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COMMERCE GROUP INC /MA
Form 8-K
April 22, 2005

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)

April 22, 2005

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)

Registrant's telephone number, including area code:
(508) 943-9000

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2 below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.14e-4(c))

Page 1 of 8

The Commerce Group, Inc.
Form 8-K

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April 22, 2005

Section 2. Financial Information

Item 2.02 Results of Operations and Financial Condition

The following information is being furnished under Item 2.02 - 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 April 21, 2005, The Commerce Group, Inc. (the "Company") issued a press release announcing its results for the quarter ended March 31, 2005. 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, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

THE COMMERCE GROUP, INC.
April 22, 2005

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

Page 2 of 8

Exhibit 99.1

Press Release

RELEASE: Immediate (April 21, 2005)

CONTACT: Randall V. Becker, Treasurer
The Commerce Group, Inc.
(508) 949-4129

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The Commerce Group, Inc. Announces 2005 First Quarter Results and Comparison to 2004

WEBSTER, Mass., April 21, 2005 -- The Commerce Group, Inc. (NYSE:CGI) today reported 2005 first quarter results. Net earnings were \$58.0 million, or \$1.72 per diluted share, compared to net earnings of \$51.0 million or \$1.56 per diluted share for 2004.

Included in the 2005 first quarter results are net realized investment gains of \$8.3 million or \$0.16 per diluted share, compared to gains of \$20.5 million or \$0.41 per diluted share in the first quarter of 2004. A complete breakdown of this information is included in the attached tables.

Earned premiums were \$423.2 million for the first quarter of 2005, compared to \$395.6 million for the first quarter of 2004. A schedule of direct written premiums to earned premiums is included in the attached tables.

The first quarter GAAP consolidated combined ratio was 89.1%, compared to 93.7% for 2004. 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 Company's GAAP consolidated loss ratio for the first quarter of 2005 decreased to 66.0% from 71.3% 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) more favorable loss reserve development compared to the first quarter of last year; (3) improved results from Commonwealth Automobile Reinsurers (C.A.R.); and, (4) a decrease in the current year personal automobile bodily injury claim frequency, partially offset by an increase in physical damage claim frequency primarily as a result of worse winter weather in the northeast. The Company's GAAP consolidated underwriting ratio increased to 23.1%, as compared to 22.4% for last year's first quarter, primarily as a result of significantly higher accrued agents' profit sharing and slightly higher 2005 policy year mandated Massachusetts personal automobile commission rates. The higher accrued agents' profit sharing is an outcome of substantially better underwriting results for the first quarter of 2005 versus last year's first quarter.

A complete presentation of March 31, 2005 and 2004 financial statement information is included in the financial statements attached to this press release.

Additional supplemental financial information will be available by April 25th on the Company's website at www.commerceinsurance.com, under the "Links" section of the "News and Investor Information" area.

At March 31, 2005, the Company had authority to purchase approximately 858,000 shares of common stock under the current Board of Directors' stock re-purchase authorization.

MORE

Page 3 of 8

CGI 1Q'05 Earnings Release (page 2 of 6)

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All quarterly figures are unaudited 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 A. M. Best Company, based on 2003 direct written premium information. The Company and its insurance subsidiaries are rated A+ by A. M. Best.

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.

These statements may address, among other things, our strategy for growth, business development, regulatory approvals, market position, expenditures, financial results and reserves. Accordingly, these statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed in them. All forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this press release and in our Forms 10-K and 10-Q, and other documents filed with the SEC. Among the key factors that could cause actual results to differ materially from forward-looking statements:

- * the possibility of severe weather and adverse catastrophe experiences;
- * adverse trends in claim severity or frequency;
- * adverse state and federal regulations and legislation;
- * adverse judicial decisions;
- * adverse changes to the laws, regulations and rules governing the residual market system in Massachusetts;
- * interest rate risk;
- * rate making decisions for private passenger automobile policies in Massachusetts;
- * potential rate filings;
- * heightened competition;
- * concentration of business within Massachusetts;
- * market disruption in Massachusetts, if competitors exited the market or become insolvent;
- * dependence on our executive officers; and,
- * the economic, market or regulatory conditions and risks associated with entry into new markets and diversification.

MORE

Page 4 of 8

CGI 1Q'05 Earnings Release (page 3 of 6)

Forward Looking Statements (continued)

You should not place undue reliance on any forward-looking statement. The risk factors referred to above could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement made by us or on our behalf. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

(Tables Follow)

Page 5 of 8

CGI 1Q '05 Earnings Release (page 4 of 6)

THE COMMERCE GROUP, INC. (NYSE - CGI)
 CONSOLIDATED BALANCE SHEETS
 March 31, 2005 and 2004
 (Thousands of Dollars, Except Per Share Data)
 Unaudited

	March 31, 2005	March 31, 2004
Assets		
Investments		
Fixed maturities, at market	\$ 1,830,932	\$ 1,668,640
Preferred stocks, at market	\$ 494,515	\$ 354,702
Common stocks, at market	\$ 61,896	\$ 94,711
Preferred stock mutual fund, at equity	\$ 65,826	\$ 56,387

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Mortgage loans and collateral notes receivable	\$ 15,285	\$ 15,788
Cash and cash equivalents	\$ 94,959	\$ 164,197
Other investments	\$ 33,954	\$ 27,435
Total investments	\$ 2,597,367	\$ 2,381,860
Accrued investment income	\$ 20,256	\$ 18,999
Premiums receivable	\$ 474,841	\$ 446,995
Deferred policy acquisition costs	\$ 174,647	\$ 168,610
Property and equipment, net	\$ 51,817	\$ 52,137
Due from reinsurers	\$ 134,938	\$ 120,876
Residual market receivable	\$ 204,894	\$ 205,442
Deferred income taxes	\$ 55,595	\$ 21,713
Receivable for securities sold	\$ 1,079	\$ 366
Other assets	\$ 26,180	\$ 17,446
Total assets	\$ 3,741,614	\$ 3,434,444
Liabilities		
Unpaid losses and LAE	\$ 1,004,157	\$ 976,813
Unearned premiums	\$ 962,104	\$ 893,028
Bonds payable	\$ 298,236	\$ 298,035
Current income taxes	\$ 13,836	\$ 12,403
Deferred income	\$ 10,814	\$ 8,271
Accrued agents' profit sharing	\$ 116,826	\$ 41,168
Payable for securities purchased	\$ 35,161	\$ 97,046
Outstanding checks payable	\$ 45,261	\$ 37,231
Advance premiums and commissions payable	\$ 27,971	\$ 25,902
Other liabilities	\$ 69,595	\$ 60,612
Total liabilities	\$ 2,583,961	\$ 2,450,509
Minority interest	\$ 5,240	\$ 4,548
Stockholders' equity		
Preferred stock	-	-
Common stock	\$ 20,426	\$ 19,673
Paid-in capital	\$ 144,896	\$ 84,378
Net accumulated other comprehensive (loss) income	\$ (8,665)	\$ 36,484
Retained earnings	\$ 1,215,972	\$ 1,038,273
Stockholders' equity before treasury stock	\$ 1,372,629	\$ 1,178,808
Treasury stock	\$ (220,216)	\$ (199,421)
Total stockholders' equity	\$ 1,152,413	\$ 979,387
Total liabilities, minority interest and stockholders' equity	\$ 3,741,614	\$ 3,434,444
Common shares outstanding	33,588,842	32,482,700
Stockholders' equity per share	\$ 34.31	\$ 30.15

Page 6 of 8

CGI 1Q '05 Earnings Release (page 5 of 6)

THE COMMERCE GROUP, INC. (NYSE - CGI)

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CONSOLIDATED STATEMENTS OF EARNINGS
 Three Months Ended March 31, 2005 and 2004
 (Thousands of Dollars, Except Per Share Data)
 Unaudited

	Three Months Ended March 31,	
	2005	2004
Revenues:		
Earned premiums	\$ 423,202	\$ 395,568
Net investment income	\$ 29,087	\$ 27,815
Premium finance and service fees	\$ 7,203	\$ 7,044
Net realized investment gains	\$ 8,313	\$ 20,459
Other income	\$ 4	\$ -
TOTAL REVENUES	\$ 467,809	\$ 450,886
Expenses:		
Losses and LAE	\$ 279,158	\$ 282,182
Policy acquisition costs	\$ 100,372	\$ 92,224
Interest expense & amortization of bond fees	\$ 4,519	\$ 4,583
TOTAL EXPENSES	\$ 384,049	\$ 378,989
Earnings before income taxes and minority interest	\$ 83,760	\$ 71,897
Income taxes	\$ 25,488	\$ 20,752
Earnings before minority interest	\$ 58,272	\$ 51,145
Minority interest in net earnings of subsidiary	\$ (234)	\$ (105)
NET EARNINGS	\$ 58,038	\$ 51,040
COMPREHENSIVE INCOME	\$ 32,970	\$ 58,441
EARNINGS PER COMMON SHARE:		
BASIC	\$ 1.73	\$ 1.58
DILUTED	\$ 1.72	\$ 1.56
Cash dividends paid per common share	\$ 0.33	\$ 0.32
Weighted average shares outstanding:		
BASIC	33,462,734	32,337,398
DILUTED	33,823,626	32,766,819

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Page 7 of 8

CGI 1Q '05 Earnings Release (page 6 of 6)

THE COMMERCE GROUP, INC. (NYSE - CGI)
 ADDITIONAL EARNINGS INFORMATION
 Three Months March 31, 2005 and 2004
 (Thousands of Dollars, Except Per Share Data)
 Unaudited

Three Months Ended
 March 31,
 2005 2004

ADDITIONAL EARNINGS INFORMATION:

Direct written premiums to earned premiums reconciliation:

Direct written premiums	\$ 508,665	\$ 498,
Assumed premiums	\$ 38,018	\$ 34,
Ceded premiums	\$ (64,919)	\$ (54,
Net written premiums	\$ 481,764	\$ 477,
Increase in unearned premiums	\$ (58,562)	\$ (82,
Earned premiums	\$ 423,202	\$ 395,

GAAP consolidated operating ratios: (1)

Loss ratio	66.0%	7
Underwriting ratio	23.1%	2
Combined ratio	89.1%	9

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

Loss ratio	65.5%	7
Underwriting ratio	22.7%	2
Combined ratio	88.2%	9

Breakdown of net realized investment gains:

Fixed maturities	\$ 10,368	\$ 9,
Preferred stocks	\$ 818	\$ 4,
Common stocks	\$ 415	\$ 4,
Preferred stock mutual funds:		
Due to (decrease) increase in NAV	\$ (635)	\$ 2,
Venture capital fund investments	\$ (951)	\$ 1,
Other	\$ 322	\$ (
Other than temporary writedowns	\$ (2,024)	\$ (1,
Net realized investment gains before tax	\$ 8,313	\$ 20,
Income tax at 35%	\$ 2,910	\$ 7,
Net realized investment gains after tax	\$ 5,403	\$ 13,
Per diluted share net realized gains after tax	\$ 0.16	\$ 0

(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 the 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 \$11,003 and \$15,003 for 2005 and 2004, 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 deferred acquisition costs), divided by net premiums written. No corporate expenses are included in the calculations.