SMITH & NEPHEW PLC
Form 6-K
March 17, 2010

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of
1934

March 17, 2010

Commission File Number 001-14978

SMITH & NEPHEW plc
(Registrant's name)

15 Adam Street
London, England WC2N 6LA
(Address of registrant's principal executive offices)

[Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.]

Form 20-F X Form 40-F
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[Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1).]

Yes No X
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[Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7).]

Yes No X
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[Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing information to the Commission pursuant to Rule 12g3-2 (b) under the Securities Exchange Act of 1934.]

Yes --- No X ---

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2 (b) : 82- n/a.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Smith & Nephew Plc
(Registrant)

Date: March 17, 2010

By: /s/ Susan Henderson

Susan Henderson
Company Secretary

NOTIFICATION OF TRANSACTIONS OF DIRECTORS/PERSONS DISCHARGING MANAGERIAL REPONSIBILITY AND CONNECTED PERSONS

SMITH & NEPHEW PLC

17 March 2010

Smith & Nephew plc announces that it was informed on 16 March 2010 of the following transactions by directors or persons discharging managerial responsibilities ("PDMRs") following the vesting on 15 March 2010 of awards granted under the Smith & Nephew 2004 Performance Share Plan (the "PSP"), the Smith & Nephew Performance Share Agreements (the "PSA"), the Smith & Nephew 2004 Co-Investment Plan (the "COIP"), and Smith & Nephew 2004 Executive Share Option Plan (the "ESOP") on 15 March 2007:

Name of PDMR	**Plan**	**Number of ordinary shares or ADSs acquired**	**Number of ordinary shares or ADSs disposed**	**Total ordinary shares or ADSs held following notification**
Mark Augusti	i) PSP ii) COIP	3,190 ADSs 405 ADSs	1,041 ADSs 133 ADSs	8,012 ADSs
Elizabeth Bolgiano	i) PSP ii) COIP	1,843 ADSs 843 ADSs	713 ADSs 326 ADSs	4,421 ADSs
Michael Frazzette	i) PSP ii) COIP	3,403 ADSs 972 ADSs	1,086 ADSs 311 ADSs	8,157 ADSs
R Gordon Howe	i) PSP ii) COIP	1,104 ADSs 243 ADSs	1,104 ADSs 406 ADSs	3,775 ADSs
David Illingworth	i) PSP ii) PSA iii) COIP	7,546 ADSs 3,774 ADSs 1,617 ADSs	3,110 ADSs 1,556 ADSs 667 ADSs	257,824 Ords (including 42,005 ADSs)
Adrian Hennah	i) PSP ii) PSA iii) COIP	50,278 Ords 25,139 Ords 13,521 Ords	20,718 Ords 10,359 Ords 5,572 Ords	131,187 Ords
Roger Teasdale	i) PSP	6,703 Ords	2,763 Ords	11,597 Ords

Notes:

a) 70% of the PSP and PSA awards made on 15 March 2007 vested and 30% of the awards lapsed.
b) Matching and Bonus shares awarded under the COIP on 15 March 2007 vested. Bonus shares were acquired in 2007 and are included in the "disposed" and "total" columns only.
c) The market value on 15 March 2010 of ordinary shares and ADSs was 676.39p per share and US$50.8526 per ADS respectively.
d) One ADS is equivalent to five ordinary shares of US$0.20 each.

Options

Name of PDMR	**Plan**	**Number of**	**Number of shares**	**Total options**

		ordinary shares under option	**under option vesting (ordinary shares)**	**held following notification (ordinary shares)**
Mark Augusti	2004 ESOP	30,909	18,854	207,377
Elizabeth Bolgiano	2004 ESOP	26,788	16,340	148,753
Michael Frazzette	2004 ESOP	32,970	20,111	146,203
R Gordon Howe	2004 ESOP	16,048	9,789	144,082
David Illingworth	2004 ESOP	54,813	33,435 IV>	

Prior service credit, net					(266)	(266)
Actuarial loss					(7,349)	(7,349)
Net change in fair value of cash flow hedges					(56)	(56)
Total comprehensive income						13,167
Balance, December 31, 2008	9,043	22,105	179,504	292,112	(17,665)	485,099
Share-based compensation			3,897			3,897
Grant of restricted Class B common stock		27				27
Repurchase and retirement of common stock		(2,022)	(24,098)			(26,120)
Comprehensive income						
Net income				68,780		68,780
Net unrealized change in fair value of available for sale securities					3,539	3,539

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

The accompanying notes are an integral part of these financial statements

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

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

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Triple-S Management Corporation
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(dollar amounts in thousands, except per share data)

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

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1. Nature of Business

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

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

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

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

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

2. Significant Accounting Policies

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

Basis of Presentation

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

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

Use of Estimates

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

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

Reclassifications

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

Cash Equivalents

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

Investments

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

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

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

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

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

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

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

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

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

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

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Revenue Recognition

a. Managed Care

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

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

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

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

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

b. Life and Accident and Health Insurance

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

c. Property and Casualty Insurance

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

Allowance for Doubtful Receivables

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

Deferred Policy Acquisition Costs and Value of Business Acquired

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

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

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

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

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

Property and Equipment

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

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

Software Development Costs

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

Long-Lived Assets

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

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

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

Claim Liabilities

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

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

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

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

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

Future Policy Benefits

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

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

Policyholder Deposits

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

Reinsurance

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

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

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

Derivative Instruments and Hedging Activities

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

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

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

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

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

Income Taxes

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

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

Insurance-Related Assessments

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

Commitments and Contingencies

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

Share-Based Compensation

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

Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing net income available to all classes of common stockholders by the weighted average number of all classes of common shares outstanding for the period, excluding non-vested restricted stocks. Diluted earnings per share is computed in the same manner as basic earnings per share except that the number of shares is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued. Dilutive common shares are included in the diluted earnings per share calculation using the treasury stock method.

Fair Value

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

a. **Cash and Cash Equivalents**

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

b. **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 3 and note 9.

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c. 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.

d. 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.

e. 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.

f. Short-term Borrowings

The carrying amount of securities sold under agreements to repurchase approximates fair value due to its short-term nature.

g. Long-term Borrowings

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

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loans payable to bank	21,027	21,027	22,667	22,667
6.3% senior unsecured notes payable	50,000	49,625	50,000	48,000
6.6% senior unsecured notes payable	35,000	34,388	60,000	57,420
6.7% senior unsecured notes payable	35,000	35,000	35,000	33,320
1.96% repurchase agreement	25,000	24,575		
	$ 166,027	$ 164,615	$ 167,667	$ 161,407

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 and the repurchase agreement was determined using market quotations. Additional information pertinent to borrowings is included in Note 13.

h. Derivative Instruments

Current market pricing models were used to estimate fair value of 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 14.

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Recently Issued Accounting Standards

In April 2010, the FASB issued guidance to address the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. The guidance clarifies that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, such an award should not be classified as a liability if it otherwise qualifies as equity. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2010. We do not expect the adoption of this guidance to have an impact on our financial position or results of operations.

In October 2010, the FASB issued guidance to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This guidance specifies that the following costs incurred in the acquisition of new and renewal contracts should be capitalized: (1) Incremental direct costs of contract acquisition. Incremental direct costs are those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. (2) Certain costs related directly to the following acquisition activities performed by the insurer for the contract: a. Underwriting, b. Policy issuance and processing, c. Medical and inspection, and d. Sales force contract selling. Advertising costs should be included in deferred acquisition costs only if the capitalization criteria in the direct-response advertising guidance in *Subtopic 340-20, Other Assets and Deferred Costs Capitalized Advertising Costs*, are met. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2011. The Company is currently evaluating the impact the adoption of this guidance will have on its financial position or results of operations.

In December 2010, the FASB issued guidance to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. We do not expect the adoption of this guidance to have a significant impact on our financial position or results of operations.

In December 2010, the FASB issued guidance to require a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period for all the periods presented. This guidance also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This guidance is effective for business combinations for which the acquisition dates is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. We expect to adopt this guidance during 2011 as part of our disclosures related to our business combination. Additional information pertinent to the business combination is included in note 28.

There were no other new accounting pronouncements issued that had or are expected to have a material impact on our financial position, operating results or disclosures.

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3. 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, 2010 and 2009 were as follows:

	2010			
	Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Trading securities				
Equity securities	$ 43,832	$ 10,738	$ (3,471)	$ 51,099

	2009			
	Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Trading securities				
Equity securities	$ 42,075	$ 7,064	$ (5,230)	$ 43,909

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	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale				
Fixed maturities				
Obligations of government-sponsored enterprises	$ 124,735	$ 6,650	$	$ 131,385
U.S. Treasury securities and obligations of U.S. government instrumentalities	47,427	5,451		52,878
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	117,519	3,115	(10)	120,624
Municipal securities	272,383	3,979	(2,798)	273,564
Corporate bonds	102,184	7,698	(250)	109,632
Residential mortgage-backed securities	12,560	801	(1)	13,360
Collateralized mortgage obligations	271,149	6,158	(1,164)	276,143
Total fixed maturities	947,957	33,852	(4,223)	977,586
Equity securities				
Common stocks	901	3,430		4,331
Preferred stocks	4,298	68	(737)	3,629
Perpetual preferred stocks	1,000		(94)	906
Mutual funds	41,551	6,632	(310)	47,873
Total equity securities	47,750	10,130	(1,141)	56,739
Total	$ 995,707	$ 43,982	$ (5,364)	$ 1,034,325

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	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale				
Fixed maturities				
Obligations of government-sponsored enterprises	$ 252,513	$ 2,240	$ (3,325)	$ 251,428
U.S. Treasury securities and obligations of U.S. government instrumentalities	48,190	3,148		51,338
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	154,754	3,113	(1,919)	155,948
Municipal securities	107,441	1,117	(1,851)	106,707
Corporate bonds	102,547	3,546	(728)	105,365
Residential mortgage-backed securities	16,605	677	(1)	17,281
Collateralized mortgage obligations	229,312	4,237	(2,639)	230,910
Total fixed maturities	911,362	18,078	(10,463)	918,977
Equity securities				
Common stocks	4,074	3,435		7,509
Preferred stocks	4,000		(1,325)	2,675
Perpetual preferred stocks	2,849		(270)	2,579
Mutual funds	50,608	4,150	(2,832)	51,926
Total equity securities	61,531	7,585	(4,427)	64,689
Total	$ 972,893	$ 25,663	$ (14,890)	$ 983,666

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities held to maturity				
Obligations of government-sponsored enterprises	$ 1,793	$ 151	$	$ 1,944
U.S. Treasury securities and obligations of U.S. government instrumentalties	1,478	203		1,681
Corporate bonds	9,443	414		9,857
Residential mortgage-backed securities	660	41		701
Certificates of deposits	1,241			1,241
	$ 14,615	$ 809	$	15,424

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	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities held to maturity				
Obligations of government-sponsored enterprises	$ 925	$ 6	$	$ 931
U.S. Treasury securities and obligations of U.S. government instrumentalties	3,786	132		3,918
Corporate bonds	9,063	534		9,597
Residential mortgage-backed securities	1,256	25	(1)	1,280
Certificates of deposits	764			764
	$ 15,794	$ 697	$ (1)	16,490

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, 2010 and 2009 were as follows:

	2010								
	Less than 12 months			12 months or longer			Total		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
Securites available for sale									
Fixed maturities									
Obligations of the Commonw ealth of Puerto Rico and its instrumentalities	$ 2,483	$ (10)	5	$	$		$ 2,483	$ (10)	5
Municipal securities	105,280	(2,652)	53	692	(146)	1	105,972	(2,798)	54
Corporate bonds	5,828	(250)	3				5,828	(250)	3
Residential mortgage-backed securities				36	(1)	1	36	(1)	1
Collateralized mortgage obligations	77,417	(1,144)	12	1,953	(20)	1	79,370	(1,164)	13
	191,008	(4,056)	73	2,681	(167)	3	193,689	(4,223)	76

Total fixed maturities									
Equity securities									
Preferred stocks				3,263	(737)	1	3,263	(737)	1
Perpetual preferred stocks				906	(94)	1	906	(94)	1
Mutual funds	2,337	(310)	2				2,337	(310)	2
Total equity securities	2,337	(310)	2	4,169	(831)	2	6,506	(1,141)	4
Total for securities available for sale	$ 193,345	$ (4,366)	75	$ 6,850	$ (998)	5	$ 200,195	$ (5,364)	80

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	2009								
	Less than 12 months			12 months or longer			Total		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
Securites available for sale									
Fixed maturities									
Obligations of government-sponsored enterprises	$ 110,602	$ (2,264)	21	$ 25,468	$ (1,061)	5	$ 136,070	$ (3,325)	26
Obligations of the Common wealth of Puerto Rico and its instrumentalities	12,944	(201)	10	58,866	(1,718)	22	71,810	(1,919)	32
Municipal securities	62,292	(1,841)	39	173	(10)	1	62,465	(1,851)	40
Corporate bonds	10,997	(215)	4	7,975	(513)	6	18,972	(728)	10
Residential mortgage-backed securities				36	(1)	1	36	(1)	1
Collateralized mortgage obligations	101,265	(1,732)	21	7,171	(907)	10	108,436	(2,639)	31
Total fixed maturities	298,100	(6,253)	95	99,689	(4,210)	45	397,789	(10,463)	140
Equity securities									
Preferred stocks				2,675	(1,325)	1	2,675	(1,325)	1
Perpetual preferred stocks				730	(270)	1	730	(270)	1
Mutual funds	9,994	(907)	4	21,667	(1,925)	15	31,661	(2,832)	19
Total equity securities	9,994	(907)	4	25,072	(3,520)	17	35,066	(4,427)	21
Total for securities available for sale	$ 308,094	$ (7,160)	99	$ 124,761	$ (7,730)	62	$ 432,855	$ (14,890)	161
Securities held to maturity Residential mortgage-backed securities				$ 55	$ (1)	1	$ 55	$ (1)	1

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: (1) the length of time and the extent to which the estimated fair value has been less than amortized cost for fixed maturity securities, or cost for equity securities, (2) the financial condition, near-term and long-term prospects for the issuer, including relevant industry conditions and trends, and implications of rating agency actions, (3) the Company s intent to sell or the likelihood of a required sale prior to recovery, (4) the recoverability of principal and interest for fixed maturity securities, or cost for equity securities, and (5) other factors, as applicable. 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 estimated fair value solely due to changes in interest rates, other-than temporary impairment may not be appropriate. Due to the subjective nature of the Company s analysis, along with the judgment that must be applied in the analysis, it is possible that the Company could reach a different conclusion whether or not to impair a security if it had access to additional information about the investee. Additionally, it is possible that the investee s ability to meet future contractual obligations may be different than what the Company determined during its analysis, which may lead to a different impairment conclusion in future periods. If after monitoring and analyzing impaired securities, 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 in accordance with current accounting guidance. The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an other-than-temporary impairment, the impaired security is accounted for as if it had been purchased on the measurement date of the impairment. For debt securities, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield.

The Company s process for identifying and reviewing invested assets for other-than temporary impairments during any quarter includes the following:

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Identification and evaluation of securities that have possible indications of other-than-temporary impairment, which includes an analysis of all investments with gross unrealized investments losses that represent 20% or more of their cost and all investments with an unrealized loss greater than $50.

Review and evaluation of any other security based on the investee s current financial condition, liquidity, near-term recovery prospects, implications of rating agency actions, the outlook for the business sectors in which the investee operates and other factors. This evaluation is in addition to the evaluation of those securities with a gross unrealized investment loss representing 20% or more of cost.

Consideration of evidential matter, including an evaluation of factors or triggers that may or may not cause individual investments to qualify as having other-than-temporary impairments; and

Determination of the status of each analyzed security as other-than-temporary or not, with documentation of the rationale for the decision.

The Company continues to review the investment portfolios under the Company s impairment review policy. Given the current market conditions and the significant judgments involved, there is a continuing risk that further declines in fair value may occur and additional material other-than-temporary impairments may be recorded in future periods.

Obligations of States of the United States and Political Subdivisions of the States, and Obligations of the Commonwealth of Puerto Rico and its Instrumentalities: The unrealized losses on the Company s investments in obligations of states of the United States and political subdivisions of the states, and in obligations of the Commonwealth of Puerto Rico and its instrumentalities were mainly caused by fluctuations in interest rate and general market conditions. 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. In addition, most of these investments have investment grade ratings. Because the decline in fair value is attributable to changes in interest rates and not credit quality; because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity; and because the Company expects to collect all contractual cash flows, these investments are not considered other-than-temporarily impaired.

Corporate Bonds: The unrealized losses of these bonds were principally caused by fluctuations in interest rates and general market conditions. All corporate bonds included in this table have investment grade ratings and have been in an unrealized position for less than three months. Because the decline in estimated fair value is principally attributable to changes in interest rate; the Company does not intend to sell the investments and its is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity; and because the Company expects to collect all contractual cash flows, these investments are not considered other-than-temporarily impaired.

Residential Mortgage-Backed Securities and Collateralized Mortgage Obligations: The unrealized losses on investments in residential mortgage-backed securities and collateralized mortgage obligations (CMO s) were caused by fluctuations in interest rates. The contractual cash flows of these securities, other than private CMOs, are guaranteed by a U.S. government-sponsored enterprise. The Company also has investments in private CMOs with amortized cost amounting to

$5,785 and $7,608 in 2010 and 2009, respectively (fair value of $6,106 and $6,701, respectively). Any loss in these securities is determined according to the seniority level of each tranche, with the

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least senior (or most junior), typically the unrated residual tranche, taking any initial loss. The investment grade credit rating of our securities reflects the seniority of the securities that the Company owns. Because the decline in fair value is attributable to changes in interest rates and not credit quality; the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity; and because the Company expects to collect all contractual cash flows, these investments are not considered other-than-temporarily impaired.

Preferred Stocks: Because the estimated fair value of this investment has experienced a significant improvement in market value during the past year, the issuer s capital ratios are above regulatory levels, this particular instrument has a specified maturity, the issuer has continued dividend payments on this instrument and in all of its outstanding debt instruments, the issuer does not have the ability to call the security at a price lower than its stated value, the Company expects to collect all contractual cash flows, the Company does not have the intent to sell the investment, and it is not more likely than not that the Company will be required to sell the investment before market price recovery or maturity and because the Company expects to collect all contractual cash flows, this investments is not considered other-than-temporarily impaired.

Perpetual Preferred Stocks: Because this security has experienced a significant improvement during the past year, the issuers capital ratios are above regulatory levels, the Company does not have the intent to sell the investment, and the Company has the intent and ability to hold the investments until a market price recovery, this investment is not considered other-than-temporarily impaired.

Mutual Funds: Most of the unrealized losses in the Company s investment in one fund that has been in an unrealized loss position less than nine months. Because these funds have been in an unrealized loss position for less than nine months, the Company does not have the intent to sell these investment, and the Company has the ability to hold the investments until a market price recovery, these investments are not considered other-than-temporarily impaired.

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Maturities of investment securities classified as available for sale and held to maturity were as follows at December 31, 2010:

	Amortized Cost	Estimated Fair Value
Securities available for sale		
Due in one year or less	$ 10,288	$ 10,466
Due after one year through five years	92,110	95,731
Due after five years through ten years	203,723	213,045
Due after ten years	358,127	368,841
Residential mortgage-backed securities	12,560	13,360
Collateralized mortgage obligations	271,149	276,143
	$ 947,957	$ 977,586
Securities held to maturity		
Due in one year or less	$ 1,241	$ 1,241
Due after one year through five years	9,443	9,857
Due after ten years	3,271	3,625
Residential mortgage-backed securities	660	701
	$ 14,615	$ 15,424

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 $4,493 and $4,642 (fair value of $4,702 and 4,758) at December 31, 2010 and 2009, respectively, were deposited with the Commissioner of Insurance to comply with the deposit requirements of the Insurance Code of the Commonwealth of Puerto Rico (the Insurance Code). Investment with an amortized cost of $500 and $577 (fair value of $500 and $577) at December 31, 2010 and 2009, respectively, were deposited with the Commissioner of Insurance of the Government of the U.S. Virgin Islands.

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Information regarding realized and unrealized gains and losses from investments for the years ended December 31, 2010, 2009, and 2008 is as follows:

	2010	2009	2008
Realized gains (losses)			
Fixed maturity securities			
Securities available for sale			
Gross gains from sales	$ 1,947	$ 5,323	$ 1,876
Gross losses from sales	(505)	(4)	(225)
Gross losses from other-than-temporary impairments	(95)	(1,711)	(3,872)
Total fixed maturity securities	1,347	3,608	(2,221)
Equity securities			
Trading securities:			
Gross gains from sales	1,083	717	3,358
Gross losses from sales	(961)	(1,381)	(3,160)
	122	(664)	198
Securities available for sale			
Gross gains from sales	5,051	3,468	881
Gross losses from sales	(1,086)	(391)	(176)
Gross losses from other-than-temporary impairments	(2,902)	(5,407)	(12,622)
	1,063	(2,330)	(11,917)
Total equity securities	1,185	(2,994)	(11,719)
Net realized gains (losses) on securities	$ 2,532	$ 614	$ (13,940)

The other-than-temporary impairments on fixed maturity securities are attributable to credit losses.

	2010	2009	2008
Changes in unrealized gains (losses)			
Recognized in income			
Equity securities trading	$ 5,433	$ 10,497	$ (21,064)
Recognized in accumulated other comprehensive loss			
Fixed maturities available for sale	22,014	(406)	928
Equity securities available for sale	5,831	4,583	(5,734)
	$ 27,845	$ 4,177	$ (4,806)

Not recognized in the consolidated financial statements

Fixed maturities held to maturity	$ 113	$ (614)	$ 1,152

The deferred tax liability (asset) on unrealized gains and (losses) recognized in accumulated other comprehensive income during the years 2010, 2009, and 2008 aggregated $(4,243), $(638), and $854, respectively.

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As of December 31, 2010 and 2009 no individual investment in securities exceeded 10% of stockholders equity.

4. Net Investment Income

Components of net investment income were as follows:

	Years ended December 31		
	2010	**2009**	**2008**
Fixed maturities	$ 44,371	$ 46,285	$ 48,197
Equity securities	3,452	4,077	5,451
Policy loans	441	411	387
Cash equivalents and interest-bearing deposits	197	577	1,003
Other	684	786	1,215
Total	$ 49,145	$ 52,136	$ 56,253

5. Premium and Other Receivables, Net

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

	2010	**2009**
Premium	$ 144,501	$ 98,429
Self-funded group receivables	73,750	70,315
FEHBP	11,001	10,297
Agent balances	37,262	37,888
Accrued interest	9,781	9,287
Reinsurance recoverable	47,342	43,951
Other	22,177	27,999
	345,814	298,166
Less allowance for doubtful receivables:		
Premium	13,106	20,280
Other	6,928	4,954
	20,034	25,234
Premium and other receivables, net	$ 325,780	$ 272,932

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6. 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, 2010, 2009, and 2008 is summarized as follows:

	DPAC	VOBA	Total
Balance, December 31, 2007	$ 53,215	$ 64,024	$ 117,239
Additions	49,470		49,470
VOBA interest at an average rate of 5.40%		3,425	3,425
Amortization	(33,442)	(10,345)	(43,787)
Net change	16,028	(6,920)	9,108
Balance, December 31, 2008	69,243	57,104	126,347
Additions	55,632		55,632
VOBA interest at an average rate of 5.29%		3,066	3,066
Amortization	(35,923)	(9,205)	(45,128)
Net change	19,709	(6,139)	13,570
Balance, December 31, 2009	88,952	50,965	139,917
Additions	54,247		54,247
VOBA interest at an average rate of 5.24%		2,752	2,752
Amortization	(42,324)	(8,506)	(50,830)
Net change	11,923	(5,754)	6,169
Balance, December 31, 2010	$ 100,875	$ 45,211	$ 146,086

The amortization expense of the deferred policy acquisition costs and value of business acquired is included within the operating expenses 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:	
2011	$ 7,404
2012	6,602
2013	5,895
2014	5,184
2015	4,561

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7. Property and Equipment, Net

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

	2010	2009
Land	$ 7,309	$ 7,309
Buildings and leasehold improvements	45,472	45,034
Office furniture and equipment	14,401	16,821
Computer equipment and software	89,266	69,652
Automobiles	525	513
	156,973	139,329
Less accumulated depreciation and amortization	80,228	70,526
Property and equipment, net	$ 76,745	$ 68,803

8. Acquired Intangible Asset

On July 1, 2009, the Company, through TSS, entered into an Asset Purchase Agreement (the Agreement) to acquire certain managed care assets of La Cruz Azúl de Puerto Rico, Inc. (LCA) in Puerto Rico and the U.S. Virgin Islands on such date, generating an intangible asset. Such intangible asset, net as of December 31, 2010 and 2009 amounted to $3.9 and $5.6 million, respectively, and is included within other assets in the accompanying consolidated balance sheets. Amortization expense recorded during 2010 and 2009 amounted to $3.6 and $1.3 million. The intangible asset is amortized over the expected life of the acquired assets, which is estimated between 1 and 6 years. The Company may be required to make additional payments depending upon certain conditions as defined in the Agreement, which would have the effect of increasing the intangible asset.

9. Fair Value Measurements

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 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 1 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 Company uses observable inputs when available. Fair value is based upon quoted market prices when available. If market prices are not available, the Company employs internally-developed models that primarily use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. The Company limits valuation adjustments to those

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deemed necessary to ensure that the security or derivative s fair value adequately represents the price that would be received or paid in the marketplace. Valuation adjustments may include consideration of counterparty credit quality and liquidity as well as other criteria. The estimated fair value amounts are subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in estimating fair value could affect the results. The fair value measurement levels are not indicative of risk of investment. The following table summarizes fair value measurements by level at December 31, 2010 and 2009 for assets measured at fair value on a recurring basis:

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity securities held for trading	$ 51,099	$	$	$ 51,099
Securities available for sale				
Fixed maturity securities				
Obligations of government-sponsored enterprises		131,385		131,385
U.S. Treasury securities and obligations of U.S. government instrumentalities	52,878			52,878
Obligations of the Commonw ealth of Puerto Rico and its instrumentalities		120,624		120,624
Municipal securities		273,564		273,564
Corporate Bonds		109,632		109,632
Residential agency mortgage-backed securities		13,360		13,360
Collaterized mortgage obligations		276,143		276,143
Total fixed maturities	52,878	924,708		977,586
Equity securities				
Common stocks	4,331			4,331
Preferred stocks	3,629			3,629
Perpetual preferred stocks	906			906
Mutual funds	27,858	18,971	1,044	47,873
Total equity securities	36,724	18,971	1,044	56,739
Derivatives (reported w ithin other assets in the consolidated balance sheets)		748		748
	$ 140,701	$ 944,427	$ 1,044	$ 1,086,172

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	2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity securities held for trading	$ 43,909	$	$	$ 43,909
Securities available for sale				
Fixed maturity securities				
Obligations of government-sponsored enterprises		251,428		251,428
U.S. Treasury securities and obligations of U.S. government instrumentalities	51,338			51,338
Obligations of the Commonw ealth of Puerto Rico and its instrumentalities		155,948		155,948
Municipal securities		106,707		106,707
Corporate Bonds		105,365		105,365
Residential agency mortgage-backed securities		17,281		17,281
Collaterized mortgage obligations		230,910		230,910
Total fixed maturities	51,338	867,639		918,977
Equity securities				
Common stocks	7,509			7,509
Preferred stocks	2,675			2,675
Perpetual preferred stocks	2,579			2,579
Mutual funds	6,961	44,190	775	51,926
Total equity securities	19,724	44,190	775	64,689
Derivatives (reported within other assets in the consolidated balance sheets)		1,608		1,608
	$ 114,971	$ 913,437	$ 775	$ 1,029,183

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A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2010 and 2009 is as follows:

	Fixed Maturity Securities	Equity Securities	Total
Begining balance December 31, 2008	$ 1,281	$ 1,086	$ 2,367
Total gains or losses:			
Realized in earnings	(1,281)		(1,281)
Unrealized in other accumulated comprehensive income			
Purchases and sales		(1,086)	(1,086)
Transfers in and/or out of Level 3		775	775
Ending balance December 31, 2009	$	$ 775	$ 775
Total gains or losses:			
Realized in earnings			
Unrealized in other accumulated comprehensive income		(299)	(299)
Purchases and sales		568	568
Transfers in and/or out of Level 3			
Ending balance December 31, 2010	$	$ 1,044	$ 1,044

Realized gains or losses on Level 3 investments are included within net realized gains, excluding other-than-temporary impairment losses on securities in the consolidated statements of earnings.

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10. Claim Liabilities

The activity in claim liabilities during 2010, 2009, and 2008 is as follows:

	2010	2009	2008
Claim liabilities at beginning of year	$ 360,446	$ 323,710	$ 353,830
Reinsurance recoverable on claim liabilities	(30,712)	(30,432)	(54,834)
Net claim liabilities at beginning of year	329,734	293,278	298,996
Claims incurred			
Current period insured events	1,594,977	1,594,814	1,429,730
Prior period insured events	(10,067)	(1,887)	(9,918)
Total	1,584,910	1,592,927	1,419,812
Payments of losses and loss-adjustment expenses			
Current period insured events	1,316,321	1,309,304	1,192,301
Prior period insured events	269,562	247,167	233,229
Total	1,585,883	1,556,471	1,425,530
Net claim liabilities at end of year	328,761	329,734	293,278
Reinsurance recoverable on claim liabilities	31,449	30,712	30,432
Claim liabilities at end of year	$ 360,210	$ 360,446	$ 323,710

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 claims incurred and loss-adjustment expenses for prior period insured events for 2010, 2009 and 2008 are due primarily to better than expected utilization trends. Reinsurance recoverable on unpaid claims is reported as premium and other receivables, net in the accompanying consolidated financial statements.

The claims incurred disclosed in this table exclude the portion of the change in the liability for future policy benefits amounting to $11,879, $12,945, and $11,989 that is included within the consolidated claims incurred during the years ended December 31, 2010, 2009 and 2008, respectively.

11. Federal Employees Health Benefits Program (FEHBP)

TSS entered into a contract, renewable annually, with the Office of Personnel Management (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 residing in the Commonwealth of Puerto Rico and the United States Virgin Islands 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 TSS and

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approved by the federal government. Claims are paid to providers based on the guidelines determined by the federal government. Operating expenses are allocated from TSS 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 to the Company of service fees as negotiated between TSS and OPM. Service fees, which are included within the other income (expense), net in the accompanying consolidated statements of earnings, for each of the years in the three-year period ended December 31, 2010 amounted to $998, $988, and $931, respectively.

The Company also has funds available related to the FEHBP amounting to $28,093 and $22,797 as of December 31, 2010 and 2009, respectively and are included within the cash and cash equivalents in the accompanying consolidated balance sheets. Such funds must only be used to cover health benefits charges, administrative expenses and service charges required by the FEHBP.

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, 2010 and 2009 was $28,092 and $20,483, respectively. The Company received $5,161, $6,343, and $2,540, of payments made from the contingency reserve fund of OPM during 2010, 2009, and 2008, 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 2004 by OPM.

12. Short-Term Borrowings

Short-term borrowings of $15,575 at December 31, 2010 represent securities sold under agreements to repurchase. The agreement outstanding at December 31, 2010 matured in January 3, 2011 and accrued interest at fixed rate of 0.50%. The weighted average interest rate for short-term borrowings in 2010 amounted to 0.38%.

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The investment securities underlying such agreements were delivered to the dealers with whom the agreements were transacted. The dealers may have sold, loaned, or otherwise disposed of such securities in the normal course of business operations, but have agreed to resell to the Company substantially the same securities on the maturity dates of the agreements.

At December 31, 2010 investment securities available for sale with fair value of $16,199 (face value of $14,630) were pledged as collateral under these agreements.

13. Long-Term Borrowings

A summary of the borrowings entered by the Company at December 31, 2010 and 2009 is as follows:

	2010	2009
Senior unsecured notes payable of $50,000 issued on September 2004; 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 issued on December 2005; due December 2020. Interest is payable monthly at a fixed rate of 6.60%.	35,000	60,000
Senior unsecured notes payable of $35,000 issued on January 2006; 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 1.29% and 1.28% at December 31, 2010, and 2009, respectively).	21,027	22,667
Repurchase agreement of $25.0 million entered on November 2010, due November 2015. Interest is payable quarterly at a fixed rate of 1.96%.	25,000	
Total borrowings	$ 166,027	$ 167,667

Aggregate maturities of the Company s borrowings as of December 31, 2010 are summarized as follows:

Year ending December 31	
2011	$ 1,640
2012	1,640
2013	1,640
2014	1,640
2015	26,640
Thereafter	132,827
	$ 166,027

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All of the Company s senior notes may 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 non- financial covenants with which TSS and the Company have complied with at December 31, 2010. On October 1, 2010 we repaid $25.0 million of the principal of 6.60% senior unsecured note.

Debt issuance costs related to each of the Company s senior unsecured notes were deferred and are being amortized over the term of its respective senior note. Unamortized debt issuance costs related to these senior unsecured notes as of December 31, 2010 and 2009 amounted to $781 and $1,041, respectively and are included within other assets in the accompanying consolidated balance sheets.

The secured loan payable previously described is 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 loan under a continuing general security agreement. This secured loan contains certain non-financial covenants, which are customary for this type of facility, including but not limited to, restrictions on the granting of certain liens, limitations on acquisitions and limitations on changes in control.

The repurchase agreement has pledged as collateral investment securities available for sale with fair value of $28,453 (face value of $23,918). The investment securities underlying such agreements were delivered to the financial institution with whom the agreement was transacted. The dealers may have loaned, or used as collateral securities in the normal course of business operations. We maintain effective control over the investment securities pledged as collateral and accordingly, such securities continue to be carried on the accompanying consolidated balance sheets.

Interest expense on the above borrowings amounted to $9,210, $9,870, and $10,451, for the years ended December 31, 2010, 2009, and 2008, respectively.

14. Derivative Instruments and Hedging Activities

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.

The Company has invested in certain 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, maturing in May 25, 2012, 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

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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. The contingent interest payment component within the structured note agreements meets the definition of an embedded derivative. In accordance with the provisions of current accounting guidance, 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, 2010, 2009 and 2008 the Company recorded a loss associated with the change in the fair value of this derivative component of $859, $66, and $4,658, respectively. The change in the fair value of the embedded derivative component is included within the other income, net in the accompanying consolidated statement of earnings.

As of December 31, 2010 and 2009, the fair value of the derivative component of the structured notes amounted to $748, and $1,608, 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, 2010 the fair value and amortized cost of the investment component of both structured notes amounted to $9,857, and $9,443, respectively. As of December 31, 2009 the fair value and amortized cost of the investment component of both structured notes amounted to $9,597 and $9,063, respectively.

15. Agency Contract and Expense Reimbursement

TSS processed and paid claims as fiscal intermediary for the Medicare Part B Program until February 2009, the contract termination date. TSS was reimbursed for administrative expenses incurred in performing this service. For the years ended December 31, 2010, 2009, and 2008, TSS billed $21, $1,842, and $8,678, 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 2005 by federal government representatives. Management is of the opinion that no significant adjustments will be made affecting cost reimbursements through December 31, 2010.

On September 12, 2008, the Centers for Medicare and Medicaid Services (CMS) announced that First Coast Service Options (FCSO), a non-affiliated third party organization based in Jacksonville, Florida, was awarded the Medicare Administrative Contract (MAC) for Jurisdiction 9 (Florida, Puerto Rico and the U.S. Virgin Islands). FCSO proposed TSS as a subcontractor in MAC Jurisdiction 9 to perform certain provider customer service functions, subject to terms and conditions negotiated between FSCO and TSS. Pursuant to this, TSS billed $2,829 and $2,650 for performing the customer service functions during the years ended December 31, 2010 and 2009, respectively.

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16. Reinsurance Activity

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

	Premiums Earned			Claims Incurred(1)		
	2010	2009	2008	2010	2009	2008
Gross	$ 1,981,700	$ 1,950,097	$ 1,777,652	$ 1,611,289	$ 1,611,675	$ 1,439,933
Ceded	(80,600)	(81,013)	(85,308)	(26,379)	(18,748)	(20,121)
Net	$ 1,901,100	$ 1,869,084	$ 1,692,344	$ 1,584,910	$ 1,592,927	$ 1,419,812

(1) The claims incurred disclosed in this table exclude the portion of the change in the liability for future policy benefits amounting to $11,879, $12,945, and $11,989 that is included within the consolidated claims incurred during the years ended December 31, 2010, 2009 and 2008, respectively.

TSS, TSP and TSV, 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 2010, 2009 and 2008 TSP placed 14.37%, 13.53%, and 11.84% of its reinsurance business with one reinsurance company.

TSS has two excess of loss reinsurance treaties whereby it cedes a portion of its premiums to third parties. Reinsurance contracts are primarily for periods of one year, and are subject to modifications and negotiations in each renewal date. Premiums ceded under these contracts amounted to $11,206, $7,341, and $5,623 in 2010, 2009 and 2008, respectively. Claims ceded amounted to $9,519, $3,870, and $8,407 in 2010, 2009 and 2008, respectively. Principal reinsurance agreements are as follows:

Organ transplant excess of loss treaty covering 100% of the claims up to a maximum of $1,000 per person, per life.

Routine medical care excess of loss treaty covering 100% of claims from the amount of $100 and up to a maximum of $900 per covered person, per contract year.

TSP 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, TSP ceded premiums of $63,746, $67,541, and $72,115, in 2010, 2009, and 2008, respectively.

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

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Property quota share treaty covering for a maximum of $20,000 for any one risk. Under this treaty 32% of the risk is ceded to reinsurers. The remaining exposure is covered by a property per risk excess of loss treaty that provides reinsurance in excess of $500 up to a maximum of $10,000, or the remaining 68% for any one risk. In addition, TSP has an additional property catastrophe excess of loss contract that provides protection for losses in excess of $8,000 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 $80,000.

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 $205,000.

Property catastrophe excess of loss. This treaty provides protection for $185,000 in excess of $80,000 and $205,000 with respect to personal and commercial lines, respectively, resulting from any catastrophe, subject to a maximum loss of $160,000 in respect of the ceded portion of the Commercial Lines Quota Share.

Personal lines quota share. This treaty provides protection of 2.3% 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 approximately $5,000 for personal lines and $13,800 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 $225 up to a maximum of $12,000.

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 $5,000 for contract surety bonds, subject to an aggregate of $10,000 per contractor and $3,000 per miscellaneous surety bond.

Facultative reinsurance is obtained when coverage per risk is required. All principal 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 TSP arising from these reinsurance transactions amounted to $13,264, and $16,746 at December 31, 2010 and 2009, respectively, and are reported as other assets in the accompanying consolidated balance sheets.

TSV also cedes insurance with various reinsurance companies under a number of pro rata, excess of loss and catastrophe treaties. Under these treaties, TSV ceded premiums of $5,648, $6,131, and $7,570, in 2010, 2009, and 2008, respectively. Principal reinsurance agreements are as follows:

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Group life pro rata agreement, reinsuring 50% of the risk up to $250 on the life of any participating individual of certain groups insured. This contract was cancelled on June 30, 2009.

Group life insurance facultative agreement, reinsuring risk in excess of $25 of certain group life policies and a combined pro rata and excess of loss agreement effective July 1, 2008, reinsuring 50% of the risk up to $200 and ceding the excess.

Group life insurance facultative excess of loss agreements in which TSV retains 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. The contract was cancelled during December 2009.

Facultative pro rata agreements for the long-term disability insurance, reinsuring 65% of the risk.

Accidental death catastrophic reinsurance covering each and every accident arising out of one event or occurrence resulting in the death or dismemberment of five or more persons. The retention for each event is $250 with a maximum of $1,000 for each event and $2,000 per year.

Several reinsurance agreements, mostly on an excess of loss basis up to a maximum retention of $50. For certain new life products that have been issued after 1999, the retention limit is $175.

17. Income Taxes

Under Puerto Rico income tax law, the Company is not allowed to file consolidated tax returns with its subsidiaries. The Company and its subsidiaries are subject to Puerto Rico income taxes. The Company s insurance subsidiaries are also subject to U.S. federal income taxes for foreign source dividend income. As of December 31, 2010, tax years 2005 through 2010 of the Company and its subsidiaries are subject to examination by Puerto Rico taxing authorities.

TSS and TSP are taxed essentially the same as other corporations, with taxable income primarily 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.

TSV operates as a qualified domestic life insurance company and is subject to the alternative minimum tax and taxes on its capital gains.

Federal income taxes recognized by the Company s insurance subsidiaries amounted to approximately $97, $125, and $112, in 2010, 2009, and 2008, respectively.

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

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On July 10, 2009 the Governor of Puerto Rico signed into law Puerto Rico s Act No. 37, which requires certain corporations to pay a 5% additional special tax over the tax obligation through December 31, 2011. The effective tax rate includes the additional special tax, as enacted.

Recently, the Government of Puerto Rico adopted a comprehensive tax reform in two phases. The first phase of the tax reform was enacted in the last quarter of 2010 and was mostly related to reducing the income tax burden to individuals. In 2010 only, corporations received an income tax credit amounting to 7% of the tax determined, defined as the tax liability less certain credits. The second phase of the reform, which was approved on January 31, 2011, provides for the reduction of the maximum corporate income tax rate from 40.95% to approximately 30%, including the elimination of the above mentioned 5% additional special tax for corporations, as well as adding several tax credits and deductions, among other tax reliefs and changes.

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:

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	2010	2009	2008
Income before taxes	$ 84,203	$ 83,651	$ 31,944
Statutory tax rate	40.95%	40.95%	39.0%
Income tax expense at statutory rate	34,481	34,255	12,458
Increase (decrease) in taxes resulting from			
Exempt interest income	(11,955)	(13,201)	(13,561)
Effect of taxing life insurance operations as a qualified domestic life insurance company instead of as a regular corporation	(5,336)	(4,759)	(1,336)
Effect of using earnings under statutory accounting principles instead of GAAP for TSS and TSP	(1,430)	(3,089)	6,406
Effect of taxing capital gains at a preferential rate	907	446	(237)
Dividends received deduction	(221)	(262)	(810)
Adjustment to deferred tax assets and liabilities for changes in effective tax rates		(239)	
Other adjustments to deferred tax assets and liabilities	(132)	(771)	(300)
Tax credit benefit	(1,569)	(2,386)	(1,286)
Other permanent disallowances, net:			
Effect of capital gains preferential rate on impairments		1,385	2,916
Disallowance of expenses related to exempt interest income	1,115	871	1,792
Disallowed interest expense	597	730	1,014
Other	423	1,404	(158)
Total other permanent differences	2,135	4,390	5,564
Other adjustments	522	487	256
Total Income Tax Expense	$ 17,402	$ 14,871	$ 7,154

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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, 2010 and 2009 of the Company and its subsidiaries is composed of the following:

	2010	2009
Deferred tax assets		
Allowance for doubtful receivables	$ 7,679	$ 9,869
Liability for pension benefits	17,443	13,161
Employee benefits plan	2,509	3,142
Postretirement benefits	1,434	1,668
Deferred compensation	2,185	1,952
Accumulated depreciation	289	312
Impairment loss on investments	2,891	3,654
Contingency reserves	214	214
Share-based compensation	10	592
Unrealized loss on derivative instruments	175	89
Alternative minimum income tax credit	955	955
Purchased tax credits	42	7,388
Other	1,135	754
Gross deferred tax assets	36,961	43,750
Deferred tax liabilities		
Deferred policy acquisition costs	(7,359)	(8,103)
Catastrophe loss reserve trust fund	(6,247)	(5,935)
Unrealized gain upon acquisition of GA Life	(539)	(982)
Unrealized gain on trading securities	(1,135)	(285)
Unrealized gain on securities available for sale	(4,658)	(1,626)
Unamortized bond issue costs	(224)	(318)
Other	(9)	(38)
Gross deferred tax liabilities	(20,171)	(17,287)
Net deferred tax asset	$ 16,790	$ 26,463

The net deferred tax asset shown in the table above at December 31, 2010 and 2009 is reflected in the consolidated balance sheets as $29,445 and $37,551, respectively, in deferred tax assets and $12,655 and $11,088, in deferred tax liabilities, respectively, reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of the Company.

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.

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18. Pension Plans

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. 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, 2010 and 2009, accordingly:

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	2010	2009
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 90,888	$ 84,776
Service cost	4,975	4,912
Interest cost	6,033	5,712
Benefit payments	(3,963)	(7,004)
Actuarial losses	15,979	2,492
Projected benefit obligation at end of year	$ 113,912	$ 90,888
Accumulated benefit obligation at end of year	$ 85,858	$ 67,825
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	$ 53,433	$ 44,100
Actual return on assets (net of expenses)	8,260	8,337
Employer contributions	9,800	8,000
Benefit payments	(3,963)	(7,004)
Fair value of plan assets at end of year	$ 67,530	$ 53,433
Funded status at end of year	$ (46,382)	$ (37,455)
Amounts in accumulated other comprehensive income not yet recognized as a component of net periodic pension cost		
Development of prior service credit		
Balance at beginning of year	$ (4,922)	$ (5,372)
Amortization	449	450
Net prior service credit	(4,473)	(4,922)
Development of actuarial loss		
Balance at beginning of year	38,245	42,559
Amortization	(2,400)	(2,487)
(Gain)/Loss arising during the year	11,980	(1,827)
Actuarial net loss	47,825	38,245
Sum of deferrals	$ 43,352	$ 33,323
Net amount recognized	$ (3,029)	$ (4,132)

The amounts recognized in the balance sheets as of December 31, 2010 and 2009 consist of the following:

	2010	2009
Pension liability	$ 46,382	$ 37,455
Accumulated other comprehensive loss, net of a deferred tax of $16,373 and $12,944 in 2010 and 2009, respectively	27,821	20,379

The components of net periodic benefit cost income for 2010, 2009, and 2008 were as follows:

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	2010	2009	2008
Components of net periodic benefit cost			
Service cost	$ 4,976	$ 4,912	$ 5,287
Interest cost	6,033	5,712	5,458
Expected return on assets	(4,262)	(4,018)	(5,027)
Amortization of prior service (benefit) cost	(450)	(450)	(450)
Amortization of actuarial loss	2,400	2,487	1,788
Net periodic benefit cost	$ 8,697	$ 8,643	$ 7,056

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 benefit that will be amortized from accumulated other comprehensive loss into net periodic pension benefits cost during the next twelve months is as follows:

Prior service cost	$ (450)
Actuarial loss	3,129

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, 2010, 2009, and 2008:

	2010	2009	2008
Discount rate	6.00%	6.75%	6.75%
Expected return on plan assets	7.75%	7.75%	8.00%
Rate of compensation increase	Graded; 3.50% to 8.00%	Graded; 3.50% to 8.00%	Graded; 3.50% to 8.00%

As of December 31, 2010, the basis of the overall expected long-term rate of return on assets assumption is a forward-looking approach based on the current long-term capital market outlook assumptions of the assets categories the trust invests in and the trust s target asset allocation. At December 31, 2010, the assumed target asset allocation for the program is: 44%-56% equity securities, 35%-45% debt securities, and 6%-14% other securities. Using a mean-variance model to project return over 15-years horizon under the target asset allocation, the 35% to 65% percentile range of annual rates of return is 6.4%-8.4%. The Company selected a rate from within this range of 7.75%, which reflects the Company s best estimate for this assumption based on the 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 0.10% reduction for other administrative expenses charged to the trust.

The assumed discount rate of 6.00% at December 31, 2010 reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants on that date. The Company determined the discount rate based on a range of factors, including a yield curve comprised of the rates of return on high-quality, fixed-income corporate bonds available at the measurement date and the related expected duration for the obligations.

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Plan Assets

Plan assets recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure their fair value. For level inputs and input definition, see note 9.

The following table summarizes fair value measurements by level at December 31, 2010 for assets measured at fair value on a recurring basis.

	Level 1	Level 2	Level 3	Total
Equity Investments				
Domestic Large Cap	$ 203	$ 12,934	$ 1,241	$ 14,378
Domestic Small Cap		3,760		3,760
Global equities	2,364	2,562		4,926
International Large Cap	2	8,194		8,196
International Small Cap	2,700			2,700
Emerging Markets		2,871		2,871
Fixed Income Investments				
High Yield	176	2,608	346	3,130
Core	(19)	13,786	28	13,795
Long Duration	51	7,865		7,916
Real Estate Investments				
REIT	(2)	957	2,575	3,530
Real Estate Assets	21	2,307		2,328
	$ 5,496	$ 57,844	$ 4,190	$ 67,530

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2010 is as follows:

	Domestic Large Cap	Fixed Income High Yield	Fixed Income Core	Real Estate	Total
Beginning Balance at December 31, 2009	$ 961	$ 277	$ 28	$ 2,290	$ 3,556
Actual return on program assets:					
Relating to assets still held at the reporting date	180	(7)		275	448
Relating to assets sold during the period		(66)		(112)	(178)
Purchases	100	147		122	369
Transfer in and/or out		(5)			(5)
Ending balance at December 31, 2010	$ 1,241	$ 346	$ 28	$ 2,575	$ 4,190

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, 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.

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Risk can be controlled through diversification of asset 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. Lengthening duration of fixed income securities may reduce surplus volatility.

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.

Invest assets with consideration of the liability characteristics in order to better align assets and liabilities.

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. In the process, the Administration of the Trust has the objective of controlling the costs involved with administering and managing the investments of the National Retirement Trust.

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Cash Flows

The Company expects to contribute $10,000 to its pension program in 2011.

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

Year ending December 31	
2011	$ 4,333
2012	4,791
2013	5,795
2014	6,393
2015	7,212
2016 2020	53,965

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, 2010 and 2009, the Company has recorded a pension liability of $4,865 and $3,589, respectively. The charge to accumulated other comprehensive loss related to the noncontributory pension plan at December 31, 2010 and 2009 amounted to $498 and 339, respectively, net of a deferred tax asset of $318 and $217, respectively.

19. Catastrophe Loss Reserve and Trust Fund

In accordance with Chapter 25 of the Insurance Code, as amended, TSP is required to record a catastrophe loss reserve. This catastrophe loss reserve is supported by a trust fund for the payment of catastrophe losses. The reserve increases by amounts determined by applying a contribution rate, not in excess of 5%, to catastrophe written premiums as instructed annually by the Commissioner of Insurance, unless the level of the reserve exceeds 8% of catastrophe exposure, as defined. The reserve also increases by an amount equal to the resulting return in the supporting trust fund and decreases by payments on catastrophe losses or authorized withdrawals from the trust fund. Additions to the catastrophe loss reserve are deductible for income tax purposes.

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 part of the trust fund and are recorded as income (expense) of the Company. An amount equal to the investment returns is recorded as an addition to the trust fund. The interest earning assets in this fund, which amounted to $35,721 and $33,489 as of December 31, 2010 and 2009, respectively, are to be used solely and exclusively to pay catastrophe losses covered under policies written in Puerto Rico.

TSP is required to contribute to the trust fund, if any, on or before January 31 of the following year. Contributions are determined by a rate imposed by the Commissioner of Insurance for the

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catastrophe policies written in that year. Additions in 2010 and 2009, amounting to $761 and $810, respectively, were determined by applying a rate of 1% to catastrophe premiums written.

The amount in the trust fund may be withdrawn or released in the case that TSP ceases to underwrite risks subject to catastrophe losses. Also, authorized withdrawals are allowed when the catastrophe loss reserve exceeds 8% of the catastrophe exposure, as defined.

Retained earnings are restricted in the accompanying consolidated balance sheets by the total catastrophe loss reserve balance, which as of December 31, 2010 and 2009 amounted to $35,975 and $34,411, respectively.

20. Stockholders Equity

a. Common Stock

On December 8, 2008, the Company converted 7 million issued and outstanding Class A shares into Class B shares, in conjunction with the expiration of the lockup agreements signed by holders of Class A shares at the time of the Company s initial public offering.

For a period of five years after the completion of the IPO on December 7, 2007, subject to the extension or shortening under certain circumstances, each holder of Class B common stock will benefit from anti-dilution protections provided in the Company s amended and restated certificate of incorporation.

b. Stock Repurchase Program

The Company repurchased shares of its common stock under a $40,000 share repurchase program authorized by the Company s Board in October 2008. Repurchases were conducted through open-market purchases of Class B shares only, in accordance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. During 2009 the Company repurchased and retired 2,021,960 shares at an average per share price of $12.92, for an aggregate cost of $26,120. This repurchase program was completed during 2009.

On September 2010, the Company s Board approved another repurchase program of its common stock amounting to $30,000. Repurchases were conducted through open-market purchases of Class B shares only, in accordance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. During 2010, the Company repurchased and retired 352,791 shares at an average per share price of $17.80, for an aggregate cost of $6,235.

c. Preferred Stock

Authorized capital stock includes 100,000,000 of preferred stock with a par value of $1.00 per share. As of December 31, 2010 and 2009, there are no issued and outstanding preferred shares.

d. Liquidity Requirements

As members of the BCBSA, the Company and TSS 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

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Commissioners (NAIC) Risk-Based Capital for Insurers Model Act. The companies are in compliance with this requirement.

21. Comprehensive Income

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

	Unrealized Gains on securities	Liability for Pension Benefits	Accumulated Other Comprehensive Income
Beginning balance at December 31, 2009	$ 9,141	$ (20,717)	$ (11,576)
Net current period change	25,717	(6,562)	19,155
Reclassification adjustments for gains and losses reclassified in income	(2,115)		(2,115)
Ending balance at December 31, 2010	$ 32,743	$ (27,279)	$ 5,464

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 2010, 2009 and 2008 are as follows:

	2010		
	Before-Tax Amount	Deferred Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized holding gains on securities arising during the period	$ 30,255	$ (5,749)	$ 24,506
Less reclassification adjustment for gains and losses realized in income	(2,410)	1,506	(904)
Net change in unrealized gain	27,845	(4,243)	23,602
Liability for pension benefits	(10,844)	4,282	(6,562)
Net current period change	$ 17,001	$ 39	$ 17,040

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	2009		
	Before-Tax Amount	Deferred Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized holding losses on securities arising during the period	$ 5,455	$ (825)	$ 4,630
Less reclassification adjustment for gains and losses realized in income	(1,278)	187	(1,091)
Net change in unrealized loss	4,177	(638)	3,539
Liability for pension benefits	4,070	(1,520)	2,550
Net current period change	$ 8,247	$ (2,158)	$ 6,089

	2008		
	Before-Tax Amount	Deferred Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized holding losses on securities arising during the period	$ (18,944)	$ 2,088	$ (16,856)
Less reclassification adjustment for gains and losses realized in income	14,138	(1,234)	12,904
Net change in unrealized loss	(4,806)	854	(3,952)
Liability for pension benefits	(12,411)	4,796	(7,615)
Cash-flow hedges	(93)	37	(56)
Net current period change	$ (17,310)	$ 5,687	$ (11,623)

22. Share-Based Compensation

In December 2007 the Company adopted the 2007 Incentive Plan (the Plan), which permits the Board the grant of stock options, restricted stock awards and performance awards to eligible officers, directors and key employees. The Plan authorizes grants to issue up to 4,700,000 of Class B common shares of authorized but unissued stock. At December 31, 2010, there were 3,282,969 shares available for the Company to grant under the Plan. Stock options can be granted with an exercise price at least equal the stock s fair market value at the date of grant. The stock option awards vest in equal annual installments over 3 years and its expiration date cannot exceed 7 years. The restricted stock and performance awards are issued at the fair value of the stock on the grant date with vesting periods ranging from one to three years. Restricted stock awards vest in installments, as stipulated in each restricted stock agreement. Performance awards vest on the last day of the performance period, provided that at least minimum performance standards were achieved.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that used the weighted average assumptions in the following table. In absence of adequate historical data, the Company estimates the expected life of the option using the

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simplified method allowed by Staff Accounting Bulletin (SAB) No. 107. Since the Company was a newly public entity, expected volatility was computed based on the average historical volatility of similar entities with publicly traded shares. The risk-free rate for the expected term of the option was based on the U.S. Treasury zero-coupon bonds yield curve in effect at the time of grant.

The following assumptions were used in the development of fair value of option awards:

	2010	2009	2008
Expected dividend yield			
Expected volatility (per year)	43.00%	53.85%	
Expected term (in years)	4.50	4.50	
Risk-free interest rate	1.12%	1.47%	

Stock option activity during the year ended December 31, 2010 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding balance at January 1, 2010	1,012,630	$ 14.47		
Grants	4,032	$ 16.85		
Exercised during the year	(21,982)	$ 14.50		
Canceled during the year	(7,242)	$ 14.50		
Outstanding balance at December 31, 2010	987,438	$ 14.48	3.96	$ 4,539,767
Exercisable at December 31, 2010	974,525	$ 14.49	3.94	$ 4,472,252

The weighted average grant date fair value of options granted during 2010 and 2009 was $6.20 and $5.63, respectively. No options were granted in 2008. There were 21,982 exercised options during 2010. There were no options exercised during the years ended December 31, 2009 and 2008.

A summary of the status of the Company s nonvested restricted and performance shares as of December 31, 2010, and changes during the year ended December 31, 2010, are presented below:

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	Restricted Awards		Performance Awards	
	Number of Shares	Weighted Average Fair Value	Number of Shares	Weighted Average Exercise Price
Outstanding balance at January 1, 2010	81,675	$ 13.77	167,142	$ 14.46
Granted	16,221	19.26	741	16.85
Vested				
Lapsed	(78,467)	13.79	(65,479)	14.50
Forefeited	(1,207)	14.50	(98,661)	14.50
Outstanding balance at December 31, 2010	18,222	$ 18.52	3,743	$ 13.35

The weighted average grant date fair value of restricted shares granted during the year 2010, 2009 and 2008 were $19.26, $12.33, and $18.81, respectively. Total fair value of restricted stock vested during the year ended December 31, 2010 and 2009 was $1,480 and $1,158, respectively. There were no restricted shares vested during the year ended 2008.

At December 31, 2010 there was $240 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 0.97 years. The Company currently uses authorized and unissued Class B common shares to satisfy share award exercises.

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23. 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-year period ended December 31, 2010.

	2010	2009	2008
Numerator for earnings per share Net income available to stockholders	$ 66,801	$ 68,780	$ 24,790
Denominator for basic earnings per share Weighted average of common shares	29,034,442	29,494,468	32,120,461
Effect of dilutive securities	207,911	68,862	42,094
Denominator for diluted earnings per share	$ 29,242,353	$ 29,563,330	$ 32,162,555
Basic net income per share	$ 2.30	$ 2.33	$ 0.77
Diluted net income per share	$ 2.28	$ 2.33	$ 0.77

During the years ended December 31, 2010, 2009 and 2008, the weighted average of all stock option shares of 1,027, 1,012,594, and 999,309, respectively, were excluded from the denominator for diluted earnings per share because the stock options were anti-dilutive.

24. Commitments

The Company leases its regional offices, certain equipment, and warehouse facilities under noncancelable operating leases. Minimum annual rental commitments at December 31, 2010 under existing agreements are summarized as follows:

Year ending December 31	
2011	$ 7,461
2012	7,798
2013	7,907
2014	8,109
2015	1,779
Thereafter	2,993
Total	$ 36,047

Rental expense for 2010, 2009, and 2008 was $4,546, $4,690, and $3,532, respectively, after deducting the amount of $112, $132, and $265, respectively, reimbursed by CMS for the administration of the Medicare Part B Program (see note 15).

25. Contingencies

Legal Proceedings

The Corporation is a defendant in various lawsuits arising in the ordinary course of business. We are also defendants in various other claims and proceedings, some of which are described below. 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.

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Management believes that the aggregate liabilities, if any, arising from all such claims, assessments, audits and lawsuits will 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 the financial condition, 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 been asserted to date, 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.

Hau et al Litigation (formerly known as Jordan et al)

On April 24, 2002, Octavio Jordán, Agripino Lugo, Ramón Vidal, and others filed a suit against the Company, the Company s subsidiary TSS and others in the Court of First Instance for San Juan, Superior Section (the Court of First Instance), alleging, among other things, violations by the defendants of provisions of the Puerto Rico Insurance Code, antitrust violations, unfair business practices, RICO violations, breach of contract with providers, and damages in the amount of $12 million. Following years of complaint amendments, motions practice and interim appeals up to the level of the Puerto Rico Supreme Court, the plaintiffs amended their complaint on June 20, 2008 to allege with particularity the same claims initially asserted but on behalf of a more limited group of plaintiffs, and increase their claim for damages to approximately $207 million. After extensive discovery, Plaintiffs amended their complaint for the third time and dropped all claims predicated on violations of the antitrust and RICO laws and the Puerto Rico Insurance Code. In addition, the Plaintiffs voluntarily dismissed with prejudice any and all claims against officers of the Corporation and TSS. Two of the original plaintiffs were also eliminated from the Third Amended Complaint (TAC). The TAC only alleges breach of seven share acquisition agreements, breach of the provider contract by way of discriminatory audits and improper payment of services rendered. Against former President of the Company, Plaintiffs allege a claim for libel and slander. Discovery is ongoing. The Company intends to vigorously defend this claim.

Dentists Association Litigation

On February 11, 2009, the Puerto Rico Dentists Association (Colegio de Cirujanos Dentistas de Puerto Rico) filed a complaint in the Court of First Instance against 24 health plans operating in Puerto Rico that offer dental health coverage. The Company and two of its subsidiaries, TSS and TCI were included as defendants. This litigation purports to be a class action filed on behalf of Puerto Rico dentists who are similarly situated; however, the complaint does not include a single dentist as a class representative nor a definition of the intended class.

The complaint alleges that the defendants, on their own and as part of a common scheme, systematically deny, delay and diminish the payments due to dentists so that they are not paid in a timely and complete manner for the covered medically necessary services they render. The complaint also alleges, among other things, violations to the Puerto Rico Insurance Code, antitrust laws, the Puerto Rico racketeering statute, unfair business practices, breach of contract with providers, and damages in the amount of $150 million. In addition, the complaint claims that the

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Puerto Rico Insurance Companies Association is the hub of an alleged conspiracy concocted by the member plans to defraud dentists. There are numerous available defenses to oppose both the request for class certification and the merits. The Corporation intends to vigorously defend this claim.

Two codefendant plans, whose main operations are outside Puerto Rico, removed the case to federal court in Florida, which the plaintiffs and the other codefendants, including the Corporation, opposed. The federal district court in Florida decided that it lacked jurisdiction under the Class Action Fairness Act (CAFA) and remanded the case to state court. The removing defendants petitioned to appeal to the First Circuit Court of Appeals. Having accepted the appeal, the First Circuit Court of Appeals issued an order in late October 2009 which found the lower court s decision premature. The Court of Appeals remanded the case to the federal district court in Puerto Rico (the DC) and allowed limited discovery to determine whether the case should be heard in federal court pursuant to CAFA. The parties completed the limited discovery in August 2010 and supplemented their previous filings.

On February 8, 2011 the DC issued its Opinion and Order, denying plaintiff s motion to remand the case to state court because the injuries alleged in the complaint could be suffered outside Puerto Rico. It also decided to retain jurisdiction.

The Company plans to petition the DC to reconsider its ruling, pointing to clear evidence that the removing defendants are not primary defendants for purposes of CAFA and therefore, the case should be heard in state court.

Colón Litigation

On October 15, 2007, José L. Colón-Dueño, a former holder of one share of TSS predecessor stock, filed suit against TSS and the Puerto Rico Commissioner of Insurance (the Commissioner) in the Court of First Instance. The sale of that share to Mr. Colón-Dueño was voided in 1999 pursuant to an order issued by the Commissioner in which the sale of 1,582 shares to a number of TSS shareholders was voided. TSS, however, appealed the Commissioner s order before the Puerto Rico Court of Appeals, which upheld the order on March 31, 2000. Plaintiff requests that the court direct TSS to return his share of stock and compensate him for alleged damages in excess of $500,000 plus attorney s fees. On January 13, 2011 case was dismissed [with prejudice] and plaintiff filed an appeal on the Puerto Rico Court of Appeals. The Company is vigorously contesting this lawsuit because, among other reasons, the Commissioner s order is final and cannot be collaterally attacked in this litigation.

Claims by Heirs of Former Shareholders

The Company and TSS are defending five individual lawsuits, all filed in state court, from persons who claim to have inherited a total of 71 shares of the Corporation or one of its predecessors or affiliates (before giving effect to the 3,000-for-one stock split). While each case presents unique facts and allegations, the lawsuits generally allege that the redemption of the shares by the Corporation pursuant to transfer and ownership restrictions contained in the Company s (or its predecessors or affiliates) articles of incorporation and bylaws was improper. One of the cases is in its initial stage; one case was dismissed [with prejudice] and plaintiff filed a request for reconsideration; in the other cases, discovery has been completed and the parties are awaiting trial. Management believes all these claims are time barred under one or more statutes of limitations and other grounds and is vigorously defending them. This belief is supported by the outcome of a similar claim brought by non-medical heirs against us in 2009. The Puerto Rico Court of Appeals

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dismissed that case as time barred under the two year statute of limitations contained in the local securities law, and the Puerto Rico Supreme Court denied the plaintiffs petition for certiorari in January 2011.

ACODESE Investigation

During April 2010, each of the Company s wholly-owned insurance subsidiaries received subpoenas for documents from the U.S. Attorney for the Commonwealth of Puerto Rico (the U.S. Attorney) and the Puerto Rico Department of Justice (PRDOJ) requesting information principally related to the Asociación de Compañías de Seguros de Puerto Rico, Inc. (ACODESE by its Spanish acronym). Also in April, the Company s insurance subsidiaries received a request for information from the Office of the Commissioner of Insurance of Puerto Rico (OCI) related principally to ACODESE. The Company s insurance subsidiaries are members of ACODESE, an insurance trade association established in Puerto Rico since 1975, and their current presidents have participated over the years on ACODESE s board of directors.

The Company believes similar subpoenas and information requests were issued to other member companies of ACODESE in connection with the investigation of alleged payments by the former Executive Vice President of ACODESE to members of the Puerto Rico Legislative Assembly beginning in 2005. The Company, however, has not been informed of the specific subject matter of the investigations being conducted by the U.S. Attorney, the PRDOJ or the OCI. The Company is fully complying with the subpoenas and the request for information and intends to cooperate with any related government investigation. The Company at this time cannot reasonably assess the outcome of these investigations or their impact on the Company.

Intrusions into TCI s Internet IPA Database

On September 21, 2010, the Company learned from a competitor that a specific internet database managed by our subsidiary TCI, containing information pertaining to individuals previously insured by TSS under the Government of Puerto Rico s Health Insurance Plan (HIP) and to independent practice associations (IPAs) that provided services to those individuals, had been accessed without authorization by certain of the Company s competitor s employees from September 9 to September 15, 2010. TCI served as a third-party administrator for TSS in the administration of its HIP contracts until September 30, 2010. The Company conducted a thorough investigation with the assistance of external resources, and identified the information that was accessed and downloaded into the competitor s system. The September 2010 intrusions may have potentially compromised protected health information of approximately 398,000 beneficiaries in the North and Metro-North regions of the HIP. Our investigation also revealed that protected health information of approximately 5,500 HIP beneficiaries, 2,500 Medicare beneficiaries and IPA data from all three HIP regions previously serviced by TSS was accessed through multiple, separate intrusions into the TCI IPA database from October 2008 to August 2010. The Company has no evidence indicating that the stolen information included Social Security numbers. The Company attempted to notify by mail all such beneficiaries whose information may have been compromised by these intrusions and established a toll-free call center to address inquiries and complaints from the individuals to whom notice was provided. The Company has received a total of approximately 1,530 inquiries and no complaints from these individuals.

The Company s investigation revealed that the security breaches were the result of unauthorized use of one or more active user IDs and passwords specific to the TCI IPA database, and not the result of breaches of TCI s, TSS s or the Company s system security features. Nonetheless, we took measures to strengthen the TCI server security and credentials management procedures and

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conducted an assessment of our system-wide data and facility security to prevent the occurrence of a similar incident in the future.

The Company was unable to determine the purpose of these breaches and do not know the extent of any fraudulent use of the information or its impact on the potentially affected individuals and IPAs. According to representations made by the Company s competitor, however, the target was financial information related to IPAs rather than the individuals information.

The Company notified the appropriate Puerto Rico and federal government agencies of these events, including and issued public notice of the breaches as required under Puerto Rico and federal law. The Company received a number of inquiries and requests for information related to these events from these government agencies and are cooperating with them.

The Puerto Rico government agency that oversees the HIP has levied a fine of $100 on TSS in connection with these incidents, but following our request for reconsideration, the agency decided to withdraw the fine until the pertinent federal authorities conclude their investigations of this matter. The Compnay does not have sufficient information at this time to predict whether any future action by government entities or others as a result of the data breaches would adversely affect our business, financial condition or results of operations.

26. Statutory Accounting

TSS, TSV and TPS (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 GAAP.

The accumulated earnings of TSS, TSV, and TSP 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 19, a portion of the accumulated earnings of TSP are also restricted by the catastrophe loss reserve balance (amounting to $35,975 and $34,411 as of December 31, 2010 and 2009, respectively) as required by the Insurance Code.

The combined net admitted assets, unassigned surplus and net income of the regulated subsidiaries at December 31, 2010, 2009 and 2008 are as follows:

(dollar amounts in millions)	**2010**	**2009**	**2008**
Net admitted assets	$ 1,347	$ 1,298	$ 1,197
Capital and surplus	458	416	260
Net income	58	43	30

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27. Supplementary Information on Cash Flow Activities

	2010	2009	2008
Supplementary information			
Noncash transactions affecting cash flows activities			
Change in net unrealized gain on securities available for sale, including deferred income tax (asset)/liability of $4,243, $(638), and $854 in 2010, 2009, and 2008, respectively	$ (23,602)	$ 3,539	$ (3,952)
Change in cash-flow hedges, including deferred income tax liability of $37	$	$	$ (56)
Change in liability for pension benefits, and deferred income tax (liability)/asset of $(4,282), $(1,520), $4,796, in 2010, 2009, and 2008, respectively	$ (6,562)	$ 2,550	$ (7,615)
Unsettled shares repurchases	$	$	$ 6,235
Unsettled investment sales	$	$	$ (1,500)
Other			
Income taxes paid	$ 3,187	$ 15,552	$ 25,597
Interest paid	$ 11,925	$ 11,605	$ 14,330

28. Business Combination

On February 7, 2011 the Company announced that its subsidiary, TSS, completed the acquisition of 100% of the outstanding capital stock of Socios Mayores en Salud Holdings, Inc. (SMSH) for approximately $83.0 million in a transaction funded with unrestricted cash. SMSH is the parent company of American Health, Inc., a provider of Medicare Advantage managed care services to over 40,000 dual and non-dual eligible members in Puerto Rico. After this acquisition the Company expects to be better positioned for continued growth in the Medicare Advantage business. The results of operations of SMSH are not reflected in the accompanying consolidated financial statements since the effective date of the transaction is not until 2011. The Company is in the process of obtaining third-party valuations of certain intangible assets; thus, as of this date it is not possible to determine the allocation of the purchase price to the net assets acquired.

29. Segment Information

The operations of the Company are conducted principally through three business segments: Managed Care, Life Insurance, and Property and Casualty Insurance. Business segments were identified according to the type of insurance products offered and consistent with the information provided to the chief operating decision maker. These segments and a description of their respective operations are as follows:

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Managed Care segment TSS is engaged in the sale of managed care products to the Commercial, Medicare and Medicaid market sectors. The Commercial accounts sector includes corporate accounts, U.S. federal government employees, individual accounts, local government employees, and Medicare supplement. The following represents a description of the major contracts by sector:

TSS is a qualified contractor to provide health coverage to federal government employees within Puerto Rico. Earned premiums revenue related to this contract amounted to $130,803, $125,994, and $124,239 for the three-year period ended December 31, 2010, 2009, and 2008, respectively (see note 11).

Under its commercial business, TSS 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 $63,353, $46,114, and $40,686, for the three-year period ended December 31, 2010, 2009, and 2008, respectively.

TSS provides services through its Medicare health plans pursuant to a limited number of contracts with CMS. Earned premium revenue related to the Medicare business amounted to $468,401, $513,823, and $438,723, for the three-year period ended December 31, 2010, 2009, and 2008, respectively.

TSS participated in the Medicaid program to provide health coverage to medically indigent citizens in Puerto Rico, as defined by the laws of the Commonwealth of Puerto Rico, up to September 30, 2010. TSS provided managed care services to Medicaid members in the North and Southwest regions on a fully-insured basis and in the Metro-North region on an Administrative Service Only (ASO) basis. Earned premium revenue related to this business amounted to $284,815, $348,096, and $340,123, for three-year period ended December 31, 2010, 2009, and 2008, respectively. Administrative service fee for the Metro-North Region for the year ended December 31, 2010 and 2009 amounted to $12,535 and $23,299; which is included in the Administrative service fee in the accompanying consolidated statement of earnings.

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 TSV 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 TSP, 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. The financial data of each segment is accounted for separately; therefore no segment allocation is

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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.

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The following tables summarize the operations by operating segment for each of the years in the three-year period ended December 31, 2010, 2009, and 2008.

	2010	2009	2008
Operating revenues			
Managed care			
Premiums earned, net	$ 1,697,083	$ 1,673,762	$ 1,506,665
Fee revenue	39,546	48,643	19,187
Intersegment premiums/fee revenue	6,852	5,995	6,538
Net investment income	19,799	21,641	23,091
Total managed care	1,763,280	1,750,041	1,555,481
Life			
Premiums earned, net	105,437	99,726	92,469
Intersegment premiums	382	386	374
Net investment income	17,130	16,763	16,482
Total life	122,949	116,875	109,325
Property and casualty			
Premiums earned, net	98,580	95,596	93,211
Intersegment premiums	613	613	610
Net investment income	10,132	11,679	12,545
Total property and casualty	109,325	107,888	106,366
Other segments*			
Intersegment service revenues	45,852	52,997	46,578
Operating revenues from external sources	2		
Total other segments	45,854	52,997	46,578
Total business segments	2,041,408	2,027,801	1,817,750
TSM operating revenues from external sources	2,082	2,053	4,135
Elimination of intersegment premiums	(7,847)	(6,994)	(7,523)
Elimination of intersegment service revenue	(45,852)	(52,997)	(46,578)
Consolidated operating revenues	$ 1,989,791	$ 1,969,863	$ 1,767,784

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

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	2010	2009	2008
Operating income			
Managed care	$ 63,798	$ 57,193	$ 52,632
Life	17,334	14,555	12,489
Property and casualty	3,579	8,746	13,147
Other segments*	1,161	1,482	985
Total business segments	85,872	81,976	79,253
TSM operating revenues from external sources	2,082	2,053	4,135
TSM unallocated operating expenses	(9,566)	(9,004)	(9,283)
Elimination of TSM charges	9,619	9,548	9,991
Consolidated operating income	88,007	84,573	84,096
Consolidated net realized investment gains (losses)	2,532	614	(13,940)
Consolidated net unrealized gain (loss) on trading securities	5,433	10,497	(21,064)
Consolidated interest expense	(12,658)	(13,270)	(14,681)
Consolidated other income (expense), net	889	1,237	(2,467)
Consolidated income before taxes	$ 84,203	$ 83,651	$ 31,944

	2010	2009	2008
Depreciation expense			
Managed care	$ 12,282	$ 6,640	$ 4,339
Life	674	663	656
Property and casualty	1,680	1,477	1,450
Total business segments	14,636	8,780	6,445
TSM depreciation expense	864	863	922
Consolidated depreciation expense	$ 15,500	$ 9,643	$ 7,367

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

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	2010	2009
Assets		
Managed care	$ 790,485	$ 746,674
Life	523,246	487,290
Property and casualty	339,955	351,793
Other segments*	16,842	14,193
Total business segments	1,670,528	1,599,950
Unallocated amounts related to TSM		
Cash, cash equivalents, and investments	62,841	39,029
Property and equipment, net	20,712	21,577
Other assets	20,600	4,780
	104,153	65,386
Elimination entries intersegment receivables and others	(15,002)	(16,632)
Consolidated total assets	$ 1,759,679	$ 1,648,704

	2010	2009
Significant noncash items		
Net change in unrealized gain on securities available for sale		
Managed care	$ (8,512)	$ (282)
Life	(7,746)	(2,427)
Property and casualty	(2,328)	(489)
Other segments*	(196)	
Total business segments	(18,782)	(3,198)
Amount related to TSM	(4,820)	(341)
Consolidated net change in unrealized gain on securities available for sale	$ (23,602)	$ (3,539)

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

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30. Quarterly Financial Information (Unaudited)

	2010				
	March 31	June 30	September 30	December 31	Total
Revenues					
Premiums earned, net	$ 494,177	$ 502,761	$ 496,511	$ 407,651	$ 1,901,100
Administrative service fees	12,498	12,166	10,195	4,687	39,546
Net investment income	12,423	12,671	12,794	11,257	49,145
Total operating revenues	519,098	527,598	519,500	423,595	1,989,791
Net realized investment (losses) gains	(1,379)	1,433	(313)	2,791	2,532
Net unrealized investment (losses) gains on trading securities	2,030	(6,010)	4,611	4,802	5,433
Other (loss) income, net	152	(324)	576	485	889
Total revenues	519,901	522,697	524,374	431,673	1,998,645
Benefits and expenses					
Claims incurred	425,828	424,838	421,514	324,609	1,596,789
Operating expenses	76,871	76,720	74,111	77,293	304,995
Total operating costs	502,699	501,558	495,625	401,902	1,901,784
Interest expense	3,228	3,372	3,026	3,032	12,658
Total benefits and expenses	505,927	504,930	498,651	404,934	1,914,442
Income before taxes	13,974	17,767	25,723	26,739	84,203
Income tax expense (benefit)					
Current	3,544	4,877	6,040	(113)	14,348
Deferred	(762)	(2,167)	(805)	6,788	3,054
Total income taxes	2,782	2,710	5,235	6,675	17,402
Net income	$ 11,192	$ 15,057	$ 20,488	$ 20,064	$ 66,801
Basic net income per share	$ 0.38	$ 0.52	$ 0.70	$ 0.70	$ 2.30
Diluted net income per share	$ 0.38	$ 0.51	$ 0.70	$ 0.69	$ 2.28

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	2009				
	March 31	June 30	September 30	December 31	Total
Revenues					
Premiums earned, net	$ 451,438	$ 463,072	$ 476,269	$ 478,305	$ 1,869,084
Administrative service fees	8,866	11,319	9,797	18,661	48,643
Net investment income	12,541	13,360	12,955	13,280	52,136
Total operating revenues	472,845	487,751	499,021	510,246	1,969,863
Net realized investment (losses) gains	(1,727)	(1,625)	2,150	1,816	614
Net unrealized investment (losses) gains on trading securities	(2,476)	5,652	4,860	2,461	10,497
Other (loss) income, net	(379)	704	67	845	1,237
Total revenues	468,263	492,482	506,098	515,368	1,982,211
Benefits and expenses					
Claims incurred	393,486	395,271	412,392	404,723	1,605,872
Operating expenses	68,252	68,603	71,205	71,358	279,418
Total operating costs	461,738	463,874	483,597	476,081	1,885,290
Interest expense	3,264	3,357	3,338	3,311	13,270
Total benefits and expenses	465,002	467,231	486,935	479,392	1,898,560
Income before taxes	3,261	25,251	19,163	35,976	83,651
Income tax expense (benefit)					
Current	451	9,090	2,096	7,560	19,197
Deferred	(1,122)	(2,499)	(1,017)	312	(4,326)
Total income taxes	(671)	6,591	1,079	7,872	14,871
Net income	$ 3,932	$ 18,660	$ 18,084	$ 28,104	$ 68,780
Basic net income per share	$ 0.13	$ 0.64	$ 0.62	$ 0.96	$ 2.33
Diluted net income per share	$ 0.13	$ 0.63	$ 0.62	$ 0.96	$ 2.33

31. Subsequent Events

The Company evaluated subsequent events through the date the financial statements were issued. No events, other than those described in these notes, have occurred that require disclosure pursuant to current Accounting Standard Codification.

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Triple-S Management Corporation
Schedule II
Condensed Financial Information of Triple-S Management Corporation
(Registrant)
Balance Sheets
(in thousands)

	As of December 31, 2010	As of December 31, 2009
Assets:		
Cash and cash equivalents	$ 167	$ 361
Securities available for sale, at fair value:		
Fixed maturities (amortized cost of $45,753 in 2010 and $31,914 in 2009)	49,649	32,242
Equity Securities (cost of $11,444 in 2010 and $7,800 in 2009)	12,172	6,426
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value of $974 in 2010)	1,017	
Investment in subsidiaries	661,886	579,588
Note receivable and accrued interest from subsidiary	44,140	46,354
Due from subsidiaries		2,552
Deferred tax assets	18,829	14,984
Other assets	23,139	24,152
Total assets	$ 810,999	$ 706,659
Liabilities:		
Due to subsidiary	4,182	4,335
Short-term borrowings	15,575	
Long-term borrowings	116,027	117,667
Liability for pension benefits	51,246	41,044
Other liabilities	6,697	5,841
Total liabilities	193,727	168,887
Stockholders equity:		
Common stock, class A	9,043	9,043
Common stock, class B	19,773	20,110
Additional paid-in-capital	155,299	159,303
Retained earnings	427,693	360,892
Accumulated other comprehensive income (loss), net	5,464	(11,576)
Total stockholder s equity	617,272	537,772
Total liabilities and stockholder s equity	$ 810,999	$ 706,659

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

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Triple-S Management Corporation
Schedule II
Condensed Financial Information of Triple-S Management Corporation
Triple-S Management Corporation
Statements of Earnings
(in thousands)

	2010	**2009**	**2008**
Investment income	$ 4,588	$ 5,068	$ 7,324
Other revenues	11,385	8,690	8,215
Total revenues	15,973	13,758	15,539
Operating expenses:			
General and administrative expenses	9,566	9,004	9,283
Interest expense	6,038	6,693	7,301
Total operating expenses	15,604	15,697	16,584
(Loss) income before income taxes	369	(1,939)	(1,045)
Income tax (benefit) expense	529	(463)	268
(Loss) Income of parent company	(160)	(1,476)	(1,313)
Equity in income of subsidiaries	66,961	70,256	26,103
Net income	$ 66,801	$ 68,780	$ 24,790

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

Triple-S Management Corporation
Schedule II
Condensed Financial Information of Triple-S Management Corporation
(Registrant)
Statements of Cash Flows
(in thousands)

	12/31/2010	12/31/2009	12/31/2008
Net income	$ 66,801	$ 68,780	$ 24,790
Adjustment to reconcile net income to net cash (used in) provided by operating activities:			
Equity in net income of subsidiaries	(66,961)	(70,256)	(26,103)
Depreciation and amortization	865	863	922
Shared- based compensation	1,894	3,924	3,268
Deferred income tax (expense) benefit	392	(644)	(363)
Dividends received from subsidiary	15,000		
Other	(314)	934	1,965
Changes in assets and liabilities:			
Accrued interest from subisidiary	2,214	1,985	(3,188)
Due from subsidiaries	2,552	6,404	(8,359)
Other assets	148	(175)	(1,173)
Due to subsidiary	(153)	4,138	(5,818)
Other liabilities	(768)	(85)	2,343
Net cash provided by (used in) operating activities	21,670	15,868	(11,716)
Cash flows from investing activities:			
Acquisition of investment in securities classified as available for sale	(95,346)	(40,996)	(70,684)
Proceeds from sale and maturities of investment in securities classified as available for sale	71,782	58,324	45,905
Capitalization of subsidiary	(6,000)		
Net (acquisition) retirement of property and equipment		(792)	(47)
Net cash (used in) provided by investing activities	(29,564)	16,536	(24,826)
Cash flow from financing activities:			
Repayments of borrowings	(26,640)	(1,640)	(1,639)
Net proceeds from short-term borrowings	15,575		
Proceeds from long-term borrowings	25,000		
Repurchase of common stock	(6,235)	(32,355)	(7,645)
Other			6
Net cash provided by (used in) financing activities	7,700	(33,995)	(9,278)
Net decrease in cash and cash equivalents	(194)	(1,591)	(45,820)
Cash and cash equivalents, beginning of year	361	1,952	47,772

Cash and cash equivalents, end of year	$	167	$	361	$	1,952

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

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Triple-S Management Corporation
(Parent Company Only)
Notes to Condensed Financial Statements
December 31, 2010, 2009 and 2008
(dollar amounts in thousands)

The accompanying notes to the condensed financial statements should be read in conjunction with the consolidated financial statements and the accompanying notes thereto included in Item 15 to the Annual Report on Form 10-K.

(1) For purposes of these condensed financial statements, Triple-S Management Corporation s (the Company or TSM) investment in its wholly owned subsidiaries is recorded using the equity basis accounting.

(2) Significant Accounting Policies

The significant accounting policies followed by the Company are set forth in the notes to the consolidated financial statements and the accompanying notes thereto. Refer to Item 15 to the Annual Report of Form 10-K.

(3) Reclassifications

Certain amounts in the 2009 financial statements were reclassified to conform to the 2010 presentation. We reclassified certain allocations made to subsidiaries related to the liability for pension benefits.

(4) Long-Term Borrowings

A summary of the long-term borrowings entered into by the Company at December 31, 2009 and 2008 follows:

	2010	**2009**
Senior unsecured notes payable of $60,000 issued on December 2005; due December 2020. Interest is payable monthly at a fixed rate of 6.60%.	$ 35,000	$ 60,000
Senior unsecured notes payable of $35,000 issued on January 2006; 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 1.29% and 1.28% at December 31, 2010, and 2009, respectively).	21,027	22,667
Repurchase agreement of $25.0 million entered on November 2010, due November 2015. Interest is payable quarterly at a fixed rate of 1.96%.	25,000	
Total borrowings	$ 116,027	$ 117,667

Aggregate maturities of the Company s long term borrowings as of December 31, 2010 are summarized as follows:

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Triple-S Management Corporation
(Parent Company Only)
Notes to Condensed Financial Statements
December 31, 2010, 2009 and 2008
(dollar amounts in thousands)

Year ending December 31	
2011	$ 1,640
2012	1,640
2013	1,640
2014	1,640
2015	26,640
Thereafter	82,827
	$ 116,027

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.

Debt issuance costs related to each of the Company s senior unsecured notes were deferred and are being amortized over the term of its respective senior note. Unamortized debt issuance costs related to these senior unsecured notes as of December 31, 2010 and 2009 amounted to $431 and $651, respectively, and are included within the other assets in the accompanying condensed balance sheets.

The secured loan note payable previously described is 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. This secured loan contains certain non-financial covenants, which are customary in this type of facility, including but not limited to, restrictions on the granting of certain liens, limitations on acquisitions and limitation on changes in control.

The repurchase agreement has pledged as collateral investment securities available for sale with fair value of $28,453 (face value of $23,918). The investment securities underlying such agreements were delivered to the financial institution with whom the agreement was transacted. The dealers may have loaned, or used as collateral securities in the normal course of business operations. We maintain effective control over the investment securities pledged as collateral and accordingly, such securities continue to be carried on the accompanying consolidated balance sheets.

(5) Transactions with Related Parties

The following are the significant related-party transactions made for the three-year period ended December 31, 2010, 2009 and 2008:

	2010	**2009**	**2008**
Rent charges to subsidiaries	$ 7,468	$ 7,422	$ 7,286
Interest charged to subsidiary on note receivable	2,786	3,015	3,189
Transfers in due to investments purchased	83,502	3,230	
Transfers out due to investments sold	59,911	6,274	

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Triple-S Management Corporation
(Parent Company Only)
Notes to Condensed Financial Statements
December 31, 2010, 2009 and 2008
(dollar amounts in thousands)

As of December 31, 2010 the Company has a note receivable from a subsidiary amounting to $37,000 pursuant to the provisions of Article 29.30 of the Puerto Rico Insurance Code.The note receivable from subsidiary is due on demand; however, pursuant to the requirements established by the Commissioner of Insurance, the parties agreed that no payment of the total principal nor the interest due on the loan will be made without first obtaining written authorization from the Commissioner of Insurance within at least 60 days prior to the proposed payment date. This note bears interest at 6.6% at December 31, 2010 and 2009, respectively. Accrued interest at December 31, 2010 and 2009 amounted to $7,140 and $9,354, respectively.

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Triple-S Management Corporation and Subsidiaries
Schedule III Supplementary Insurance Information
For the years ended December 31, 2010, 2009 and 2008
(Dollar amounts in thousands)

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 Policy Acquisition Costs and Value of Business Acquired	Other Operating Expenses	Net Premiums Written
010											
Ianaged care	$	$ 236,170	$	$ 4,600	$	$ 1,700,252	$ 19,799	$ 1,497,756	$	$ 201,726	$ 1,700,252
ife insurance	121,555	41,179	236,523	3,724		105,819	17,130	49,804	15,168	40,643	105,819
roperty and asualty nsurance	24,531	82,861		90,017		99,193	10,132	49,229	32,861	23,656	95,508
ther on-reportable egments, arent ompany perations and et onsolidating ntries						(4,164)	2,084			(9,059)	
otal	$ 146,086	$ 360,210	$ 236,523	$ 98,341	$	$ 1,901,100	$ 49,145	$ 1,596,789	$ 48,029	$ 256,966	$ 1,901,579
009											
Ianaged care	$	$ 236,366	$	$ 6,996	$	$ 1,677,080	$ 21,641	$ 1,508,185	$	$ 184,663	$ 1,677,080
ife insurance	112,908	40,100	222,619	4,163		100,112	16,763	50,353	16,844	35,123	100,112
roperty and asualty nsurance	27,009	83,980		97,183		96,209	11,679	47,334	28,284	23,524	95,817
ther on-reportable egments, arent ompany						(4,317)	2,053			(9,020)	

perations and et onsolidating ntries											
otal	$ 139,917	$ 360,446	$ 222,619	$ 108,342	$	$ 1,869,084	$ 52,136	$ 1,605,872	$ 45,128	$ 234,290	$ 1,873,00
008											
Ianaged care	$	$ 201,849	$	$ 5,585	$	$ 1,509,912	$ 23,091	$ 1,342,258	$	$ 160,591	$ 1,509,91
ife insurance	101,243	39,948	207,545	3,370		92,843	16,482	47,432	16,404	33,000	92,84
roperty and asualty nsurance	25,104	81,913		101,186		93,821	12,546	42,111	27,383	23,725	95,86
ther on-reportable egments, arent ompany perations and et onsolidating ntries.						(4,232)	4,134			(9,216)	
otal	$ 126,347	$ 323,710	$ 207,545	$ 110,141	$	$ 1,692,344	$ 56,253	$ 1,431,801	$ 43,787	$ 208,100	$ 1,698,62

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

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Triple-S Management Corporation and Subsidiaries
Schedule IV Reinsurance
For the years ended December 31, 2010, 2009 and 2008
(Dollar amounts in thousands)

	Gross Amount	Ceded to Other Companies (1)	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
2010					
Life insurance in force	$ 8,926,668	$ 2,987,054	$	$ 5,939,614	0.0%
Premiums:					
Life insurance	$ 111,085	$ 5,647	$	$ 105,438	0.0%
Accident and health insurance	1,708,289	11,206		1,697,083	0.0%
Property and casualty insurance	162,326	63,746		98,580	0.0%
Total premiums	$ 1,981,700	$ 80,599	$	$ 1,901,101	0.0%
2009					
Life insurance in force	$ 10,714,252	$ 2,937,377	$	$ 7,776,875	0.0%
Premiums:					
Life insurance	$ 106,243	$ 6,131	$	$ 100,112	0.0%
Accident and health insurance	1,680,496	7,341		1,673,155	0.0%
Property and casualty insurance	163,358	67,541		95,817	0.0%
Total premiums	$ 1,950,097	$ 81,013	$	$ 1,869,084	0.0%
2008					
Life insurance in force	$ 10,503,170	$ 2,823,647	$	$ 7,679,523	0.0%
Premiums:					
Life insurance	$ 100,413	$ 7,570	$	$ 92,843	0.0%
Accident and health insurance	1,509,257	5,623		1,503,634	0.0%
Property and casualty insurance	167,982	72,115		95,867	0.0%
Total premiums	$ 1,777,652	$ 85,308	$	$ 1,692,344	0.0%

(1) Premiums ceded on the life insurance business are net of commission income on reinsurance amounting to $42 and $287 for the years ended December 31, 2009 and 2008. None for the year ended December 31, 2010.

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

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Triple-S Management Corporation and Subsidiaries
Schedule V Valuation and Qualifying Accounts
For the years ended December 31, 2010, 2009 and 2008
(Dollar amounts in thousands)

	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged (Reversal) To Other Accounts - Describe (1)	Deductions - Describe (2)	Balance at End of Period
2010					
Allowance for doubtful receivables	$ 25,234	7,118	(9,967)	(2,351)	$ 20,034
2009					
Allowance for doubtful receivables	$ 14,745	2,149	10,065	(1,725)	$ 25,234
2008					
Allowance for doubtful receivables	$ 15,925	821		(2,001)	$ 14,745

(1) Represents premiums adjustment to provide for unresolved reconciliation items with the Government of Puerto Rico and other entities.

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

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