Triple-S Management Corporation

(Exact name of registrant as specified in its charter)

Puerto Rico	**66-0555678**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1441 F.D. Roosevelt Avenue San Juan, Puerto Rico	**00920**
(Address of principal executive offices)	(Zip code)

(787) 749-4949

(Registrant s telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

Title of each class	Outstanding at April 25, 2008
Common Stock Class A, $1.00 par value	16,042,809
Common Stock Class B, $1.00 par value	16,266,554

Triple-S Management Corporation
FORM 10-Q
For the Quarter Ended March 31, 2008
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Part I Financial Information
Item 1. Financial Statements

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(Dollar amounts in thousands, except per share data)

	(Unaudited) March 31, 2008	December 31, 2007
ASSETS		
Investments and cash:		
Equity securities held for trading, at fair value	**$ 46,312**	67,158
Securities available for sale, at fair value:		
Fixed maturities	**933,212**	823,629
Equity securities	**82,825**	71,050
Securities held to maturity, at amortized cost:		
Fixed maturities	**26,052**	43,691
Policy loans	**5,105**	5,481
Cash and cash equivalents	**62,184**	240,153
Total investments and cash	**1,155,690**	1,251,162
Premiums and other receivables, net	**211,314**	202,268
Deferred policy acquisition costs and value of business acquired	**118,987**	117,239
Property and equipment, net	**43,162**	43,415
Net deferred tax asset	**5,578**	6,783
Other assets	**32,017**	38,675
Total assets	**$1,566,748**	1,659,542
LIABILITIES AND STOCKHOLDERS EQUITY		
Claim liabilities:		
Claims processed and incomplete	**$ 170,024**	186,065
Unreported losses	**173,754**	149,996
Unpaid loss-adjustment expenses	**19,189**	17,769
Total claim liabilities	**362,967**	353,830
Liability for future policy benefits	**197,099**	194,131
Unearned premiums	**103,416**	132,599
Policyholder deposits	**47,354**	45,959
Liability to Federal Employees Health Benefits Program (FEHBP)	**18,035**	21,338
Accounts payable and accrued liabilities	**136,682**	228,980
Short-term borrowings	**9,825**	
Long-term borrowings	**170,537**	170,946
Liability for pension benefits	**26,849**	29,221

Total liabilities	**1,072,764**	1,177,004
Stockholders equity:		
Common stock Class A	**16,043**	16,043
Common stock Class B	**16,266**	16,266
Additional paid-in capital	**189,673**	188,935
Retained earnings	**268,524**	267,336
Accumulated other comprehensive income (loss)	**3,478**	(6,042)
Total stockholders equity	**493,984**	482,538
Total liabilities and stockholders equity	**$1,566,748**	1,659,542

See accompanying notes to unaudited consolidated financial statements.

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings (Unaudited)

For the three months ended March 31, 2008 and 2007

(Dollar amounts in thousands, except per share data)

	Three months ended March 31, 2008	2007
REVENUES:		
Premiums earned, net	**$404,399**	348,465
Administrative service fees	**3,713**	3,509
Net investment income	**13,432**	11,121
Total operating revenues	**421,544**	363,095
Net realized investment gains	**609**	1,196
Net unrealized investment loss on trading securities	**(6,250)**	(1,925)
Other income (expense), net	**(1,521)**	209
Total revenues	**414,382**	362,575
BENEFITS AND EXPENSES:		
Claims incurred	**350,207**	297,318
Operating expenses	**60,031**	56,137
Total operating costs	**410,238**	353,455
Interest expense	**3,673**	3,952
Total benefits and expenses	**413,911**	357,407
Income before taxes	**471**	5,168
INCOME TAX EXPENSE (BENEFIT):		
Current	**(184)**	1,060
Deferred	**(547)**	(397)
Total income taxes	**(731)**	663
Net income	**$ 1,202**	4,505
Basic net income per share	**$ 0.04**	0.17
Diluted net income per share	**$ 0.04**	0.17

See accompanying notes to unaudited consolidated financial statements.

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity and Comprehensive Income (Unaudited)

For the three months ended March 31, 2008 and 2007

(Dollar amounts in thousands, except per share data)

	2008	2007
BALANCE AT JANUARY 1	**$482,538**	342,599
Dividends		(2,448)
Share-based compensation	**738**	
Other	**(14)**	
Comprehensive income (loss):		
Net income	**1,202**	4,505
Net unrealized change in fair value of available for sale securities	**9,350**	1,582
Defined benefit pension plan:		
Actuarial loss, net	**296**	
Prior service credit, net	**(70)**	
Net change in fair value of cash flow hedges	**(56)**	(65)
Total comprehensive income	**10,722**	6,022
BALANCE AT MARCH 31	**$493,984**	346,173

See accompanying notes to unaudited consolidated financial statements.

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARES
Consolidated Statements of Cash Flows (Unaudited)
For the three months ended March 31, 2008 and 2007
(Dollar amounts in thousands, except per share data)

	Three months ended March 31, 2008	2007
Net income	**$ 1,202**	4,505
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	**1,800**	1,716
Net amortization of investments	**192**	190
Provision for doubtful receivables	**205**	1,463
Deferred tax benefit	**(547)**	(397)
Net gain on sale of securities	**(609)**	(1,196)
Net unrealized loss of trading securities	**6,250**	1,925
Share-based compensation	**738**	
Proceeds from trading securities sold:		
Equity securities	**20,476**	9,842
Acquisition of securities in trading portfolio:		
Equity securities	**(5,687)**	(6,024)
(Increase) decrease in assets:		
Premiums receivable	**(14,749)**	(19,161)
Agents balances	**6,386**	4,809
Accrued interest receivable	**(1,855)**	(1,124)
Other receivables	**(3,589)**	(4,522)
Reinsurance recoverable on paid losses	**4,599**	(589)
Deferred policy acquisition costs and value of business acquired	**(1,748)**	(1,395)
Prepaid income tax	**191**	
Other assets	**6,374**	2,821
Increase (decrease) in liabilities:		
Claims processed and incomplete	**(16,041)**	4,031
Unreported losses	**23,758**	9,077
Unpaid loss-adjustment expenses	**1,420**	81
Liability for future policy benefits	**2,968**	3,148
Unearned premiums	**(29,183)**	(3,205)
Policyholder deposits	**457**	428
Liability to FEHBP	**(3,303)**	56
Accounts payable and accrued liabilities	**(117,815)**	(4,320)
Income tax payable		1,430
Net cash (used in) provided by operating activities	**$(118,110)**	3,589

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

For the three months ended March 31, 2008 and 2007

(Dollar amounts in thousands, except per share data)

	Three months ended March 31, 2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	**$ 67,267**	59,497
Fixed maturities matured	**48,133**	5,178
Fixed maturity securities held to maturity	**22,863**	209
Acquisition of investments:		
Securities available for sale:		
Fixed maturities	**(205,474)**	(66,243)
Equity securities	**(12,143)**	(499)
Fixed maturity securities held to maturity	**(5,120)**	
Net disbursements for policy loans	**376**	(34)
Net capital expenditures	**(1,547)**	(1,447)
Net cash used in investing activities	**(85,645)**	(3,339)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in outstanding checks in excess of bank balances	**15,446**	2,140
Repayments of short-term borrowings	**(45,661)**	
Proceeds from short-term borrowings	**55,486**	
Repayments of long-term borrowings	**(409)**	(410)
Dividends paid		(2,448)
Proceeds from policyholder deposits	**2,611**	1,440
Surrenders of policyholder deposits	**(1,673)**	(1,938)
Other	**(14)**	
Net cash provided by (used in) financing activities	**25,786**	(1,216)
Net decrease in cash and cash equivalents	**(177,969)**	(966)
Cash and cash equivalents at beginning of the period	**240,153**	81,320
Cash and cash equivalents at end of the period	**$ 62,184**	80,354

See accompanying notes to unaudited consolidated financial statements.

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2008

(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 or TSM) are unaudited, except for the balance sheet information as of December 31, 2007, 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 (GAAP) for complete financial statements. These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such consolidated interim financial statements have been included. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results for the full year.

(2) Recent Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard (FAS) No. 157, *Fair Value Measurements*. FAS 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. FAS 157 does not require any new fair value measurements. We adopted FAS 157 on January 1, 2008. This adoption did not have an impact on our financial position or results of operations. See Note 7, Fair Value Measurements, to our unaudited consolidated financial statements for the three months ended March 31, 2008 included in this Quarterly Report on Form 10-Q for discussion of the impact of adoption of FAS 157.

In February 2007, the FASB issued FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. FAS 159 allows entities to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis under the fair value option. We adopted FAS 159 on January 1, 2008. The Corporation has chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with GAAP. Accordingly, the adoption of FAS 159 did not have an impact on our financial position or operating results.

In March 2008, the FASB issued FAS 161, *Disclosures about Derivative Instruments and Hedging Activities*. FAS 161 requires companies with derivative instruments to disclose information about how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS 133, *Accounting for Derivative Instruments and Hedging Activities*, and how derivative instruments and related hedged items affect a company s financial position, financial performance, and cash flows. This statement expands the current disclosure framework in FAS 133. FAS 161 is effective prospectively for periods beginning on or after November 15, 2008. We do not expect the adoption of FAS 161 to have a material impact on our consolidated financial statements.

There were no other new accounting pronouncements issued during the first three months of 2008 that had a material impact on our financial position, operating results or disclosures.

(3) Segment Information

The operations of the Corporation are conducted principally through three business segments: Managed Care, Life Insurance, and Property and Casualty Insurance. The Corporation evaluates performance based primarily on the operating revenues and operating income of each segment. Operating revenues include premiums earned, net, administrative service fees 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.

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
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March 31, 2008
(Dollar amounts in thousands, except per share data)
(Unaudited)

The following tables summarize the operations by major operating segment for the three months ended March 31, 2008 and 2007:

	Three months ended March 31,	
	2008	**2007**
Operating revenues:		
Managed Care:		
Premiums earned, net	**$359,111**	304,831
Administrative service fees	**3,713**	3,509
Intersegment premiums /service fees	**1,650**	1,627
Net investment income	**5,602**	4,829
Total managed care	**370,076**	314,796
Life Insurance:		
Premiums earned, net	**22,129**	22,380
Intersegment premiums	**92**	82
Net investment income	**3,934**	3,620
Total life insurance	**26,155**	26,082
Property and Casualty Insurance:		
Premiums earned, net	**23,159**	21,254
Intersegment premiums	**154**	154
Net investment income	**2,964**	2,552
Total property and casualty insurance	**26,277**	23,960
Other segments intersegment service revenues *	**11,068**	11,040
Total business segments	**433,576**	375,878
TSM operating revenues from external sources	**932**	120
Elimination of intersegment premiums	**(1,896)**	(1,863)
Elimination of intersegment service fees	**(11,068)**	(11,040)
Consolidated operating revenues	**$421,544**	363,095

* 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.

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
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(Dollar amounts in thousands, except per share data)
(Unaudited)

	Three months ended March 31, 2008	2007
Operating income:		
Managed care	**$ 5,332**	4,100
Life insurance	**2,505**	2,975
Property and casualty insurance	**2,097**	1,393
Other segments *	**109**	138
Total business segments	**10,043**	8,606
TSM operating revenues from external sources	**932**	120
TSM unallocated operating expenses	**(2,140)**	(1,826)
Elimination of TSM intersegment charges	**2,471**	2,740
Consolidated operating income	**11,306**	9,640
Consolidated net realized investment gains	**609**	1,196
Consolidated net unrealized loss on trading securities	**(6,250)**	(1,925)
Consolidated interest expense	**(3,673)**	(3,952)
Consolidated other income (expense), net	**(1,521)**	209
Consolidated income before taxes	**$ 471**	5,168
Depreciation expense:		
Managed care	**$ 984**	896
Life insurance	**182**	179
Property and casualty insurance	**372**	360
Total business segments	**1,538**	1,435
TSM depreciation expense	**262**	281
Consolidated depreciation expense	**$ 1,800**	1,716

* 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.

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	March 31, 2008	December 31, 2007
Assets:		
Managed care	**$ 666,216**	762,422
Life insurance	**445,493**	430,807
Property and casualty insurance	**367,947**	375,415
Other segments *	**11,012**	11,255
Total business segments	**1,490,668**	1,579,899
Unallocated amounts related to TSM:		
Cash, cash equivalents, and investments	**83,812**	82,980
Property and equipment,net	**22,260**	22,523
Other assets	**3,387**	2,280
	109,459	107,783
Elimination entries-intersegment receivables and others	**(33,379)**	(28,140)
Consolidated total assets	**$1,566,748**	1,659,542
Significant noncash items:		
Net change in unrealized gain on securities available for sale:		
Managed care	**$ 4,167**	2,928
Life insurance	**3,104**	3,253
Property and casualty insurance	**1,598**	3,085
Total business segments	**8,869**	9,266
Amount related to TSM	**481**	283
Consolidated net change in unrealized gain on securities available for sale	**$ 9,350**	9,549
Net change in liability for pension benefits:		
Managed care	**$ 151**	2,838
Life	**2**	35
Property and casualty	**19**	275
Other segments*	**48**	844
Total business segments	**220**	3,992
Amount related to TSM	**6**	98
Consolidated net change in liability for pension benefits	**$ 226**	4,090

* 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.

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
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(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 March 31, 2008 and December 31, 2007, were as follows:

	March 31, 2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses value	Estimated fair value
Trading securities:				
Equity securities	$ 40,161	8,862	(2,711)	46,312
Securities available for sale:				
Fixed maturities	914,746	24,680	(6,214)	933,212
Equity securities	78,890	7,506	(3,571)	82,825
	993,636	32,186	(9,785)	1,016,037
Securities held to maturity:				
Fixed maturities	26,052	772	(12)	26,812
	$1,059,849	41,820	(12,508)	1,089,161

	December 31, 2007			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Trading securities:				
Equity securities	$ 54,757	15,170	(2,769)	67,158
Securities available for sale:				
Fixed maturities	816,536	11,583	(4,490)	823,629
Equity securities	66,747	7,354	(3,051)	71,050
	883,283	18,937	(7,541)	894,679
Securities held to maturity:				
Fixed maturities	43,691	227	(69)	43,849
	$981,731	34,334	(10,379)	1,005,686

Investment in securities at March 31, 2008 are mostly comprised of U.S. Treasury securities, obligations of government sponsored enterprises and obligations of U.S. government instrumentalities (57.9%), mortgage backed and collateralized mortgage obligations that are U.S. agency-backed (9.6%), obligations of the government of Puerto Rico and its instrumentalities (10.1%) and obligations of U.S. states and municipalities and its instrumentalities (2.2%). The remaining 20.2% 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-

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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. No other-than-temporary impairment was recognized during the three months ended March 31, 2008 and March 31, 2007.

(5) Premiums and Other Receivables

Premiums and other receivables as of March 31, 2008 and December 31, 2007 were as follows:

	March 31, 2008	December 31, 2007
Premium	**$ 71,003**	54,330
Self-funded group receivables	**30,111**	31,344
FEHBP	**9,511**	10,202
Agents balances	**26,488**	32,874
Accrued interest	**10,218**	8,363
Reinsurance recoverable	**54,158**	58,757
Other	**25,955**	22,323
	227,444	218,193
Less allowance for doubtful receivables:		
Premiums	**11,771**	11,753
Other	**4,359**	4,172
	16,130	15,925
Total premiums and other receivables	**$211,314**	202,268

(6) Claim Liabilities

The activity in the total claim liabilities for the three months ended March 31, 2008 and 2007 is as follows:

	Three months ended March 31,	
	2008	2007
Claim liabilities at beginning of period	**$353,830**	314,682
Reinsurance recoverable on claim liabilities	**(54,834)**	(32,066)
Net claim liabilities at beginning of period	**298,996**	282,616
Incurred claims and loss-adjustment expenses:		
Current period insured events	**358,324**	309,565
Prior period insured events	**(11,241)**	(16,191)
Total	**347,083**	293,374

Payments of losses and loss-adjustment expenses:		
Current period insured events	**171,599**	144,814
Prior period insured events	**160,982**	135,636
Total	**332,581**	280,450
Net claim liabilities at end of period	**313,498**	295,540
Reinsurance recoverable on claim liabilities	**49,469**	32,331
Claim liabilities at end of period	**$362,967**	327,871

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.

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The credits in the incurred claims and loss-adjustment expenses for prior period insured events for the three months ended March 31, 2008 and 2007 is due primarily to better than expected utilization trends.

The claims incurred disclosed in this table exclude the change in the liability for future policy benefits amounting to $3,124 and $3,944 during the three months ended March 31, 2008 and 2007, respectively.

(7) Fair Value Measurements

We adopted FAS 157 on January 1, 2008. Beginning on this date, assets recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by FAS 157, are as follows:

Level Input:	**Input Definition:**
Level 1	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level 2	Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.
Level 3	Unobservable inputs that reflect management s best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following table summarizes fair value measurements by level at March 31, 2008 for assets measured at fair value on a recurring basis:

	Level 1	**Level 2**	**Level 3**	**Total**
Equity securities held for trading:	$46,312			46,312
Securities available for sale:				
Fixed maturity securities		933,212		933,212
Equity securities	47,522	35,303		82,825
Derivatives (reported within other assets in the consolidated balance sheets)		2,493		2,493
Total	$93,834	971,008		1,064,842

(8) Share-Based Compensation

No grants of stock options, restricted stock awards or performance awards were given during the three-month period ended March 31, 2008. Share-based compensation expense recorded during the three months ended March 31, 2008 was $738. No share-based compensation expense was recorded during the three months ended March 31, 2007.

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TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
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(Dollar amounts in thousands, except per share data)
(Unaudited)

(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	$ 9,554	(15,652)	56	(6,042)
Net current period change	9,350	226	(56)	9,520
BALANCE AT MARCH 31	$ 18,904	(15,426)		3,478

(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 December 31, 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.

(11) Pension Plan

The components of net periodic benefit cost for the three months ended March 31, 2008 and 2007 were as follows:

	Three months ended March 31, 2008	2007
Components of net periodic benefit cost:		
Service cost	$ 1,316	1,356
Interest cost	1,422	1,294
Expected return on assets	(1,225)	(1,128)
Prior service cost	(113)	14
Actuarial loss	479	514
Net periodic benefit cost	$ 1,879	2,050

Employer contributions

The Corporation disclosed in its audited consolidated financial statements for the year ended December 31, 2007 that it expected to contribute $5,000 to its pension program in 2008. As of March 31, 2008, the Corporation

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contributed $4,000 to the pension program. The Corporation currently anticipates contributing an additional $1,000 to fund its pension program in 2008.

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

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2008 and 2007:

	Three months ended March 31,	
	2008	**2007**
Numerator for earnings per share:		
Net income available to stockholders	**$ 1,202**	4,505
Denominator for basic earnings per share:		
Weighted average of common shares	**32,142,809**	26,735,000
Effect of dilutive securities	**52,490**	
Denominator for diluted earnings per share	**32,195,299**	26,735,000
Basic net income per share	**$ 0.04**	0.17
Diluted net income per share	**$ 0.04**	0.17

(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 the Corporation s 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 incur 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.

Additionally, we may face various potential litigation claims that have not to date been asserted, including claims from persons purporting to have contractual rights to acquire shares of the Corporation on favorable terms or to have inherited such shares notwithstanding applicable transfer and ownership restrictions.

Jordán et al Litigation

On April 24, 2002, Octavio Jordán, Agripino Lugo, Ramón Vidal, and others filed a suit against the Corporation, Triple-S, Inc. (TSI) and others (the defendants) 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 to be held for the benefit of the people of Puerto Rico (the charitable trust claim). They also requested that the Corporation sell shares to them pursuant to a contract with TSI dated August 16, 1989 regarding the acquisition of shares. The Corporation believes 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

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District Court for the District of Puerto Rico and in the local courts. The defendants, including the Corporation 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 another case closed in favor of the Corporation 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 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. The Corporation 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 was opposed on August 27, 2007. The plaintiffs petition for certiorari was denied by the Puerto Rico Supreme Court on November 9, 2007. The plaintiffs have yet to amend their allegations. If they fail to do so, the defendants will move to dismiss the complaint.

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 the Blue Cross Blue Shield Association (BCBSA) and substantially all of the other Blue Cross and Blue Shield plans in the United States, including TSI.

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.

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 were ordered to engage in mediation by the U.S. District Court for the Southern District of Florida, and twenty four plans, including TSI, were 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. The Corporation recorded an accrual for the estimated settlement, which is included within accounts payable and accrued liabilities in the accompanying unaudited consolidated financial statements. On April 19, 2008, the Court issued the final order approving the settlement.

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.

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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. On December 21, 2007, the plaintiffs filed an opposition to our motion to dismiss, alleging that the two year statute of limitations is not applicable in connection with the redemption of the stock by the Corporation that took place in 1996. On March 3, 2008, the Corporation filed a reply to plaintiffs opposition to the motion to dismiss. In its reply, the Corporation renews its motion to dismiss and further argued that plaintiffs argument is wrong because the statute of limitations has expired, pursuant the two year term provided under the Uniform Security Act of Puerto Rico Civil code for cases of this nature. Management believes that the statute of limitations has expired and expects to prevail in this litigation. Regarding the plaintiffs attempt to represent a purported class, as of the date of this Quarterly Report on Form 10-Q, no further efforts have been made by the plaintiffs in this case.

Colón Litigation

On October 15, 2007, José 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 TSI. TSI 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. On January 23, 2008, TSI filed a motion for summary judgment, on the ground that *inter alia* the finding of the Commissioner of Insurance is firm and final and cannot be collaterally attacked in this litigation. Plaintiffs have petitioned the Court to hold the motion in abeyance pending discovery. Discovery is currently in its preliminary stages. 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.

Acevedo Litigation

On March 27, 2008, the heirs of the estates of physicians Juan Acevedo, Rafael Angel Blanco-Pagán and Francisco Casalduc-Roselló, each a former shareholder of TSI s predecessor, filed a suit against the Corporation and TSI in the Puerto Rico Court of First Instance for Mayagüez, Superior Section. The heirs of each of the estates of Dr. Acevedo, Dr. Blanco-Pagán and Dr. Casalduc-Roselló are seeking the return of a total of 38 shares (prior to giving effect to the 3,000-for-one stock split) of the Corporation, as alleged successor to TSI, the payment of dividends in connection with such shares, and the Corporation s recognition of each heir s status as a shareholder of the Corporation. The number of shares indicated in this disclosure is based solely on information provided in the complaint filed by the plaintiffs and could differ from our corporate records. Each of the estates claims that they were fraudulently induced to tender the shares for redemption. Based on the opinion of counsel, management believes that the statute of limitations has expired and expects to prevail in this litigation, as the redemption took place more than 20 years ago.

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

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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, which was denied. On November 29, 2007 TSI appealed this determination to the Court of Appeals and has requested an argumentative hearing. On January 19, 2008 CRIM filed a brief in opposition to TSI s appeal. On March 3, 2008 TSI filed its response to the brief submitted by CRIM.

On December 5, 2007, the Court entered a summary judgment for CRIM with respect to the personal property assessment that was notified on January 22, 2008. On January 31, 2008, TSI filed a motion for reconsideration, which was denied. TSI appealed this decision on February 21, 2008 with the Court of Appeals, requested an argumentative hearing and also requested a consolidation of both property tax cases.

On April 17, 2008, the Court of Appeals approved the consolidation of both property tax cases. As of the date hereof, the Court of Appeals has not resolved TSI s request for an argumentative hearing.

Management believes that these municipal tax assessments are improper and currently expects to prevail in these litigations.

Regulatory Actions

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 of Puerto Rico 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. The Puerto Rico Department of Justice and the Commissioner of Insurance have also launched similar investigations.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The Management s Discussion and Analysis of Financial Condition and Results of Operations included in this Quarterly Report on Form 10-Q is intended to update the reader on matters affecting our financial condition and results of operations for the three months ended March 31, 2008. Therefore, the following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K filed with the United States Securities and Exchange Commission as of and for the year ended December 31, 2007.

Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q and other of our publicly available documents may include statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, among other things: statements concerning our business and our financial condition and results of operations. These statements are not historical, but instead represent our belief regarding future events, any of which, by their nature, are inherently uncertain and outside of our control. These statements may address, among other things, future financial results, strategy for growth, and market position. It is possible that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. The factors that could cause actual results to differ from those in the forward-looking statements are discussed throughout this form. We are not under any obligation to update or alter any forward-looking statement (and expressly disclaims any such obligations), whether as a result of new information, future events or otherwise. Factors that may cause actual results to differ materially from those contemplated by such forward looking statements include, but are not limited to, rising healthcare costs, business conditions and competition in the different insurance segments, government action and other regulatory issues.

Overview

We are the largest managed care company in Puerto Rico in terms of membership and have over 45 years of experience in the managed care industry. We offer a broad portfolio of managed care and related products in the Commercial, Commonwealth of Puerto Rico Health Reform (the Reform) and Medicare (including Medicare Advantage and the Part D stand-alone prescription drug plan (PDP)) markets. In the Commercial market we offer products to corporate accounts, U.S. federal government employees, local government employees, individual accounts and Medicare Supplement. The Reform is a government of Puerto Rico-funded managed care program for the medically indigent, similar to the Medicaid program in the U.S. We have the exclusive right to use the Blue Shield name and mark throughout Puerto Rico, serve approximately one million members across all regions of Puerto Rico and hold a leading market position covering approximately 25% of the population. For the three months ended March 31, 2008, our managed care segment represented approximately 89.0% of our total consolidated premiums earned, net and approximately 47.8% of our operating income. We also have significant positions in the life insurance and property and casualty insurance markets. Our life insurance segment had a market share of approximately 15% (in terms of premiums written) as of December 31, 2006. Our property and casualty segment had a market share of approximately 9% (in terms of direct premiums) as of December 31, 2006.

We participate in the managed care market through our subsidiary, Triple-S, Inc. (TSI). Our managed care subsidiary is a Blue Cross and Blue Shield Association (BCBSA) licensee, which provides us with exclusive use of the Blue Shield brand in Puerto Rico.

We participate in the life insurance market through our subsidiary, Triple-S Vida, Inc. (TSV) and in the property and casualty insurance market through our subsidiary, Seguros Triple-S, Inc. (STS), which represented approximately 5.5% and 5.8%, respectively, of our consolidated premiums earned, net for the three months ended March 31, 2008 and 23.0% and 18.6%, respectively, of our operating income for that period.

Intersegment revenues and expenses are reported on a gross basis in each of the operating segments but eliminated in the consolidated results. Except as otherwise indicated, the numbers for each segment presented in this Quarterly Report on Form 10-Q do not reflect intersegment eliminations. These intersegment revenues and expenses affect the amounts reported on the financial statement line items for each segment, but are eliminated in consolidation and do not change net income.

Our revenues primarily consist of premiums earned, net and administrative service fees. These revenues are derived from the sale of managed care products in the Commercial market to employer groups, individuals and government-sponsored programs, principally Medicare and Reform. Premiums are derived from insurance contracts and administrative service fees are derived from self-funded contracts, under which we provide a range of services, including claims administration, billing and membership services, among others. Revenues also include premiums earned from the sale of property and casualty and life insurance contracts, and investment income. Substantially all of our earnings are generated in Puerto Rico.

Claims incurred include the payment of benefits and losses, mostly to physicians, hospitals and other service providers, and to policyholders. Each segment s results of operations depend in significant part on their ability to accurately predict and effectively manage claims. A portion of the claims incurred for each period consists of claims reported but not paid during the period, as well as a management and actuarial estimate of claims incurred but not reported during the period. Operating expenses consist primarily of compensation expenses, commission payments to brokers and other overhead business expenses.

We use operating income as a measure of performance of the underwriting and investment functions of our segments. We also use the loss ratio and the operating expense ratio as measures of performance. The loss ratio is claims incurred divided by premiums earned, net, multiplied by 100. The operating expense ratio is operating expenses divided by premiums earned, net and administrative service fees, multiplied by 100.

Recent Accounting Standards

For a description of recent accounting standards, see note 2 to the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

Managed Care Membership

	As of March 31,	
	2008	**2007**
Managed care enrollment:		
Commercial [1]	**576,209**	579,887
Reform	**343,534**	353,460
Medicare Advantage	**65,538**	42,357
Total	**985,281**	975,704
Managed care enrollment by funding arrangement:		
Fully-insured	**821,764**	814,092
Self-insured	**163,517**	161,612
Total	**985,281**	975,704

(1) Commercial membership includes corporate accounts, self-funded employers, individual accounts, Medicare

Supplement,
U.S. Federal
government
employees and
local
government
employees.

Consolidated Operating Results

The following table sets forth the Corporation s consolidated operating results. Further details of the results of operations of each reportable segment are included in the analysis of operating results for the respective segments.

	Three months ended March 31,	
(Dollar amounts in millions)	**2008**	**2007**
Revenues:		
Premiums earned, net	**$404.4**	348.5
Administrative service fees	**3.7**	3.5
Net investment income	**13.4**	11.1
Total operating revenues	**421.5**	363.1
Net realized investment gains	**0.6**	1.2
Net unrealized investment loss on trading securities	**(6.2)**	(1.9)
Other income (expense), net	**(1.5)**	0.2
Total revenues	**414.4**	362.6
Benefits and expenses:		
Claims incurred	**350.2**	297.3
Operating expenses	**60.0**	56.1
Total operating expenses	**410.2**	353.4
Interest expense	**3.7**	4.0
Total benefits and expenses	**413.9**	357.4
Income before taxes	**0.5**	5.2
Income tax expense (benefit)	**(0.7)**	0.7
Net income	**$ 1.2**	4.5

Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

Operating Revenues

Consolidated premiums earned, net and administrative service fees increased by $56.1 million, or 15.9%, to $408.1 million during the three months ended March 31, 2008 compared to the three months ended March 31, 2007. The increase was primarily due to an increase in the premiums earned, net in our managed care segment, principally due to an increased volume in the Medicare business and the increases in premium rates of the Reform business during 2007.

Consolidated net investment income increased by $2.3 million, or 20.7%, to $13.4 million during the three months ended March 31, 2008. This increase is attributed to a higher yield in 2008 as well as to a higher balance of invested assets.

Net Unrealized Loss on Trading Securities and Other Income (Expense), Net

The combined balance of our consolidated net unrealized loss on trading securities and other income (expense), net increased by $6.0 million, to $7.7 million during the three months ended March 31, 2008. The increase is principally due to an increase in the unrealized loss on trading securities and a decrease in the fair value of the derivative component of our investment in structured notes linked to the Euro Stoxx 50 and Nikkei 225 stock indexes; both decreases are due to market fluctuations. The unrealized loss experienced on trading securities represents a decrease of 9.7% in the market value of the portfolio, which is consistent with the decrease experienced in the Standard and Poor s 500 Index of 10.3%. The change in the fair value of the derivative component of these structured notes is included within other income (expense), net.

Claims Incurred

Consolidated claims incurred during the three months ended March 31, 2008 increased by $52.9 million, or 17.8%, to $350.2 million when compared to the claims incurred during the three months ended March 31, 2007. This increase is principally due to increased claims in the managed care segment as a result of higher enrollment and

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utilization trends. The consolidated loss ratio increased by 1.3 percentage points to 86.6%, primarily due to higher utilization trends in the managed care segment for the period, particularly in the Medicare and Reform businesses.

Operating Expenses

Consolidated operating expenses during the three months ended March 31, 2008 increased by $3.9 million, or 7.0%, to $60.0 million as compared to the operating expenses during the 2007 period. This increase is primarily attributed to a higher volume of business, particularly in the Medicare business of our managed care segment and an increase in the commission expense of our property and casualty insurance segment. The consolidated operating expense ratio decreased by 1.2 percentage points during the 2008 period mainly due to the aforementioned increase in volume.

Income Tax Expense (Benefit)

The decrease in income tax expense (benefit) during the three months ended March 31, 2008 is primarily the result of the lower income before tax during the period.

Managed Care Operating Results

	Three months ended March 31,	
(Dollar amounts in millions)	**2008**	**2007**
Medical operating revenues:		
Medical premiums earned, net:		
Commercial	$ 182.0	180.3
Reform	81.0	71.8
Medicare	96.9	53.5
Medical premiums earned, net	359.9	305.6
Administrative service fees	4.6	4.4
Net investment income	5.6	4.8
Total medical operating revenues	370.1	314.8
Medical operating costs:		
Medical claims incurred	327.9	275.5
Medical operating expenses	36.9	35.2
Total medical operating costs	364.8	310.7
Medical operating income	$ 5.3	4.1
Additional data:		
Member months enrollment:		
Commercial:		
Fully-insured	1,235,489	1,253,743
Self-funded	496,062	479,323
Total commercial member months	1,731,551	1,733,066
Reform	1,033,660	1,064,846
Medicare Advantage	190,529	128,630
Total member months	2,955,740	2,926,542

Medical loss ratio	91.1%	90.2%
Operating expense ratio	10.1%	11.4%

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Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

Medical Operating Revenues

Medical premiums earned for the three months ended March 31, 2008 increased by $54.3 million, or 17.8%, to $359.9 million when compared to the medical premiums earned during the three months ended March 31, 2007, principally as a result of the following:

Medical premiums generated by the Medicare business increased during the three months ended March 31, 2008 by $43.4 million, or 81.1%, to $96.9 million, primarily due to an increase in member months enrollment of 61,899, or 48.1% and premium rate increases. The increase in member months is the net result of an increase of 64,542, or 69.2%, in the membership of our Medicare Advantage products and a decrease of 2,643, or 7.5%, in the membership of our PDP product.

Medical premiums earned in the Reform business increased by $9.2 million, or 12.8%, to $81.0 million during the 2008 period. This fluctuation is primarily due to the increases in premium rates during 2007, one effective July 1, 2007, of approximately 8.7% and a retroactive increase in rates of approximately 6.7% effective November 1, 2006 negotiated in June 2007; mitigated by a decrease in member months enrollment in the Reform business by 31,186 or 2.9%.

Medical premiums generated by the Commercial business increased by $1.7 million, or 0.9%, to $182.0 million during the three months ended March 31, 2008. This fluctuation is primarily the result of an increase in average premium rates in corporate accounts of 4.5%; partially offset by a decrease in member months enrollment of 18,254, or 1.5%.

Medical Claims Incurred

Medical claims incurred during the three months ended March 31, 2008 increased by $52.4 million, or 19.0%, to $327.9 million when compared to the three months ended March 31, 2007. The increase in medical claims incurred is mainly related to an increase in the medical claims incurred of the Medicare business of $44.3 millions due to an increase in members and higher medical loss ratio (MLR) as well as to an increase in the claims incurred of the Reform business of $10.2 million. The MLR of the segment increased 0.9 percentage points during the 2008 period, to 91.1%, primarily attributed to the effect of the following:

The Medicare business has experienced an expected overall increase in utilization trends, but the increase is most noticeable in outpatient visits and ambulatory procedures. We expect the utilization trends of the Medicare business to increase and then to stabilize as the business matures. Also, the higher MLR in the Medicare business is also impacted by the change in mix between dual and non-dual eligible members within the business. The Medicare Advantage member months enrollment during the three months ended March 31, 2008 has a higher concentration of dual eligible members than during the same period of the prior year. In our experience dual eligible members have a higher utilization than non-dual eligible members.

The higher MLR experienced by the Reform business in 2008 is primarily due to the effect of prior period reserve developments and the retroactive premium rate increase received by this business during June 2007. If we exclude the effect of prior period reserve developments in the 2007 and 2008 periods and considering the retroactive premium rate increase in the 2007 period, the MLR actually decreased by 2.2 percentage points during the 2008 period.

During the 2008 period the MLR of the Commercial business decreased by 2.1 percentage points primarily as the result of our termination and re-pricing strategy of less profitable groups and cost containment initiatives.

Medical Operating Expenses

Medical operating expenses for the three months ended March 31, 2008 increased by $1.7 million, or 4.8%, to $36.9 million when compared to the three months ended March 31, 2007. This increase is primarily attributed to the higher volume of the segment, particularly in the Medicare business. The segment s operating expense ratio decreased by 1.3 percentage points in the 2008 period.

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Life Insurance Operating Results

(Dollar amounts in millions)	**Three months ended March 31, 2008**	**2007**
Operating revenues:		
Premiums earned, net:		
Premiums earned	$ 24.1	24.5
Premiums earned ceded	(2.0)	(2.1)
Net premiums earned	22.1	22.4
Commission income on reinsuarance	0.1	0.1
Premiums earned, net	22.2	22.5
Net investment income	3.9	3.6
Total operating revenues	26.1	26.1
Operating costs:		
Policy benefits and claims incurred	12.0	11.6
Underwriting and other expenses	11.6	11.5
Total operating costs	23.6	23.1
Operating income	$ 2.5	3.0
Additional data:		
Loss ratio	54.1%	51.6%
Operating expense ratio	52.3%	51.1%

Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

Operating Revenues

Premiums earned for the segment decreased by $0.4 million, or 1.6%, to $24.1 million during the three months ended March 31, 2008 as compared to the three months ended March 31, 2007. This decrease was primarily the result of a decrease in premiums generated by the group disability and life insurance businesses of approximately $0.7 million and $0.2 million, respectively. This decrease was offset in part by an increase in sales of individual life and cancer policies of approximately $0.3 million and $0.2 million, respectively.

Policy Benefits and Claims Incurred

Policy benefits and claims incurred during the three months ended March 31, 2008 increased by $0.4 million, or 3.4%, to $12.0 million in the 2008 period when compared to the 2007 period. This increase is primarily the result of higher claims received during the period in the individual life and group disability businesses. This resulted in a 2.5 percentage points increase in the loss ratio, from 51.6% in 2007 to 54.1% in 2008.

Underwriting and Other Expenses

Underwriting and other expenses for the segment increased by $0.1 million, or 0.9%, during the three months ended March 31, 2008 primarily as a result of an increase in general expenses. The segment s operating expense ratio increased by 1.2 percentage points during the three months ended March 31, 2008, from 51.1% in 2007 to 52.3% in 2008.

Director s fees increased 4.30 percent from $93 thousand through June 30, 2007 compared to $97 thousand through June 30, 2008.Stationery and supplies decreased $41 thousand in comparing June 30, 2007 at $95 thousand and June 30, 2008 at $54 thousand, a 43.16 percent decrease. Due to the mergers with Columbia Financial Corporation and First Columbia Bank & Trust Co., consummated on July 18, 2008, supply expenditures were greatly reduced due to the new name our bank has assumed.Other expenses decreased $34 thousand from $605 thousand at June 30, 2007 to $571 thousand at June 30, 2008, a 5.62 percent decrease. Advertising was $13 thousand less than 2007, Training was $11 thousand less than 2007 and ATM communication fees were $7 thousand less than 2007. The advertising and training are a result of the merger and the ATM communication fees are a result of a different mode of communication being installed in 2007.Income TaxesIncome tax expense as a percentage of pre-tax income was 25.16 percent for the six months ended June 30, 2008 compared with 25.13 percent for the same period in 2007.

ASSET / LIABILITY MANAGEMENT

Interest Rate Sensitivity

Our success is largely dependent upon our ability to manage interest rate risk. Interest rate risk can be defined as the exposure of our net interest income to the movement in interest rates. We do not currently use derivatives to manage market and interest rate risks. Our interest rate risk management is the responsibility of the Asset / Liability Management Committee (ALCO), which reports to the Board of Directors. ALCO establishes policies that monitor and coordinate our sources, uses and pricing of funds as well as interest-earning asset pricing and volume.

We use a simulation model to analyze net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a 12 and 24 month period. The model is based on the actual maturity and repricing characteristics of rate sensitive assets and liabilities. The model incorporates assumptions regarding the impact of changing interest rates on the prepayment rates of certain assets and liabilities. In the current interest rate environment, our net interest income is not expected to change materially.

Liquidity

Liquidity measures the ability to satisfy current and future cash flow needs as they become due. Maintaining a level of liquid funds through asset / liability management seeks to ensure that these needs are met at a reasonable cost. As of June 30, 2008, we had $61.2 million of securities available for sale recorded at their fair value, compared with $59.4 million at June 30, 2007. As of June 30, 2008, the investment securities available for sale had a net unrealized loss of $217 thousand, net of deferred taxes, compared with a net unrealized loss of $224 thousand, net of deferred taxes, at June 30, 2007. These securities are not considered trading account securities, which may be sold on a continuous basis, but rather are securities which the Corporation has the ability and positive intent to hold the securities to maturity and are classified as available-for-sale.

In accordance with disclosures required by EITF NO. 03-1, the summary below reflects the gross unrealized losses and fair value, aggregated by investment category the individual securities which have been in a continuous unrealized loss position for less than or more than 12 months as of June 30, 2008:

Description of Security	Less than 12 months		12 months or more		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S. Government Corporations and Agencies:						
Mortgage backed	$28,232	$307	$ 663	$ 4	$28,895	$311
Other	0	0	0	0	0	0
Obligations of State and Political Subdivisions	771	22	0	0	771	22
Marketable Equity Securities	243	79	338	231	581	310
Total	$29,246	$408	$1,001	$235	$30,247	$643

Note: This schedule reflects only unrealized losses without the effect of unrealized gains.

The Corporation invests in various forms of agency debt including mortgage backed securities and callable agency debt. The fair market value of these securities is influenced by market interest rates, prepayment speeds on mortgage securities, bid to offer spreads in the market place and credit premiums for various types of agency debt. These factors change continuously and therefore the market value of these securities may be higher or lower than the Corporation s carrying value at any measurement date. The Corporation s marketable equity securities represent common stock positions in various financial institutions. The fair market value of these equities tends to fluctuate with the overall equity markets as well as the trends specific to each institution.

Non-Performing Assets

Shown below is a summary of past due and non-accrual loans:

	June 30, 2008	December 31,2007
Past due and non-accrual:		
Days 30 89	$ 1,929	$ 460
Days 90 plus	6	80
Non-accrual	226	77
Total	$ 2,161	$ 617

Past due and non-accrual loans increased 250.24 percent from $617 thousand at December 31, 2007 to $2,161 thousand at June 30, 2008. The non-performing assets expressed as a ratio to total loans was .29 percent at June 30, 2008 and .74 at December 31, 2007. Non-performing loans are comprised of loans which are on a non-accrual basis, accruing loans that are 90 days or more past due, and restructured loans. Non-performing assets are comprised of non-performing loans and foreclosed real estate (assets acquired in foreclosure), if applicable.

The provision for loan losses for the first three months of 2008 was $0 compared to the first three months of 2007 at $30 thousand. Management is diligent in its efforts to maintain low delinquencies and continues to monitor and review current loans to foresee future delinquency occurrences and react to them quickly. See the following discussion under Allowance for Loan Losses below.

Any loans classified for regulatory purposes as loss, doubtful, substandard, or special mention that have not been disclosed under Industry Guide 3 do not (i) represent or result from trends or uncertainties which we reasonably expect will materially impact future operating results, liquidity, or capital resources, or (ii) represent material credits about which we are aware of any information which causes us to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms.

We adhere to principles provided by Financial Accounting Standards Board Statement No. 114, Accounting by Creditors for Impairment of a Loan Refer to Note 2 above for other details.

The following analysis provides a schedule of loan maturities / interest rate sensitivities. This schedule presents a repricing and maturity analysis as required by the FFIEC:

MATURITY AND REPRICING DATA FOR LOANS AND LEASES

	June 30 2008 (Dollars in thousands)
(1) Three months or less	$ 4,617
(2) Over three months through 12 months	13,570
(3) Over one year through three years	26,107
(4) Over three years through five years	4,132
(5) Over five years through 15 years	18,257
(6) Over 15 years	286
All loans and leases other than closed-end loans secured by first liens on 1-4 family residential properties with a remaining maturity or repricing frequency of:	
(1) Three months or less	17,680
(2) Over three months through 12 months	16,295
(3) Over one year through three years	25,366
(4) Over three years through five years	12,877
(5) Over five years through 15 years	21,712
(6) Over 15 years	142
Sub-total	161,041
Add: Non-accrual loans not included above	226
Less: Unearned income	(27)
Total Loans and Leases	$ 161,240

Allowance for Loan Losses

Because our loan portfolio contain a significant number of commercial loans with relatively large balances, the deterioration of one or several of these loans may result in a possible significant increase in loss of interest income, higher carrying costs, and an increase in the provision for loan losses and loan charge-offs.

We maintain an allowance for loan losses to absorb any loan losses based on our historical experience, an evaluation of economic conditions, and regular reviews of delinquencies and loan portfolio quality. In evaluating our allowance for loan losses, we segment our loans into the following categories:

Commercial mortgages, Residential mortgages, Consumer loans, Municipal loans and Non real estate commercial loans.

We evaluate some loans as a homogeneous group and others on an individual basis. Commercial loans with balances exceeding $250 thousand are reviewed individually. After our evaluation of all loans, we determine the required allowance for loan losses based upon the following considerations:

Historical loss levels,

Prevailing economic conditions,

Delinquency trends,

Changes in the nature and volume of the portfolio,

Concentrations of credit risk, and

Changes in loan policies or underwriting standards.

Management and the Board of Directors review the adequacy of the reserve on a quarterly basis and adjustments, if needed, are made accordingly.

The following table presents a summary of CCFNB s loan loss experience as of the dates indicated:

	For the Six Months Ended June 30, (Dollars in thousands)	
	2008	2007
Average loans outstanding:	$ 160,343	$ 159,847
Total loans at end of period	161,240	158,024
Balance at beginning of period	$ 1,437	$ 1,457
Total charge-offs	(19)	(47)
Total recoveries	18	29
Net charge-offs	(1)	(18)
Provision for loan losses	0	30
Balance at end of period	$ 1,436	$ 1,469
Net charge-offs as a percent of average loans outstanding during period		(.01)%
Allowance for loan losses as a percent of total loans	.89%	.93%

The allowance for loan losses is based on our evaluation of the allowance for loan losses in relation to the credit risk inherent in the loan portfolio. In establishing the amount of the provision required, management considers a variety of factors, including but not limited to, general economic conditions, volumes of various types of loans, collateral adequacy and potential losses from significant borrowers. On a monthly basis, the Board of Directors and the bank s Credit Administration Committee review information regarding specific loans and the total loan portfolio in general in order to determine the amount to be charged to the provision for loan losses.

Capital Adequacy

A major strength of any financial institution is a strong capital position. This capital is very critical as it must provide growth, dividend payments to shareholders, and absorption of unforeseen losses. Our federal regulators provide standards that must be met. These standards measure risk-adjusted assets against different categories of capital. The risk-adjusted assets reflect off balance sheet items, such as commitments to make loans, and also place balance sheet assets on a risk basis for collectibility. The adjusted assets are measured against the standards of Tier I Capital and Total Qualifying Capital. Tier I Capital is common shareholders equity. Total Qualifying Capital includes so-called Tier II Capital, which are common shareholders equity and the allowance for loan and lease losses. The allowance for loan and lease losses must be lower than or equal to common shareholders equity to be eligible for Total Qualifying Capital.

We exceed all minimum capital requirements as reflected in the following table:

	June 30, 2008		December 31, 2007	
	Calculated Ratios	Minimum Standard Ratios	Calculated Ratios	Minimum Standard Ratios
Risk Based Ratios:				
Tier I Capital to risk-weighted assets	19.23%	4.00%	18.10%	4.00%
Total Qualifying Capital to risk-weighted assets	20.14%	8.00%	18.93%	8.00%

Additionally, certain other ratios also provide capital analysis as follows:

	June 30, 2008	December 31, 2007
Tier I Capital to average assets	12.36%	12.71%

We believe that the bank s current capital position and liquidity positions are strong and that its capital position is adequate to support its operations.

Book value per share amounted to $26.21 at June 30, 2008, compared with $25.79 per share at December 31, 2007. Cash dividends declared amounted to $.42 per share for the six months ended June 30, 2008, equivalent to a dividend payout ratio of 36.77 percent, compared with 38.93 percent for the same period in 2007. The Board of Directors continues to believe that cash dividends are an important component of shareholder value and that, at the bank s current level of performance and capital; we expect to continue our current dividend policy of a quarterly cash distribution of earnings to our shareholders. Pursuant to the agreement and plan of reorganization with Columbia Financial Corporation, which was consummated July 18, 2008, the Board of Directors has increased the third quarter cash dividend to at least 23 cents per share.

The following table presents information on the shares of our common stock that we repurchased during the second quarter of 2008:

CCFNB BANCORP, INC.
ISSUER PURCHASES OF EQUITY SECURITIES

PERIOD		NUMBER OF SHARES PURCHASED	PRICE PAID PER SHARE	NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PROGRAM (1)	NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PROGRAM
04/01/08	04/30/08	4,000	$ 25.48	4,000	10,000
05/01/08	05/31/08	2,000	$ 25.45	2,000	8,000
06/01/08	06/30/08	4,000	$ 24.50	4,000	4,000
TOTAL		10,000		10,000	

(1) This program was announced in 2003 and represents the second buy-back program. The Board of Directors approved the purchase of 100,000 shares. There is no expiration date associated with this program.

Controls and Procedures

Item 4. Controls and Procedures

Our Chief Executive Officer (CEO) and Principal Financial Officer (PFO) have concluded that our disclosure controls and procedures (as defined in Rules 13a 15(e) and 15d 15(e) under the Securities Exchange Act of 1934, as amended), based on their evaluation of these controls and procedures as of the end of the period covered by this Report, were effective as of such date at the reasonable assurance level as discussed below to ensure that information required to be disclosed by us in the reports we file under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, including the CEO and PFO, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. In addition, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls.

The CEO and PFO have evaluated the changes to our internal controls over financial reporting that occurred during our fiscal Quarter Ended June 30, 2008, as required by paragraph (d) Rules 13a 15 and 15d 15 under the Securities Exchange Act of 1934, as amended, and have concluded that there were no changes that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II OTHER INFORMATION;

Item 1. Legal Proceedings

Management and the Corporation s legal counsel are not aware of any litigation that would have a material adverse effect on the consolidated financial position of the Corporation. There are no proceedings pending other than the ordinary routine litigation incident to the business of the Corporation and its subsidiary, Columbia County Farmers National Bank. In addition, no material proceedings are pending or are known to be threatened or contemplated against the Corporation and the Bank by government authorities.

Item 2. Changes in Securities Nothing to report.

Item 3. Defaults Upon Senior Securities Nothing to report.

Item 4. Submission of Matters to a Vote of Security Holders Nothing to report.

Item 5. Other Information Nothing to report.

Item 6. Exhibits and Reports on Form 8-K

On July 23, 2008 a form 8K was filed with the Commission concerning the merger with Columbia Financial Corporation. The merger was consummated July 18, 2008.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this quarterly report on Form 10-Q for the period ended June 30, 2008, to be signed on its behalf by the undersigned thereunto duly authorized.

CCFNB BANCORP, INC.
(Registrant)

By /s/ Lance O. Diehl
Lance O. Diehl
President and CEO

Date: August 8, 2008

By /s/ Virginia D. Kocher
Virginia D. Kocher
Treasurer

Date: August 8, 2008