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COMMERCE GROUP INC /MA  
Form 8-K  
April 30, 2003

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 29, 2003

THE COMMERCE GROUP, INC.

(Exact name of registrant as specified in its charter)

Massachusetts	001-13672	04-2599931	
(State or other jurisdiction of Incorporation)		(Commission File Number)	(IRS Employer Identification 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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The Commerce Group, Inc.  
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Item 9. REGULATION FD DISCLOSURE

The following information, including the text of the press release attached as an Exhibit to this Form 8-K, is furnished pursuant to Item 9, "Regulation FD Disclosure" and Item 12, "Disclosure of Results of Operations and Financial Condition".

On April 29, 2003, The Commerce Group, Inc. (the "Company") issued a press release announcing its results for the quarter ended March 31, 2003. A copy of the press release is attached as Exhibit 99.1 to this Form 8-K.

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In its press release, the Company presents "operating earnings" and "operating earnings per diluted share", non-GAAP financial measures, as well as net earnings and net earnings per diluted share. Operating earnings is the measure utilized by the Company in managing corporate operating performance. A reconciliation of net earnings to operating earnings is provided in the tables that are included in the press release. Statutory ratios are presented in accordance with principles prescribed by insurance regulatory authorities.

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.  
April 30, 2003

/s/ Randall V. Becker

Randall V. Becker  
Treasurer and Accounting Officer

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Exhibit 99.1

Press Release

RELEASE: Immediate (April 29, 2003)

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

The Commerce Group, Inc.  
Announces 2003 First Quarter Results  
and Comparison to First Quarter 2002 as Restated

WEBSTER, Mass., April 29, 2003 -- The Commerce Group, Inc. (NYSE:CGI) today reported 2003 first quarter results. Net earnings were \$12.9 million, or \$0.40 per diluted share, compared to \$34.0 million or

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\$1.02 per diluted share for 2002 (as restated).

Operating earnings, a non-GAAP financial measure, were \$17.5 million, or \$0.54 per diluted share, compared to \$26.4 million or \$0.79 per diluted share for 2002 (as restated). Operating earnings consist of net earnings adjusted to exclude: (1) the after-tax impact of net realized investment losses; (2) the after-tax impact of variable accounting stock option treatment; and, (3) for 2002 only, the after-tax effect of a required change in accounting principle. The Company believes that the items noted above, which are excluded in the calculation of operating earnings, are not indicators of corporate operating performance and, as such, are not measures used by the Company in managing operations. Operating earnings as defined by the Company may not be comparable to similarly captioned measurements utilized by other property and casualty insurance companies. A reconciliation of net earnings to operating earnings is provided in the tables that follow.

Earned premiums were \$338.0 million for the first quarter of 2003 compared to \$280.8 million for 2002. A schedule of direct written premiums to earned premiums is included in the attached tables.

Net realized investment losses were \$5.8 million, or \$0.19 per diluted share, compared to \$3.4 million or \$0.07 per diluted share for 2002. A complete breakdown of this information is included in the attached tables.

MORE

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CGI 1Q03 earnings (page 2 of 6)

The statutory combined ratio for property and casualty operations was 101.5% compared to 98.1% for 2002. The increase in the combined ratio was primarily the result of an increase in the loss ratio, offset by a decrease in the underwriting ratio. The Company's loss ratio for the first quarter of 2003 increased to 81.5% from 76.9% during the same period last year. The increase was the result of increased claim frequency of approximately 20% in the Massachusetts personal automobile line and approximately 50% in the Massachusetts homeowner line, primarily due to the severe winter weather conditions experienced in the Northeast. Additionally, the Company experienced higher losses assumed from the Massachusetts residual market system (commonly known as C.A.R.) primarily as a result of higher C.A.R. loss ratios due to the severe winter as compared to last year. Overall, these loss results were somewhat offset by a reduced loss ratio from business written outside of the Northeast. The Company's statutory underwriting ratio improved to 20.0%, as compared to 21.2% for last year's first quarter, primarily from reduced accrued contingent commissions as a result of the high loss ratio mentioned previously, coupled with premium growth exceeding growth in underwriting expenses.

As mentioned in previous 2002 SEC filings, in the first quarter of 2002 the Company received other income of \$7.0 million, or \$0.14 per diluted share, as a result of an agreement to offer to write the business from Berkshire Mutual Insurance Company. This amount is included in operating earnings for 2002. Additionally, in the first quarter of 2002 the Company recorded income net of taxes of \$11.2 million or \$0.34 per diluted share, due to the effect of a change in

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accounting principle related to SFAS No. 142.

As disclosed in the Company's 2002 Form 10-K, in the fourth quarter of 2002 the Company changed its method of accounting for employee stock options and began applying variable accounting treatment for employee stock options issued in 1999 and 2000. Accordingly, the Company restated its 2002 quarterly results. The impact of the restatement for the three months ended March 31, 2002 resulted in a decrease to net earnings of \$1.4 million or \$0.04 per diluted share.

A complete presentation of March 31, 2003 and 2002 financial statement information, including a breakdown of the components of the combined ratio and realized losses, is included in the financial statements attached to this press release. Additional supplemental financial information will be available on the Company's website at [www.commerceinsurance.com](http://www.commerceinsurance.com) under the "Links" section of the "News and Investor Information" area.

At March 31, 2003, the Company had authority to purchase approximately 741,000 additional shares of common stock under the current Board of Directors' stock repurchase authorization. During the past twelve months, the Company purchased 1,352,244 shares of treasury stock at an average price of \$37.04 per share.

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CGI 1Q'03 earnings (page 3 of 6)

All quarterly figures are unaudited and all results are reported in accordance with accounting principles generally accepted in the United States (GAAP) with the exception of operating ratios, which are reported on a statutory accounting basis.

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 26th largest personal automobile insurance group in the country by A.M. Best, based on the most recently available direct written premium information.

Forward Looking Statements

This press release contains some statements that are not historical facts and are considered "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve opinions, assumptions and predictions, and no assurance can be given that the future results will be achieved since events or results may differ materially as a result of risks facing the Company. These include, but are not limited to, those risks and uncertainties in our business, some of which are beyond the control of the Company, that are described in the Company's Forms 10-K and 10-Q, Schedules 13D and 13G, and other documents filed with the

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SEC, including the possibility of adverse catastrophe experience and severe weather, adverse trends in claim severity or frequency, adverse state and federal regulation and legislation, adverse state judicial decisions, litigation risks, interest rate risk, rate making decisions for private passenger automobile policies in Massachusetts, potential rate filings outside of Massachusetts, adverse impacts related to consolidation activities, heightened competition, as well as the economic, market or regulatory conditions and risks associated with entry into new markets and diversification. The Commerce Group, Inc. is not under any obligation to (and expressly disclaims any such obligations to) update or alter its forward-looking statements, whether as a result of new information, future events or otherwise.

(Tables Follow)

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CGI 1Q '03 earnings (page 4 of 6)

THE COMMERCE GROUP, INC. (NYSE:CGI-news)  
 CONSOLIDATED BALANCE SHEETS  
 March 31, 2003 and 2002  
 (Thousands of Dollars, Except Per Share Data)  
 Unaudited

ASSETS	March 31, 2003	2002 (Restated)
Investments		
Fixed maturities, at market	\$ 808,990	\$ 658,430
Preferred stocks, at market	\$ 308,678	\$ 243,905
Common stocks, at market	\$ 95,780	\$ 118,894
Preferred stock mutual funds, at equity	\$ 274,497	\$ 315,752
Mortgage loans	\$ 22,850	\$ 36,722
Cash and short-term investments	\$ 130,949	\$ 152,219
Other investments	\$ 23,230	\$ 18,227
Total investments	\$1,664,974	\$1,544,149
Accrued investment income	\$ 14,203	\$ 15,567
Premiums receivable	\$ 368,989	\$ 309,900
Deferred policy acquisition costs	\$ 152,554	\$ 130,162
Property and equipment	\$ 52,015	\$ 41,628
Due from reinsurers	\$ 102,658	\$ 73,023
Residual market receivable	\$ 169,540	\$ 136,914
Deferred income taxes	\$ 29,010	\$ 22,387
Receivable for securities sold	\$ 5,053	\$ 105
Other assets	\$ 13,499	\$ 14,938
Total assets	\$2,572,495	\$2,288,773
Liabilities		
Losses and LAE	\$ 857,162	\$ 713,072
Unearned premiums	\$ 778,129	\$ 652,016
Current income taxes	\$ 1,749	\$ 9,856
Deferred income	\$ 7,269	\$ 7,491

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Contingent commissions accrued	\$ 28,035	\$ 30,224
Payable for securities purchased	\$ 63,075	\$ 1,840
Other liabilities	\$ 44,465	\$ 38,948
Total liabilities	\$1,779,884	\$1,453,447
Minority interest	\$ 4,123	\$ 4,515
Stockholders' equity		
Preferred stock	-	-
Common stock	\$ 19,141	\$ 19,000
Paid-in capital	\$ 39,570	\$ 29,621
Net accumulated other comprehensive income	\$ 28,769	\$ 16,518
Retained earnings	\$ 880,297	\$ 894,873
Treasury stock	\$ 967,777	\$ 960,012
	\$ (179,289)	\$ (129,201)
Total stockholders' equity	\$ 788,488	\$ 830,811
Total liabilities, minority interest and stockholders' equity	\$2,572,495	\$2,288,773
Common shares outstanding	31,879,835	32,950,452
Stockholders' equity per share	\$ 24.73	\$ 25.21

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CGI 1Q '03 earnings (page 5 of 6)

THE COMMERCE GROUP, INC. (NYSE:CGI-news)  
CONSOLIDATED STATEMENTS OF EARNINGS  
Three Months Ended March 31, 2003 and 2002  
(Thousands of Dollars, Except Per Share Data)  
Unaudited

	Three Months Ended	
	March 31,	
	2003	2002
		(Restated)
Revenues:		
Earned premiums	\$ 337,987	\$ 280,764
Net investment income	\$ 22,704	\$ 22,904
Premium finance and service fees	\$ 6,330	\$ 4,932
Net realized investment losses	\$ (5,844)	\$ (3,447)
Other income	\$ -	\$ 7,000
TOTAL REVENUES	\$ 361,177	\$ 312,153
Expenses:		
Losses and LAE	\$ 274,394	\$ 216,576
Policy acquisition costs	\$ 69,502	\$ 65,019
TOTAL EXPENSES	\$ 343,896	\$ 281,595
Earnings before income taxes, change in accounting		

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principle and minority interest	\$ 17,281	\$ 30,558
Income taxes	\$ 4,405	\$ 7,835
Change in accounting principle, net of taxes	\$ -	\$ 11,237
Earnings before minority interest	\$ 12,876	\$ 33,960
Minority interest in losses of subsidiary	\$ 44	\$ 10
NET EARNINGS	\$ 12,920	\$ 33,970
COMPREHENSIVE INCOME	\$ 16,425	\$ 38,094
EARNINGS PER COMMON SHARE:		
BASIC	\$ 0.40	\$ 1.03
DILUTED	\$ 0.40	\$ 1.02
Net earnings per share excluding the after-tax impact of net realized investment losses, change in accounting principle and impact of variable accounting for stock options:		
BASIC	\$ 0.55	\$ 0.80
DILUTED	\$ 0.54	\$ 0.79
Weighted average shares outstanding:		
BASIC	31,977,554	33,083,119
DILUTED	32,161,730	33,372,501

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CGI 1Q '03 earnings (page 6 of 6)

THE COMMERCE GROUP, INC. (NYSE:CGI-news)  
 ADDITIONAL EARNINGS INFORMATION  
 Three Months Ended March 31, 2003 and 2002  
 (Thousands of Dollars, Except Per Share Data)  
 Unaudited

Three Months Ended  
 March 31,  
 2003                      2002  
                                     (Restated)

ADDITIONAL EARNINGS INFORMATION:

Direct written premiums to earned premiums reconciliation:

Direct written premiums	\$ 448,794	\$ 383,717
Assumed premiums	27,983	24,155
Ceded premiums	(49,742)	(40,331)
Net written premiums	427,035	367,541
Increase in unearned premiums	(89,048)	(86,777)

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Earned premiums	\$ 337,987	\$ 280,764
Statutory operating ratios for insurance subsidiaries:		
Loss ratio	81.5%	76.9%
Underwriting ratio	20.0%	21.2%
Combined ratio	101.5%	98.1%
Reconciliation of net earnings to operating earnings:		
Net earnings	\$ 12,920	\$ 33,970
Plus net realized losses, net of tax	6,179	2,241
Less change in accounting principle, net of tax	0	(11,237)
Plus (less) variable acctg. stock option (income) expense, net of tax	(1,648)	1,446
Operating earnings	\$ 17,451	\$ 26,420
Reconciliation of net earnings to operating earnings per diluted share:		
Net earnings per diluted share	\$ 0.40	\$ 1.02
Plus net realized losses, net of tax	0.19	0.07
Less SFAS No. 142 change in accounting principle, net of tax	0.00	(0.34)
Plus (less) variable acctg. stock option (income) expense, net of tax	(0.05)	0.04
Operating earnings per diluted share	\$ 0.54	\$ 0.79
Breakdown of net realized investment gains (losses):		
Fixed maturities	\$ 3,373	\$ (195)
Preferred stocks	981	(47)
Common stocks	267	(9)
Preferred stock mutual funds	5,569	(1,248)
Venture capital fund investments	(588)	(1,931)
Other	10	(17)
Other-than-temporary writedowns	(15,456)	0
Net realized investment losses before tax	(5,844)	(3,447)
Income tax benefit at 35%	(2,045)	(1,206)
Net realized investment losses after tax and before impact of valuation allowance	(3,799)	(2,241)
Impact of valuation allowance	(2,380)	0
Net realized investment losses after tax and after impact of valuation allowance	\$ (6,179)	\$ (2,241)
Per diluted share net realized investment losses after tax and after tax impact of valuation allowance per diluted share	\$ (0.19)	\$ (0.07)