

COMMERCE BANCSHARES INC /MO/

Form 10-Q

August 08, 2006

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
FORM 10-Q

(Mark One)

b

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

For the quarterly period ended June 30, 2006
OR

o

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

For the transition period from _____ to _____
Commission File No. 0-2989
COMMERCE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Missouri

43-0889454

(State of Incorporation)

(IRS Employer Identification No.)

**1000 Walnut,
Kansas City, MO**

64106

(Address of principal executive offices)

(Zip Code)

(816) 234-2000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by checkmark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of August 2, 2006, the registrant had outstanding 66,320,723 shares of its \$5 par value common stock, registrant's only class of common stock.

**Commerce Bancshares, Inc. and Subsidiaries
Form 10-Q**

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CONSOLIDATED BALANCE SHEETS**

<i>(In thousands)</i>	June 30 2006	December 31 2005
	<i>(Unaudited)</i>	
ASSETS		
Loans, net of unearned income	\$ 9,379,893	\$ 8,899,183
Allowance for loan losses	(128,446)	(128,447)
Net loans	9,251,447	8,770,736
Investment securities:		
Available for sale	3,337,477	3,667,901
Trading	17,001	24,959
Non-marketable	81,401	77,321
Total investment securities	3,435,879	3,770,181
Federal funds sold and securities purchased under agreements to resell	237,072	128,862
Cash and due from banks	662,790	545,273
Land, buildings and equipment, net	367,954	374,192
Goodwill	48,522	48,522
Other assets	269,733	247,779
Total assets	\$14,273,397	\$13,885,545
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Non-interest bearing demand	\$ 1,326,787	\$ 1,399,934
Savings, interest checking and money market	6,439,068	6,490,326
Time open and C.D. s of less than \$100,000	2,028,700	1,831,980
Time open and C.D. s of \$100,000 and over	1,247,790	1,129,573
Total deposits	11,042,345	10,851,813
Federal funds purchased and securities sold under agreements to repurchase	1,586,511	1,326,427
Other borrowings	144,919	269,390
Other liabilities	168,227	100,077
Total liabilities	12,942,002	12,547,707

Stockholders equity:		
Preferred stock, \$1 par value		
Authorized and unissued 2,000,000 shares		
Common stock, \$5 par value		
Authorized 100,000,000 shares; issued 69,409,882 shares	347,049	347,049
Capital surplus	385,358	388,552
Retained earnings	768,608	693,021
Treasury stock of 3,009,713 shares in 2006 and 1,716,413 shares in 2005, at cost	(152,189)	(86,901)
Accumulated other comprehensive loss	(17,431)	(3,883)
Total stockholders equity	1,331,395	1,337,838
Total liabilities and stockholders equity	\$14,273,397	\$13,885,545

See accompanying notes to consolidated financial statements.

Table of Contents**Commerce Bancshares, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME**

	For the Three Months Ended June 30		For the Six Months Ended June 30	
<i>(In thousands, except per share data)</i>	2006	2005	2006	2005
	<i>(Unaudited)</i>			
INTEREST INCOME				
Interest and fees on loans	\$161,188	\$125,242	\$311,062	\$243,765
Interest on investment securities	36,261	46,394	73,391	88,140
Interest on federal funds sold and securities purchased under agreements to resell	1,801	1,164	3,424	1,748
Total interest income	199,250	172,800	387,877	333,653
INTEREST EXPENSE				
Interest on deposits:				
Savings, interest checking and money market	23,002	12,192	42,609	22,649
Time open and C.D. s of less than \$100,000	19,448	12,051	36,179	22,443
Time open and C.D. s of \$100,000 and over	13,906	7,973	27,093	14,325
Interest on federal funds purchased and securities sold under agreements to repurchase	14,024	10,163	26,605	19,581
Interest on other borrowings	2,391	3,034	5,177	5,791
Total interest expense	72,771	45,413	137,663	84,789
Net interest income	126,479	127,387	250,214	248,864
Provision for loan losses	5,672	5,503	10,104	7,871
Net interest income after provision for loan losses	120,807	121,884	240,110	240,993
NON-INTEREST INCOME				
Deposit account charges and other fees	28,910	27,476	56,407	51,777
Bank card transaction fees	23,558	21,295	45,266	40,802
Trust fees	17,992	17,040	35,811	33,434
Trading account profits and commissions	2,010	2,450	4,575	5,064
Consumer brokerage services	2,771	2,338	5,160	5,163
Loan fees and sales	2,745	4,805	6,488	8,245
Investment securities gains, net	3,284	1,372	5,687	4,984
Other	10,193	8,204	21,517	16,202
Total non-interest income	91,463	84,980	180,911	165,671
NON-INTEREST EXPENSE				

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Salaries and employee benefits	71,239	67,585	142,964	137,765
Net occupancy	10,230	9,527	21,207	19,305
Equipment	6,071	5,701	12,020	11,392
Supplies and communication	7,872	8,257	16,265	16,470
Data processing and software	12,631	12,069	25,024	23,524
Marketing	4,657	4,687	8,975	8,549
Other	16,850	15,186	33,056	29,929
Total non-interest expense	129,550	123,012	259,511	246,934
Income before income taxes	82,720	83,852	161,510	159,730
Less income taxes	27,387	29,484	53,233	55,516
Net income	\$ 55,333	\$ 54,368	\$ 108,277	\$ 104,214
Net income per share basic	\$.83	\$.78	\$ 1.62	\$ 1.48
Net income per share diluted	\$.82	\$.77	\$ 1.60	\$ 1.46

See accompanying notes to consolidated financial statements.

Table of Contents**Commerce Bancshares, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

<i>(Dollars in thousands, except per share data)</i>	Number of Shares Issued	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	<i>(Unaudited)</i>						
Balance January 1, 2006	69,409,882	\$347,049	\$388,552	\$693,021	\$ (86,901)	\$ (3,883)	\$1,337,838
Net income				108,277			108,277
Change in unrealized gain (loss) on available for sale securities, net of tax						(13,548)	(13,548)
Total comprehensive income							94,729
Purchase of treasury stock					(75,773)		(75,773)
Issuance of stock under purchase and equity compensation plans			(4,943)		9,408		4,465
Net tax benefit related to equity compensation plans			747				747
Stock-based compensation			2,079				2,079
Issuance of restricted stock awards			(1,077)		1,077		
Cash dividends paid (\$.490 per share)				(32,690)			(32,690)
Balance June 30, 2006	69,409,882	\$347,049	\$385,358	\$768,608	\$ (152,189)	\$ (17,431)	\$1,331,395
Balance January 1, 2005	69,409,882	\$347,049	\$388,614	\$703,293	\$ (51,646)	\$ 39,570	\$1,426,880
Net income				104,214			104,214
Change in unrealized gain (loss) on available for sale securities, net of tax						(14,271)	(14,271)

Total comprehensive income							89,943
Purchase of treasury stock				(121,573)			(121,573)
Issuance of stock under purchase and equity compensation plans	(8,557)			16,477			7,920
Net tax benefit related to equity compensation plans	1,024						1,024
Stock-based compensation	4,078						4,078
Issuance of restricted stock awards	(993)			993			
Cash dividends paid (\$.457 per share)		(32,103)					(32,103)
Balance June 30, 2005	69,409,882	\$347,049	\$384,166	\$775,404	\$(155,749)	\$ 25,299	\$1,376,169

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Six Months Ended June 30	
<i>(In thousands)</i>	2006	2005
	<i>(Unaudited)</i>	
OPERATING ACTIVITIES:		
Net income	\$ 108,277	\$ 104,214
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	10,104	7,871
Provision for depreciation and amortization	23,219	20,362
Amortization of investment security premiums, net	6,209	8,941
Investment securities gains, net ^(A)	(5,687)	(4,984)
Net gains on sales of loans held for sale	(4,889)	(613)
Originations of loans held for sale	(166,857)	(40,560)
Proceeds from sales of loans held for sale	242,192	40,354
Net decrease in trading securities	2,156	3,527
Stock based compensation	2,079	4,078
(Increase) decrease in interest receivable	(1,574)	3,408
Increase in interest payable	9,897	5,404
Increase in income taxes payable	8,691	14,104
Net tax benefit related to equity compensation plans	(747)	(1,024)
Other changes, net	7,642	1,162
Net cash provided by operating activities	240,712	166,244
INVESTING ACTIVITIES:		
Proceeds from sales of investment securities ^(A)	17,528	1,299,648
Proceeds from maturities/pay downs of investment securities ^(A)	562,754	623,914
Purchases of investment securities ^(A)	(277,268)	(1,554,499)
Net increase in loans	(561,317)	(203,793)
Purchases of land, buildings and equipment	(16,614)	(44,463)
Sales of land, buildings and equipment	1,690	464
Net cash provided by (used in) investing activities	(273,227)	121,271