

COMMERCE BANCSHARES INC /MO/

Form DEF 14A

March 12, 2004

OMB APPROVAL

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

Commerce Bancshares, Inc.

(Name of Registrant as Specified In Its Charter)

Commerce Bancshares, Inc.

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

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4) Date Filed:

SEC 1913 (02-02)

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(COMMERCE LOGO)

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

April 21, 2004

The annual meeting of the shareholders of Commerce Bancshares, Inc., will be held in the Plaza Room at the Ritz-Carlton, St. Louis, 100 Carondelet Plaza, Clayton, Missouri on April 21, 2004, at 9:30 a.m., for the following purposes:

(1) To elect four directors to the 2007 Class for a term of three years;

(2) To approve the amendment of the Company's Restricted Stock Plan to increase the number of shares available for issuance under the Restricted Stock Plan by 250,000 shares and to permit the deductibility of the payments pursuant to Section 162(m) of the Internal Revenue Code;

(3) To ratify the selection of KPMG as the Company's audit and accounting firm; and

(4) To transact such other business as may properly come before the meeting or any adjournment thereof.

Shareholders of record at the close of business February 27, 2004, are entitled to notice of and to vote at the meeting.

To be sure that your shares are represented at the meeting, please either complete and promptly mail the enclosed proxy card in the envelope provided for this purpose or vote through the telephone or Internet voting procedures described on the proxy card. If your shares are registered in the name of a bank or brokerage firm, telephone or Internet voting will be available to you only if offered by your bank or broker and such procedures are described on the voting form sent to you.

Most shareholders can elect to view future proxy statements and annual reports over the Internet instead of receiving paper copies in the mail. Please refer to page 21 of the proxy statement and your proxy card for further information.

By Order of the Board of Directors

J. DANIEL STINNETT, *Secretary*

March 12, 2004

It is important that your stock be represented at the meeting. You are urged to date, sign and return the enclosed proxy promptly or register your vote by telephone or through the Internet as described on the proxy card.

PROXY STATEMENT

COMMERCE BANCSHARES, INC.

Annual Meeting April 21, 2004

Solicitation:

The Board of Directors of Commerce Bancshares, Inc. (the Company), P.O. Box 13686, Kansas City, Missouri 64199-3686 solicits your proxy, and asks that you vote, sign, date and promptly mail the enclosed proxy card for use at the annual meeting of shareholders to be held in the Plaza Room at the Ritz-Carlton, St. Louis, 100 Carondelet Plaza, Clayton, Missouri on April 21, 2004, at 9:30 a.m. Most shareholders also have a choice of voting by using a toll-free telephone number or by voting over the Internet. Please refer to your proxy card or the information forwarded by your bank, broker or other holder of record to see which options are available to you.

The cost of solicitation of proxies will be borne by the Company. In addition to solicitation by mail, proxies may be solicited personally or by telephone, telegram or via the Internet by regular employees of the Company. Brokerage houses and other custodians, nominees and fiduciaries may be requested to forward soliciting material to their principals and the Company will reimburse them for the expense of doing so. This proxy statement and proxy will be first sent to security holders on or about March 12, 2004.

If you wish, at any time before your proxy is voted, you may revoke it by written notice to the Company, or by delivery of a later-dated proxy (including a telephone or Internet vote), or by voting in person at the meeting.

The shares represented by all properly executed proxies will be voted as directed by you. In the absence of direction, properly executed proxies will be voted in accordance with the recommendations of the Board as set forth below.

Voting Securities and Ownership Thereof by Certain Beneficial Owners and Management:

Only shares held of record at the close of business on February 27, 2004, are entitled to vote at the meeting, and at the close of business on said date there were outstanding 67,455,897 shares of common stock of the Company. Each holder of common stock is entitled to one vote for each share held. In the election of directors, abstentions and broker nonvotes will be considered solely for quorum purposes and are not counted for the election of directors. On all other matters presented for shareholder vote, abstentions will be treated as votes against such matters and broker nonvotes will be treated as not entitled to vote and have no effect on the outcome.

(a) Under applicable Securities and Exchange Commission Rules, beneficial ownership of shares includes shares as to which a person has or shares voting power and/or investment power.

As of December 31, 2003, the trust departments of the Company's subsidiary banks beneficially owned 5,518,268 shares representing 8.1% of the Company's outstanding common stock as of that date. Of those shares the subsidiary banks had (i) sole voting power over 3,402,461 shares; (ii) shared voting power over 2,052,685 shares, (iii) sole investment power over 3,452,399 shares and (iv) shared investment power over 1,982,170 shares. The Company has been advised by the subsidiary banks that the shares held by them and as to which they have sole voting power will be voted at the annual meeting for Proposals One, Two and Three. Shares held in all other fiduciary accounts will be voted as specifically directed by the co-trustees and co-executors. Shares held in custodial accounts will be voted by the owners.

(b) The following information pertains to the common stock of the Company beneficially owned, directly or indirectly, by all directors and nominees for director, the executive officers named in the Summary Compensation Table, and by all directors, nominees and executive officers of the Company as a group as of December 31, 2003. This table also includes each person known to be the beneficial owner of 5% or more of

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the Company's outstanding common stock. Such persons have sole voting and sole investment power as to such shares unless otherwise noted.

Name and Address of Beneficial Owner	Number of Shares	Percent of Class
Giorgio Balzer Kansas City, Missouri	7,592	*
Kevin G. Barth Leawood, Kansas	19,100 65,615(2)	*
John R. Capps Creve Coeur, Missouri	4,795	*
W. Thomas Grant, II Shawnee Mission, Kansas	2,283	*
James B. Hebenstreit Kansas City, Missouri	30,726 40,020(7)	*
David W. Kemper Ladue, Missouri	974,546 111,959(1) 369,792(2) 136,699(3) 813,635(4) 2,210,000(6)	6.8
Jonathan M. Kemper Kansas City, Missouri	54,618 412,038(1) 813,635(4) 272,213(2) 136,699(3) 1,105,000(6)	4.1
Seth M. Leadbeater Clayton, Missouri	22,461 127,457(2)	*
Thomas A. McDonnell Kansas City, Missouri	9,024	*
Terry O. Meek Springfield, Missouri	27,620	*
Benjamin F. Rassieur, III St. Louis, Missouri	5,933	*
L. W. Stolzer Manhattan, Kansas	416,099 1,064,688(5)	*
V. Raymond Strangoener St. Louis, Missouri	5,511 26,153(2)	*
Andrew C. Taylor St. Louis, Missouri	15,295	*
Mary Ann Van Lokeren St. Peters, Missouri	8,329	*
Robert H. West Kansas City, Missouri	15,347	*
All 24 directors, nominees and executive officers as a group (including those listed above)	7,983,146 1,329,838(2)	13.4

(1) Shared voting power and investment power.

(2) Shares which could be acquired within 60 days by exercise of options.

- (3) Owned by a corporation for which Messrs. David W. Kemper and Jonathan M. Kemper serve as directors. Messrs. David W. Kemper and Jonathan M. Kemper disclaim beneficial ownership as to such shares.
- (4) Mr. Jonathan M. Kemper has sole investment power, but shares voting power with Mr. David W. Kemper.
- (5) Represents shares owned by spouse or by trust for benefit of spouse. Mr. Stolzer disclaims beneficial ownership as to such shares.
- (6) Shared voting power.
- (7) Owned by a corporation for which Mr. Hebenstreit serves as President. Mr. Hebenstreit disclaims beneficial ownership in these shares.

* Less than 1%.

On February 12, 2004, the Company purchased 400,000 shares from family limited partnerships established by James M. Kemper Jr., as reported in a Form 8-K filing. David W. Kemper and Jonathan M. Kemper share voting power over certain of those shares and have both direct and indirect ownership of those shares. This transaction would have reduced the total common stock ownership, as reported above, by 397,000 shares for David W. Kemper and by 2,000 shares for Jonathan M. Kemper.

THE BOARD OF DIRECTORS

**RECOMMENDS A VOTE FOR ALL THE
NOMINEES TO THE
CLASS OF 2007**

PROPOSAL ONE

ELECTION OF DIRECTORS

Under the Articles of Incorporation and the By-Laws of the Company, the Board of Directors is divided into three classes, each as nearly equal as possible, and the Board is authorized to determine the number of persons constituting the board. The board has fixed the number of directors at thirteen. Therefore, it is proposed that four directors be elected at the meeting to serve until the 2007 annual meeting (the 2007 Class), and until their successors shall be elected and qualified unless otherwise directed. The persons acting under the accompanying proxy intend to vote for the election of the nominees hereinafter named. Should any nominee become unable to accept nomination or election, it is intended, unless otherwise directed, that the person acting under the proxy will vote for the election of such other person as the Board of Directors of the Company may recommend. The four nominees for election as directors to the Class of 2007 who receive the greatest number of votes cast at the meeting, a quorum being present, shall become directors. Vacancies occurring in a class during a term are filled by the Board pursuant to the Company's By-Laws. There are no arrangements or understandings between any nominee and any other person pursuant to which the nominee was selected.

The following information is provided with respect to each nominee:

Name and Age	Periods Served as Director and Business Experience During Past 5 Years
<i>2007 Class:</i>	
Thomas A. McDonnell, 58	Elected a director in April, 2001. Mr. McDonnell is the President and Chief Executive Officer of DST Systems, Inc. DST Systems is a provider of computer software solutions to the financial services and other industries. He has been employed by DST since 1969 and has served as President since January, 1973 (except for a 30-month period from October, 1984 to April, 1987). He is a director of DST Systems, Inc., Computer Sciences Corporation, Blue Valley Ban Corp, BHA Group Holdings, Inc., Euronet Worldwide, Inc., Garmin, LTD and Kansas City Southern (since March, 2003).

Name and Age	Periods Served as Director and Business Experience During Past 5 Years
Benjamin F. Rassieur, III, 49	Elected a director in August, 1997. Mr. Rassieur is President of Paulo Products Co. The company is engaged in commercial heat-treating, electroplating, and furnace brazing services. Mr. Rassieur has served as a director of Commerce Bank, N.A., a subsidiary of the Company.
Andrew C. Taylor, 56	Elected a director in February, 1990. Mr. Taylor is Chairman and Chief Executive Officer of Enterprise Rent-A-Car Company (formerly Enterprise Leasing Co.) which is engaged in automobile leasing, rental and related services. He is also a director of Anheuser-Busch Companies. Mr. Taylor has served as a director of Commerce Bank, N.A., a subsidiary of the Company. Mr. Taylor is Chairman of the Company's Compensation and Human Resources Committee.
Robert H. West, 65	Elected a director in October, 1985. Mr. West retired as Chairman of the Board of Butler Manufacturing Company and from its board of directors on July 1, 1999. He is a director of Great Plains Energy, Inc., Burlington Northern Santa Fe Corporation, and Astec Industries, Inc. (until April, 2004). Mr. West has also served as a director of Commerce Bank, N.A., a subsidiary of the Company. Mr. West is Chairman of the Company's Audit Committee and designated as that Committee's financial expert.

The following information is provided with respect to the directors who are continuing in office for the respective periods and until their successors are elected and qualified:

Name and Age	Periods Served as Director and Business Experience During Past 5 Years
<i>2006 Class:</i>	
Giorgio Balzer, 64	Elected a director in December, 1990. Since August of 1990 and until May 2003, Mr. Balzer has served as Chairman and Chief Executive Officer of Business Men's Assurance Company of America; since May of 2003, he has served as Chairman of the Board and Chief Executive Officer of Generali USA Life Reassurance Company. He is also U.S. Representative for Assicurazioni-Generali, S.p.A., U.S. Branch, an Italian insurance group, as well as Chairman of Worldwide Assistance Services, Inc., Washington, D.C. He is also a director of Transocean Holding Corp., a Generali financial company in the U.S.
Jonathan M. Kemper, 50	Elected a director in January, 1997. Mr. Kemper is Vice Chairman of the Company and Vice Chairman of Commerce Bank, N.A., a subsidiary of the Company. He is a director of Tower Properties Company, Generali Life Reassurance Company (since September, 2003), Vice Chairman of the National Trust for Historic Preservation Board of Trustees and a Trustee of the Kansas City Public Library. Mr. Jonathan Kemper is the brother of David W. Kemper.
Terry O. Meek, 60	Elected a director in April, 1989. Mr. Meek is President of Meek Lumber Yard, Inc., which operates a chain of builders' materials centers under the name Meeks Building Centers. He has served as a director of Commerce Bank, N.A., a subsidiary of the Company.
L.W. Stolzer, 69	Elected a director in October, 1995. Mr. Stolzer is the Chairman and Chief Executive Officer of Griffith Lumber Company, Inc. Griffith Lumber is a retail lumber and building materials business located in Manhattan, Kansas, marketing to commercial, industrial and construction accounts. He has served as a director of Commerce Bank, N.A., a subsidiary of the Company.

Name and Age	Periods Served as Director and Business Experience During Past 5 Years
Mary Ann Van Lokeren, 56	Elected a director in April, 1996. Ms. Van Lokeren is the Chief Executive Officer of Krey Distributing Company. Krey Distributing Company is the exclusive Anheuser Busch wholesaler for St. Charles and Lincoln counties in Missouri. She is also a director of Laclede Gas Company, Masco Corporation and D & K Healthcare resources (since May, 2003). She has served as a director of Commerce Bank, N.A., a subsidiary of the Company.
2005 Class:	
John R. Capps, 53	Elected a director in January, 2000. Mr. Capps has served as the President and Chief Executive Officer of Plaza Motor Company since 1981. Plaza Motor Company is a retail dealership for eight luxury automobile franchises. Mr. Capps is a director of Whitfield School (from 1995-present), St. Louis Priory School (from 1988-present), Muny Opera (from 1999-present), Whitaker Foundation (from August, 2001-present), St. Louis Art Museum (from October, 2001-present) and Contemporary Art Museum (from January, 2003-present). He is Past Chairman of the Regional Business Council. He also served as a director of Commerce Bank, N.A., a subsidiary of the Company.
W. Thomas Grant, II, 53	Elected a director in June, 1983. Mr. Grant became the Chairman of the Board of LabOne, Inc. in October, 1995. LabOne, Inc. is a national laboratory services provider that performs insurance, clinical and substance abuse testing.
James B. Hebenstreit, 58	Elected a director in October, 1987. Mr. Hebenstreit has been President of Bartlett and Company since January, 1992. Bartlett and Company is engaged in grain merchandising and storage, flour and feed milling and cattle feeding. Mr. Hebenstreit is Chairman of the Company's Committee on Governance/ Directors.
David W. Kemper, 53	Elected a director in February, 1982. Mr. Kemper is Chairman of the Board (since November, 1991), President and Chief Executive Officer of the Company and is Chairman of the Board, President, and Chief Executive Officer of Commerce Bank, N.A., a subsidiary of the Company. He is also a director of Ralcorp Holdings, Inc., and Tower Properties Company. Mr. David Kemper is the brother of Jonathan M. Kemper.

Audit Committee:

During 2003 Messrs. John R. Capps, James B. Hebenstreit, Thomas A. McDonnell, Benjamin F. Rassieur, III and Robert H. West (Chairman) served as members of the Audit Committee. It has been determined by the Board of Directors that all members of the Audit Committee are independent pursuant to the Sarbanes-Oxley Act of 2002, NASDAQ Rule 4200 and the Federal Deposit Insurance Corporation and Improvement Act of 1991. The role of the Audit Committee is to assist the Board of Directors in its oversight of the Company's accounting, auditing and financial reporting processes. The Audit Committee is responsible for the compensation and appointment of the Company's public accountants for the purpose of the examination and audit of the Company's financial statements. The Audit Committee reviews the scope of audits to be performed by the independent public accountants and the internal auditing staff of the Company, and reviews annually the program of the internal auditing staff both with respect to audits performed in the prior year and scheduled audits for the ensuing year. The Audit Committee held four meetings during 2003. Complete information on the activity of the Audit Committee is provided in the Audit Committee Report on page 18. The Audit Committee Charter may be viewed at www.commercebank.com/027.html.

Compensation and Human Resources Committee:

The Board of Directors has appointed a Compensation and Human Resources Committee, consisting entirely of independent directors, to review and establish compensation to be paid to officers of the Company and to grant options pursuant to the Company's stock option plans. Directors Giorgio Balzer, Terry O. Meek, Andrew C. Taylor (Chairman) and Mary Ann Van Lokeren presently comprise the committee which held one meeting during 2003 for these purposes.

Committee on Governance/ Directors:

The Committee on Governance/ Directors consists entirely of independent directors appointed by the Board of Directors. Among its responsibilities are to identify individuals qualified to serve as Board members and to consider the re-nomination of incumbent directors. The Committee makes its recommendations to the Board of Directors. Pursuant to its Charter, the membership of the Committee is to consist of the Chairman of the Audit Committee, the Chairman of the Compensation and Human Resources Committee and such other members as the Board shall determine. The current members of the Committee are Messrs. James B. Hebenstreit (Chairman), Robert H. West, Andrew C. Taylor, W. Thomas Grant, II and Thomas A. McDonnell. The Committee met one time in 2003. The Committee on Governance/ Directors Charter may be viewed at www.commercebank.com/027.html.

With respect to its recommendations of prospective candidates to the Board, the Committee may establish the criteria for director service and will consider, among other things, the independence of the candidates under NASDAQ standards and such experience and moral character as to create value to the Board, the Company and its shareholders. With respect to incumbent candidates, the Committee will also consider meeting attendance, meeting participation and ownership of Company stock. The criteria and selection process are not standardized and may vary from time to time. Relevant experience in business, government, the financial industry, education and other areas are prime measures for any nominee. The Committee will consider individuals for Board membership that are proposed by shareholders in accordance with the provisions of the Company's By-laws. A description of those provisions can be found under **Shareholder Proposals and Nominations**. The Committee will consider individuals proposed by shareholders under the same criteria as all other individuals.

By February of each year, the Committee will meet and make its recommendations to the Board of its proposed slate of directors for the class of directors to be elected at the next annual meeting; the date, time and place of the annual meeting and the matters to be placed on the agenda for the annual meeting.

Corporate Governance and Director Independence:

The Company has adopted Governance Guidelines. Those guidelines and the charters for the Audit Committee, Compensation and Human Resources Committee and the Committee on Governance/ Directors may be found on the Company's website at www.commercebank.com/027.html. The Company's Code of Ethics for Senior Financial Officers can also be found on the website.

In conjunction with regularly scheduled Board Meetings, the Board of Directors meets in Executive Session without the presence of any non-independent directors or Company Employees. One Executive Session was held in 2003. The Chairman of the Committee on Governance/ Directors serves as Chairman of the Executive Session and functions as the Lead Director to communicate with management and non-independent directors. The Board of Directors plans on conducting at least two Executive Sessions during 2004.

The Committee on Governance/ Directors has reviewed the independent status of the members of the Board of Directors and each standing Committee. The Committee considered applicable laws and regulations and NASDAQ Rule 4200. The findings of the Committee were reported to the Board of Directors. Based on those findings, the Board of Directors has determined that all directors except for Messrs. David W. Kemper and Jonathan M. Kemper are independent. The Board also determined that Mr. Robert H. West was qualified to serve as the Financial Expert on the Audit Committee and was so designated.

The Governance Guidelines adopted by the Board of Directors recognize the responsibility of the directors to attend meetings. A board meeting is held each year in conjunction with the annual shareholders meeting at which directors are expected to attend. In 2003 eleven of the thirteen board members attended the annual shareholders meeting.

The Board of Directors held four meetings during 2003. Each director, except Giorgio Balzer and Andrew C. Taylor, attended 75% or more of the total number of meetings of the Board and meetings held by committees of the Board on which the respective director served.

Directors and officers of the Company and the nominees for directors and their associates have deposit accounts with the subsidiary banks of the Company, and some directors, nominees for directors and officers and their associates also have other transactions with the subsidiary banks, including loans in the ordinary course of business, all of which were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than normal risk of collectibility or present other unfavorable features. All such loans were made pursuant to 12 USC 375(b) and Regulation O promulgated thereunder. As of December 31, 2003, all such loans were current.

During 2003, subsidiaries of the Company paid Tower Properties Company \$1,815,429 in rentals, \$559,655 in leasing fees, \$43,257 for operation of parking garages, \$1,231,999 for building management fees, \$1,527,567 for other property construction and repair costs and \$102,752 for interest paid on deposits with the Company's principal banking subsidiary. Messrs. David Kemper and Jonathan Kemper are directors of Tower Properties Company and together with members of their immediate families own beneficially approximately 46% of the outstanding stock of Tower Properties Company.

Director Compensation:

An employee of the Company or a subsidiary of the Company receives no additional compensation for serving as a director. Non-employee directors of the Company are required to participate in the Stock Purchase Plan for Non-Employee Directors. Under this Plan, all compensation payable to a non-employee director is credited to an account in the name of such director as earned and the Company contributes to the account of such director an additional amount equal to 25% of the compensation credited to the director's account. As of the last business day of each month, the cash balance is used to purchase from the Company whole shares of common stock of the Company based on the last sale price of the Company's common stock on such date. Each non-employee director of the Company is paid (as adjusted for the 25% contribution by the Company) the annual retainer of \$10,000 (paid on a quarterly basis), fees of \$3,000 for each meeting of the Board of Directors attended, and fees of \$750 for attendance at each meeting of a committee of which the director was a member and attended. An annual fee of \$5,000 is paid to all non-employee committee chairmen.

THE BOARD OF DIRECTORS

**RECOMMENDS A VOTE FOR
AN INCREASE IN SHARES AVAILABLE FOR ISSUANCE
UNDER THE COMPANY'S RESTRICTED STOCK PLAN AND
AMENDMENT OF THE COMPANY'S RESTRICTED STOCK PLAN**

PROPOSAL TWO

On February 4, 2000, the Board of Directors adopted an amended and restated Restricted Stock Plan (the Plan), which amended and restated the Company's Restricted Stock Plan, originally adopted in 1991 and subsequently amended and restated in 1996. As amended and restated, the Plan generally provides for restricted stock awards of the Company's common stock (collectively Awards) in an amount not to exceed 366,496 shares, as adjusted for previous stock splits and stock dividends. To date 260,081 shares have been granted under the Plan with 106,415 shares currently available for issuance as of December 31, 2003.

On October 24, 2003, the Board of Directors unanimously adopted a resolution that a proposal should be submitted to the shareholders for amendments to the Plan that would (i) increase the number of shares of

common stock authorized for issuance in Awards by 250,000 shares, thereby authorizing a total of 616,496 shares for issuance under the Plan, with 356,415 shares remaining available for issuance in future Awards, and (ii) allow for Awards issued under the Plan to constitute performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), thereby allowing the Company to disregard the Awards for purposes of the deduction limit under Code Section 162(m) with respect to compensation in excess of \$1 million paid in any year to the Company's Chief Executive Officer or the Company's four other most highly compensated executive officers. The proposed amendment will provide the Company with available shares to continue to grant future restricted stock awards and it also provides the Company flexibility to place greater emphasis on using restricted stock as an alternative to issuing stock options while maintaining constant compensation levels. The adoption of the amendments to the Plan are subject to the affirmative vote of a majority of the shares of the Company's common stock, represented in person or by proxy and entitled to vote at the Annual Meeting, assuming a quorum.

The following paragraphs provide a summary of the principal features of the plan, as amended (the Amended Plan), and its operation. This summary is qualified in its entirety by reference to the applicable provisions of the Amended Plan, a copy of which is set forth in the attached Appendix A to this proxy statement.

Purpose. The purpose of the Amended Plan is to promote the interests of the Company and its shareholders by providing a means, through the grant of Awards, for the Company to retain and attract personnel who contribute to the growth and development of the Company and its subsidiaries by providing additional incentive to such personnel by offering a greater interest in the continued success of the Company through increased stock ownership.

Stock Subject to the Amended Plan. Under the Amended Plan, the total number of shares of the Company's common stock authorized for issuance through Awards shall not exceed 616,496, an increase of 250,000 shares from the amount currently authorized under the Plan, which leaves 356,415 shares available for issuance in future Awards. This limitation on the number of shares authorized for issuance will be adjusted proportionately for any increase or decrease in shares resulting from a transaction effected without receipt of consideration by the Company, such as a stock dividend or stock split. The maximum number of shares that may be issued in Awards in any one calendar year to any employee covered under Section 162(m)(3) of the Code is 50,000.

Administration. The Amended Plan is administered by the Compensation and Human Resources Committee of the Board of Directors (the Compensation Committee), which shall consist of two or more directors who are non-employee directors under Rule 16b-3(b)(3) promulgated under the Securities and Exchange Act of 1934, as amended, and outside directors within the meaning of Treasury Regulation 1.162-27(e)(3)(i), as amended. The Compensation Committee has the full authority in its sole discretion to determine to whom Awards will be granted, the number of shares subject to each Award, the times when Awards may be granted and the times at which any Award restrictions will expire.

Eligibility. The Compensation Committee may grant Awards to any of the officers, executives and management personnel of the Company or its subsidiaries, after giving consideration to employee duties and contributions and such other factors as the Compensation Committee deems relevant. No member of the Compensation Committee and no member of the Board of Directors, unless such director is also an employee of the Company, is eligible to receive an Award. Approximately 500 employees are eligible to participate in the Amended Plan.

Grant of Awards. Each Award must be evidenced by one or more stock certificates registered in the name of the individual to whom the Award is granted (the Participant) and an agreement entered into between the Company and the Participant. The terms of such agreement may include the number of shares issued in the Award and a related restriction period of not more than 10 years. An Award vests upon lapse of the Award's restriction period. Shares issued in Awards are also subject to transfer restrictions, which prohibit the shares from being transferred, assigned or otherwise disposed of during the Award's restriction period.

In determining the vesting schedule for each Award, the Compensation Committee may impose conditions to vesting, as it deems appropriate. For example, the Compensation Committee may (but is not required to) provide that restricted stock will vest only if one or more performance goals are achieved. In order for an Award to qualify as performance-based under Section 162(m) of the Code, the Compensation Committee must use one or more of the following measures in setting the performance goals under the Amended Plan: (1) revenue, (2) earnings, (3) earnings per share, (4) pre-tax earnings and net profits, (5) stock price, (6) market share, (7) costs, (8) return on equity, (9) efficiency ratio, (10) asset management, (11) asset quality, (12) asset growth, and (13) budget achievement. These performance measures are set forth in the Amended Plan.

Performance goals may vary from participant to participant and may be set for the Company as a whole, for its various groups, divisions, subsidiaries and affiliates and may be established as a comparison to peers. No Award that is intended to qualify as performance-based shall be paid before the Compensation Committee certifies that the participant met the requirements of the performance goal. Any performance goal will be sufficiently objective such that a third party having knowledge of the relevant facts could determine whether the performance goal has been met.

Lapse of Restrictions. If a Participant's employment terminates by reason of death or disability, the restriction period will be deemed to have lapsed on that part of the Award which equals the portion of the restriction period completed before the death or disability. If a Participant retires in a manner provided for under the Amended Plan before the end of the restriction period, then on the date on which the restriction period ends, the Participant will become fully vested in the part of the Award equaling the portion of the restriction period completed before retirement.

Rights as a Shareholder. Participants have the right to receive cash dividends during any restriction period, vote the common stock subject to an Award and enjoy most other shareholder rights. Participants may not receive delivery of stock certificates until after the related restriction period has lapsed and may not sell, transfer, pledge, exchange or otherwise dispose of common stock issued under an Award during the related restriction period.

Change in Control. In the event of a transaction which results in a Change in Control, as defined by the Amended Plan, the restrictions applicable to any Award shall lapse and such Award shall become fully vested and transferable.

Amended Plan Benefits. The Compensation Committee has the sole discretion to determine who shall be granted Awards, as well as the size and restrictions of such Awards. For this reason, the Company cannot determine the number of Awards that might be received by Participants as a result of this proposed amendment. The Committee has the ability to grant Awards consisting solely of restricted stock or restricted stock in combination with stock options. The increased shares will permit the committee to grant more restricted stock and fewer stock options. The following table sets forth, as of December 31, 2003, the total number of Awards granted to each of the following persons and groups since the original inception of the Plan in 1991.

Name and Position	Number of Shares of Restricted Stock Granted(1)	Dollar Value of Restricted Stock\$(2)
David W. Kemper	18,661	\$ 597,999
Jonathan M. Kemper	6,544	\$ 209,926
Seth M. Leadbeater	10,278	\$ 204,712
V. Raymond Stranghoener	2,560	\$ 91,638
Kevin G. Barth	8,740	\$ 211,362
Executive Officer Group	118,126	\$2,657,227
Non-Executive Employee Group	179,071	\$4,529,396

- (1) The Executive Officer Group total includes grants to the named executives officers of the Company. The Non-Executive Employee Group total includes all other grants to employees, including amounts granted to employees who are no longer employed by the Company. All the grants provided for a restriction period of five years.
- (2) Based upon fair market value at the date of the grant of the Award.

Federal Income Tax Information. The following discussion of tax issues deals with general tax principles and is intended for general information only. Alternative minimum tax and state, local and foreign income taxes are not discussed. This discussion is not to be construed as tax advice.

Participants are not required to recognize income upon the grant of an Award, unless the Participant makes an election, under Section 83(b) of the Code, to be taxed at the time of the Award. For Participants who do not make an election under Section 83(b) of the Code, when the restriction period lapses, the Participant must recognize ordinary income in an amount equal to the fair market value of the shares at that time. Any disposition of shares by a Participant after the lapse of the restriction period may result in the recognition of capital gain or loss (long-term or short-term depending upon the length of time the shares are held by the Participant after all related restriction periods have lapsed). Dividends paid in cash and received by a Participant during the restriction period will constitute ordinary income to the Participant. Any dividends paid in stock during the restriction period will be treated as an Award of additional restricted stock subject to the tax treatment described herein.

If a Participant does make an election under Section 83(b) of the Code to be taxed at the time of the Award, the Participant will be required to recognize ordinary income at the time of the Award in an amount equal to the excess of the fair market value of the shares at that time over the amount paid by the Participant, if any, for the shares. In such a case, no additional income is recognized by the Participant upon the lapse of the restrictions on the shares. If the shares are forfeited during the restriction period, the Participant may not deduct the income recognized at the time of the receipt of the shares, and will have a capital loss equal to the amount paid, if any, for the shares. Any dividend income received after an election under Section 83(b) of the Code will be treated as ordinary income, which should qualify as a qualified dividend.

The Company is entitled to a tax deduction for an Award in an amount equal to the ordinary income realized by the Participant at any time the Participant recognizes such ordinary income, subject to certain limitations. One such limitation is Section 162(m) of the Code, which contains special rules regarding the federal income tax deductibility of compensation paid to the Company's Chief Executive Officer and to each of the other four most highly compensated executive officers. The general rule is that annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1 million. The Company can preserve the deductibility of certain compensation in excess of \$1 million, however, if the Company complies with conditions imposed by Section 162(m) of the Code. The Amended Plan is designed to permit the Compensation Committee to grant Awards that will satisfy the requirements of Section 162(m).

Any Participant entitled to receive shares pursuant to an Award will be given notice by the Company to permit such Participant to make a cash payment to the Company for applicable withholding taxes. The Company may defer making delivery of the certificate representing the shares until indemnified with respect to any such withholding tax. A Participant may satisfy the Participant's obligation to pay the Company withholding taxes, in whole or in part, by electing to have the Company withhold shares of common stock having a value equal to the amount required to be withheld. The Compensation Committee may disapprove any such election or may suspend or terminate the right to make such elections.

Amendments. The Board of Directors may, by resolution, amend the Amended Plan except that, shareholder approval must be obtained for any such amendment if required by the Amended Plan or any other applicable law, rule or regulation.

THE BOARD OF DIRECTORS CONSIDERS THE PROPOSED AMENDMENT TO THE RESTRICTED STOCK PLAN TO BE IN THE BEST INTERESTS OF THE COMPANY AND ITS SHAREHOLDERS AND UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE AMENDMENT OF THE RESTRICTED STOCK PLAN.

THE BOARD OF DIRECTORS

**RECOMMENDS A VOTE FOR
RATIFICATION OF THE SELECTION OF
KPMG LLC AS THE INDEPENDENT PUBLIC ACCOUNTANTS**

PROPOSAL THREE

Pursuant to the Sarbanes-Oxley Act of 2002 the Audit Committee of the Company is responsible for the selection and approval of the Company's public accountants for the purpose of the examination and audit of the Company's financial statements for 2004. The Audit Committee has also adopted a procedure for the preapproval of non-audit services. The Audit Committee has selected and the Board of Directors has ratified the selection of KPMG LLP as the firm to conduct the audit of the financial statements of the Company and its subsidiaries for 2004. This selection is presented to the shareholders for ratification, however, the failure of the shareholders to ratify the selection will not change the engagement of KPMG LLP for 2004. The Audit Committee will consider the vote of the shareholders for future engagements. Representatives of KPMG LLP are expected to be present at the Annual Meeting and will be available to respond to appropriate questions. The representatives will also be provided an opportunity to make a statement.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE COMPANY'S SHAREHOLDERS VOTE FOR THE RATIFICATION OF KPMG LLP.

Employment Contracts, Termination of Employment and Change-in-Control Arrangements:

The Company has a Severance Agreement with each of David W. Kemper, Jonathan M. Kemper, Seth M. Leadbeater, V. Raymond Strangoener and Kevin G. Barth which provides, among other things, that if his employment is terminated by the Corporation without cause or by him for good reason either during the twelve months before or the three years after a change in control, or if he voluntarily terminates for any reason during the 30 days following one year after a change of control, he shall receive three times the sum of his annualized base salary in effect twelve months prior to the change in control, and his average annual bonus for the prior three years; the greater of his actual bonus for the preceding first year or his target bonus for the current year (prorated for the year in which the termination occurs); and continuation of health and welfare benefits for him and his spouse for three years or until age 65 if sooner, at a cost equal to such rates paid from time to time by similarly situated employees of the Corporation, grossed up to cover any excise tax imposed by Section 4999 of the Internal Revenue Code.

Executive Compensation:

The following information is given as to the Chief Executive Officer (CEO) and as to each of the four most highly compensated executive officers of the Company, other than the CEO, who received total cash compensation of more than \$100,000, during the fiscal year ended December 31, 2003.

Summary Compensation Table

(a) Name and Principal Position	(b) Year	Annual Compensation			Long Term Compensation			
		(c) Salary (\$)	(d) Bonus (\$)	(e) Other Annual Compensation (\$)	Awards		Payouts	
					(f) Restricted Stock Awards(2) (\$)	(g) Securities Underlying Options/SARs (#)	(h) LTIP Payouts (\$)	(i) All Other Compensation(1) \$
David W. Kemper Chairman, President & CEO Commerce Bancshares, Inc.	2003	691,150	521,000	0	158,841	89,250	0	78,527
	2002	658,200	496,000	0	115,530	93,712	0	78,720
	2001	632,850	360,000	0	166,238	84,506	0	52,565
Jonathan M. Kemper Vice Chairman Commerce Bancshares, Inc.	2003	359,000	181,000	0	55,511	37,800	0	12,621
	2002	345,125	173,400	0	40,421	37,587	0	10,283
	2001	331,750	126,000	0	59,494	35,044	0	49,336
Seth M. Leadbeater Executive Vice President Commerce Bancshares, Inc.	2003	270,000	136,000	0	41,828	17,850	0	8,355
	2002	259,375	130,600	0	30,165	18,742	0	6,437
	2001	248,750	94,000	0	43,745	17,363	0	17,872
V. Raymond Stranghoener Senior Vice President &	2003	235,900	107,700	0	32,080	14,700	0	8,215
	2002	226,829	100,200	0	26,934	15,435	0	6,304