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COMMERCE GROUP INC /MA
Form 8-K
July 27, 2004

UNITED STATES
SECURITIES AND EXCHANGE
COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report
(Date of earliest event reported)
July 27, 2004

THE COMMERCE GROUP, INC.
(Exact name of registrant as specified in its charter)

Massachusetts	001-13672	04-2599931
(State or other	(Commission File	(IRS Employer
jurisdiction	Number)	Identification
of Incorporation)		No.)

211 Main Street, Webster, Massachusetts 01570
(Address of principal executive offices) (Zip Code)

Registrants telephone number, including area code:
(508) 943-9000

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Item 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following information is being furnished under Item 12 - Results of Operations and Financial Condition. Such information, including the exhibit attached hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section.

On July 23, 2004, The Commerce Group, Inc. (the "Company") issued a press release announcing its results for the quarter

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ended June 30, 2004. A copy of the press release is attached as Exhibit 99.1 to this Form 8-K.

SIGNATURE

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

THE COMMERCE GROUP, INC.
July 27, 2004

/s/ Randall V. Becker
Randall V. Becker
Treasurer and Accounting Officer

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Exhibit 99.1

Press Release

RELEASE: Immediate (July 23, 2004)

CONTACT: Randall V. Becker
Treasurer
(508) 949-4129

The Commerce Group, Inc.
Announces 2004 Second Quarter Results
and Comparison to 2003

WEBSTER, Mass., July 23, 2004 -- The Commerce Group, Inc. (NYSE:CGI) today reported 2004 second quarter results. Net earnings were \$37.4 million, or \$1.14 per diluted share, compared to net earnings of \$71.5 million or \$2.22 per diluted share for 2003.

During the second quarter of 2004, the Company had net realized investment losses of \$8.6 million or \$0.17 per diluted share, compared to gains of \$65.9 million or \$1.53 per diluted share in the second quarter of 2003. A complete breakdown of this information is included

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in the attached tables.

Earned premiums were \$404.5 million for the second quarter of 2004, compared to \$350.3 million for 2003. A schedule of direct written premiums to earned premiums is included in the attached tables.

The second quarter GAAP consolidated operating combined ratio was 91.7%, compared to 100.5% for 2003. The decrease in the combined ratio was the result of a decrease in both the loss ratio and the underwriting ratio. The Companys GAAP consolidated loss ratio for the second quarter of 2004 decreased to 68.4% from 76.9% during the same period last year. The improvement was primarily the result of an increase in average earned premium revenue per automobile and a decline in the current year personal automobile physical damage claim frequency. The Companys GAAP consolidated underwriting ratio decreased to 23.3%, as compared to 23.6% for last years second quarter, primarily as a net result of lower 2004 policy year mandated Massachusetts personal automobile commission rates partially offset by higher accrued contingent commissions.

Cumulative June 30, 2004 Results

Net earnings for the first six months of 2004 were \$88.4 million, or \$2.70 per diluted share, compared to net earnings of \$84.4 million or \$2.62 per diluted share for 2003.

During the first six months of 2004, the Company had net realized investment gains of \$11.9 million or \$0.24 per diluted share, compared to gains of \$60.0 million or \$1.33 per diluted share in the same period of 2003. A complete breakdown of this information is included in the attached tables.

Earned premiums were \$800.1 million for the six months of 2004, compared to \$688.3 million for 2003. A schedule of direct written premiums to earned premiums is included in the attached tables.

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The 2004 six month GAAP consolidated operating combined ratio was 92.7%, compared to 100.5% for 2003. The decrease in the combined ratio was the result of a decrease in the loss ratio, partially offset by an increase in the underwriting ratio. The Companys GAAP consolidated loss ratio for the first six months of 2004 decreased to 69.8% from 79.0% during the same period last year. The improvement was the result of several factors, including: (1) an increase in average earned premium revenue per automobile; (2) a decline in the current year personal automobile physical damage claim frequency; and, (3) a decrease in the overall Commonwealth Automobile Reinsures (C.A.R.) deficit. The Companys GAAP consolidated underwriting ratio increased to 22.9% for the first six months of 2004, as compared to 21.5% for 2003, primarily as a net result of higher accrued contingent commissions offset by lower 2004 policy year mandated Massachusetts personal automobile commission rates.

A complete presentation of June 30, 2004 and 2003 financial statement information, including a breakdown of the components of the combined ratio and realized investment gains and losses, is included in the financial statements attached to this press release.

Additional supplemental financial information will be available on

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July 26th on the Companys website at www.commerceinsurance.com, under the "Links" section of the "News and Investor Information" area.

At June 30, 2004, the Company had authority to purchase approximately 858,000 additional shares of common stock under the current Board of Directors stock re-purchase authorization, which excludes treasury stock acquired as a result of officer stock option exercises. During the second quarter of 2004, the Company acquired 493,361 shares of treasury stock at an average price of \$45.95 per share as a result of option exercises. Also during the second quarter, the Company issued approximately 924,000 shares of common stock related to all option exercises.

All quarterly figures are unedited and all results are reported in accordance with accounting principles generally accepted in the United States (GAAP).

About The Commerce Group, Inc.

The Commerce Group, Inc. is headquartered in Webster, Massachusetts. Property and casualty insurance subsidiaries include The Commerce Insurance Company and Citation Insurance Company in Massachusetts, Commerce West Insurance Company in California, and American Commerce Insurance Company in Ohio. Through its subsidiaries combined insurance activities, the Company is ranked as the 20th largest personal automobile insurance group in the country by the Auto Insurance Report, based on NAIC 2003 direct written premium information.

Forward Looking Statements

This press release may contain statements that are not historical fact and constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act. Statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward- looking. These statements are often, but not always, made through the use of words or phrases such as "anticipates," "estimates," "plans," "projects," "continuing," "ongoing," "expects," "may," "should," "management believes," "we believe," "we intend," and similar words or phrases.

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THE COMMERCE GROUP, INC. (NYSE - CGI)
CONSOLIDATED BALANCE SHEETS
June 30, 2004 and 2003
(Thousands of Dollars, Except Per Share Data)
Unaudited

	June 30, 2004	June 30, 2003
Investments		
Fixed maturities, at market	\$ 1,668,640	\$ 808,990
Assets		
Investments		
Fixed maturities, at market	\$ 1,594,035	\$ 918,793
Preferred stocks, at market	\$ 380,783	\$ 349,075
Common stocks, at market	\$ 94,932	\$ 69,454

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Preferred stock mutual funds, at equity	\$ 51,687	\$ 259,403
Mortgage loans	\$ 14,788	\$ 19,135
Cash and cash equivalents	\$ 73,794	\$ 142,755
Other investments	\$ 29,409	\$ 24,749
 Total investments	 \$ 2,239,428	 \$ 1,783,364
Accrued investment income	\$ 20,100	\$ 15,820
Premiums receivable	\$ 446,418	\$ 392,743
Deferred policy acquisition costs	\$ 174,375	\$ 157,247
Property and equipment	\$ 51,722	\$ 51,552
Due from reinsurers	\$ 124,656	\$ 111,679
Residual market receivable	\$ 222,392	\$ 179,628
Current income taxes	\$ 6,790	\$ -
Deferred income taxes	\$ 59,046	\$ 34,912
Receivable for securities sold	\$ 2,282	\$ 21,505
Other assets	\$ 17,312	\$ 12,647
 Total assets	 \$ 3,364,521	 \$ 2,761,097
 Liabilities		
Losses and LAE	\$ 1,015,264	\$ 893,248
Unearned premiums	\$ 943,157	\$ 822,727
Bonds payable	\$ 298,085	\$ -
Current income taxes	\$ -	\$ 15,270
Deferred income	\$ 9,132	\$ 7,730
Contingent commissions accrued	\$ 33,790	\$ 21,192
Payable for securities purchased	\$ 16	\$ 52,361
Outstanding checks payable	\$ 37,521	\$ 31,715
Other liabilities	\$ 63,790	\$ 56,700
 Total liabilities	 \$ 2,400,755	 \$ 1,900,943
 Minority interest	 \$ 4,542	 \$ 4,228
 Stockholders equity		
Preferred stock	-	-
Common stock	\$ 20,135	\$ 19,178
Paid-in capital	\$ 118,125	\$ 42,140
Net accumulated other comprehensive income (loss)	\$ (21,821)	\$ 32,353
Retained earnings	\$ 1,064,876	\$ 941,544
 Stockholders equity before treasury stock	 \$ 1,181,315	 \$ 1,035,215
 Treasury stock	 \$ (222,091)	 \$ (179,289)
 Total stockholders equity	 \$ 959,224	 \$ 855,926
 Total liabilities, minority interest and stockholders equity	 \$ 3,364,521	 \$ 2,761,097
 Common shares outstanding	 32,913,020	 31,955,030
 Stockholders equity per share	 \$ 29.14	 \$ 26.79

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THE COMMERCE GROUP, INC. (NYSE - CGI)

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CONSOLIDATED STATEMENTS OF EARNINGS
 Three and Six Months Ended June 30, 2004 and 2003
 (Thousands of Dollars, Except Per Share Data)

	Three Months Ended June 30,	
	2004	2003
Revenues:		
Earned premiums	\$ 350,269	\$ 296,410
Earned premiums	\$ 404,511	\$ 350,269
Net investment income	\$ 28,209	\$ 23,108
Premium finance and service fees	\$ 6,706	\$ 6,915
Net realized investment gains (losses)	\$ (8,602)	\$ 65,864
Other income	\$ 113	\$ -
TOTAL REVENUES	\$ 430,937	\$ 446,156
Expenses:		
Losses and LAE	\$ 276,506	\$ 269,211
Policy acquisition costs	\$ 98,200	\$ 86,268
Interest expense & amortization of bond fees	\$ 4,512	\$ -
TOTAL EXPENSES	\$ 379,218	\$ 355,479
Earnings before income taxes and minority interest	\$ 51,719	\$ 90,677
Income taxes	\$ 14,152	\$ 19,080
Earnings before minority interest	\$ 37,567	\$ 71,597
Less the income in minority interest in subsidiary	\$ (177)	\$ (124)
NET EARNINGS	\$ 37,390	\$ 71,473
COMPREHENSIVE INCOME (LOSS)	\$ (20,915)	\$ 75,057
EARNINGS PER COMMON SHARE:		
BASIC	\$ 1.14	\$ 2.24
DILUTED	\$ 1.14	\$ 2.22
Cash dividends paid per common share	\$ 0.33	\$ 0.32
Weighted average shares outstanding:		
BASIC	32,684,245	31,930,507
DILUTED	32,906,206	32,156,738

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THE COMMERCE GROUP, INC. (NYSE - CGI)
 ADDITIONAL EARNINGS INFORMATION
 Three Months and Six Months June 30, 2004 and 2003
 (Thousands of Dollars, Except Per Share Data)
 Unaudited

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Three Months Ended
June 30,
2004 2003

ADDITIONAL EARNINGS INFORMATION:

Direct written premiums to earned premiums reconciliation:

Direct written premiums	\$ 467,986	\$ 415,787
Assumed premiums	\$ 43,492	\$ 29,769
Ceded premiums	\$ (65,719)	\$ (60,081)
Net written premiums	\$ 445,759	\$ 385,475
Increase in unearned premiums	\$ (41,248)	\$ (35,206)
Earned premiums	\$ 404,511	\$ 350,269

GAAP consolidated operating ratios: (1)

Loss ratio	68.4%	76.9%
Underwriting ratio	23.3%	23.6%
Combined ratio	91.7%	100.5%

GAAP operating ratios for combined insurance subsidiaries only: (2)

Loss ratio	67.5%	76.1%
Underwriting ratio	22.5%	23.0%
Combined ratio	90.0%	99.1%

Breakdown of net realized investment gains (losses)

Fixed maturities	\$ (6,387)	\$ 12,652
Preferred stocks	\$ 2,693	\$ 8,131
Common stocks	\$ 505	\$ 13,485
Preferred stock mutual funds:		
Due to increase (decrease) in NAV	\$ (5,259)	\$ 34,136
Due to sales	\$ 38	\$ (1,524)
Venture capital fund investments	\$ (184)	\$ (463)
Other	\$ (8)	\$ (60)
Other than temporary writedowns	\$ -	\$ (493)

Net realized investment gains (losses) before tax	\$ (8,602)	\$ 65,864
Income tax (benefit) at 35%	\$ (3,011)	\$ 23,052
Net realized investment gains (losses) after tax and before impact of tax valuation allowance	\$ (5,591)	\$ 42,812
Impact of tax valuation allowance	\$ -	\$ 6,316
Net realized investment gains (losses) after tax and after impact of tax valuation allowance	\$ (5,591)	\$ 49,128
Per diluted share net realized gains (losses) after tax and after impact of tax valuation allowance	\$ (0.17)	\$ 1.53

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THE COMMERCE GROUP, INC. (NYSE - CGI)

ADDITIONAL EARNINGS INFORMATION

Three Months and Six Months June 30, 2004 and 2003

(Thousands of Dollars, Except Per Share Data)

Unaudited

- (1) GAAP consolidated operating ratios are calculated as in (2) below using the combined insurance subsidiaries loss and underwriting results, adding to them the expenses of holding companies (corporate expenses) in order to equal the loss and underwriting

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expense amounts on the income statement. For purposes of the U/W ratio, underwriting expenses are grossed-up for the increase in deferred acquisition costs of \$5,766 and for the three months ended and \$20,769 and \$19,005 for the six months ended June 30, and 2003, respectively.

- (2) GAAP operating ratios for combined insurance subsidiaries are calculated as follows:
- (a) The loss ratio represents losses and LAE divided by earned premiums; and,
 - (b) The underwriting ratio represents underwriting expenses (excluding changes in costs), divided by net premiums written. No corporate expenses are included i