

CULLEN FROST BANKERS INC
Form 424B3
July 28, 2005
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Filed Pursuant to Rule 424(b)(3)

Registration No. 333-126429

July 27, 2005

Dear Fellow Shareholders:

You are cordially invited to attend a special meeting of shareholders of Horizon Capital Bank to be held at Horizon, 3707 Richmond Avenue, Houston, Texas at 4:00 p.m. local time on August 30, 2005. At the special meeting, shareholders will be asked to take certain action in connection with an Agreement and Plan of Merger, as amended, between Horizon and Cullen/Frost Bankers, Inc., as described below.

Please read this letter carefully as it contains important information regarding action we need you to take in connection with the special meeting. In addition, if you are a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement, then you are also cordially invited to attend a voting meeting immediately prior to the special meeting to direct the voting representative on how to vote your shares of Horizon common stock subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement at the special meeting as more fully described below.

At the special meeting, shareholders will be asked to take certain action in connection with an Agreement and Plan of Merger between Horizon and Cullen/Frost Bankers, Inc., as described below.

Merger: Cullen/Frost and Horizon are proposing a merger of Horizon into a wholly owned subsidiary of Cullen/Frost.

Merger consideration: Set forth below is a description of the merger consideration. For an illustration of the consideration you may receive per share, see page 2 of the attached document.

The total consideration to be paid to Horizon shareholders in the merger consists of 1,400,000 shares of Cullen/Frost common stock and \$45,000,000 in cash. If the average trading price of the Cullen/Frost stock over the ten-trading-day period immediately prior to the merger's closing date is greater than \$53.46, the amount of cash will be reduced. If such average trading price is less than \$43.74, the amount of cash will be increased but not beyond \$50,236,000. Under certain circumstances, the aggregate amount of cash consideration may also be increased to the extent that the amount of pre-closing shareholders' equity minus \$38,000,000 exceeds 5% of the amount of pre-closing shareholders' equity. Pre-closing shareholders' equity means the total shareholders' equity of Horizon as of the month-end immediately preceding the merger's closing date, adjusted to take into account certain transaction expenses.

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Each Horizon shareholder will be entitled to elect to receive for each share of Horizon common stock either shares of Cullen/Frost common stock or cash, subject to the amount of shares and cash available and the election and allocation procedures in the merger agreement. **YOU MUST MAKE THIS ELECTION BY THE SPECIAL MEETING.**

Generally, to the extent that you receive Cullen/Frost common stock, the merger will be tax-free to you, other than with respect to any cash consideration or cash you receive for fractional shares.

The number of shares of Cullen/Frost common stock and the amount of cash to be received for each share of Horizon common stock will be based on a formula. This formula first values the aggregate consideration to be received by all Horizon shareholders in the merger using the average trading price of Cullen/Frost common stock described above and the amount of cash to be paid. It then divides that value by the number of shares of Horizon common stock outstanding at the time of the merger, which is expected to be 944,966. The result would be the amount of cash per share to be paid to Horizon shareholders. The number of shares of Cullen/Frost common stock to be exchanged for each share of Horizon stock would be equal to that per share cash amount divided by the average trading price of the Cullen/Frost common stock described above.

The total amount of Cullen/Frost common stock and cash available in the merger will be fixed at the time of the closing but the value of the consideration to be received by Horizon shareholders will change depending on changes in the market price of Cullen/Frost common stock and will not be known at the time Horizon's shareholders vote on the merger. Set forth below is an illustration based on various share prices, disregarding the impact of the special dividend described below.

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<u>Date</u>	<u>Closing</u>		<u>Exchange</u>
	<u>Cullen/Frost</u>		<u>Ratio/Value</u>
	<u>Share Price</u>	<u>Cash</u>	<u>Based on</u>
	<u>Share Price</u>	<u>Amount</u>	<u>Cullen/Frost</u>
April 18, 2005, the last trading day before we announced our merger	\$ 44.43	\$ 113.45	2.5535
July 26, 2005	49.44	120.87	2.4447

Special Dividend: In addition to the merger consideration, Horizon is permitted to pay a special dividend at closing to the extent that, as of the close of the month prior to the merger's scheduled closing, Horizon's shareholders' equity, adjusted to take into account certain transaction expenses, exceeds \$38,000,000, provided that such amount does not exceed 5% of Horizon's pre-closing shareholders' equity. This amount will be divided by the number of shares of Horizon common stock outstanding immediately prior to the merger's effective time to determine the per share amount of the special dividend. If the amount of Horizon's shareholders' equity minus \$38,000,000 would exceed 5% of Horizon's pre-closing shareholders' equity, the amount of cash to be paid in the merger would be increased by an amount equal to the excess over 5%.

Based on estimated pre-closing shareholders' equity of \$40.8 million at June 30, 2005, after giving effect to the exercise of all stock options that occurred prior to the date hereof, the special dividend in the aggregate would be approximately \$2.04 million or \$2.16 per share of Horizon common stock and the additional amount added to the aggregate merger consideration would be approximately \$0.75 million or \$0.79 per share of Horizon common stock. The final amount of the special dividend will not be known until shortly before the consummation of the merger and may be more or less than the amount that would have been paid if the special dividend was based on June 30, 2005 financials.

Unanimous Board Approval/Fairness Opinion: The Board of Directors of Horizon has unanimously approved and recommends the Agreement and Plan of Merger, as amended, and believes that the merger is beneficial to all shareholders. Horizon's financial advisor, Hovde Financial LLC, has issued its opinion to Horizon's Board of Directors that the consideration in the merger is fair, from a financial point of view, to Horizon's shareholders.

Voting: The merger requires the approval of at least 66²/₃% of the outstanding shares of Horizon common stock. How you vote depends upon whether you are a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement, which I refer to sometimes as the shareholders agreement.

If You Are a Party to the Bay Area Bank and Trust

Voting and Stock Restriction Agreement

You are being asked to consider and vote on the proposal to approve the Agreement and Plan of Merger, as amended, and thus provide direction to me as the voting representative on the **blue proxy card** by completing it and returning it in the self addressed, postage prepaid envelope so that I as the voting representative may vote your shares at the special meeting in accordance with your wishes. You are also being asked to provide your written consent to the termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement to take effect immediately prior to the merger by means of voting for Item 2 on the **blue proxy card**.

All of the shares subject to the shareholders agreement will be voted by me for or against the proposal in the same proportion as I receive for or against proxies. As of the record date, there were 857,551 shares of Horizon common stock subject to the shareholders agreement representing approximately 91% of the issued and outstanding shares of Horizon common stock. Termination of the shareholders agreement requires the consent of holders of at least 65% (or 557,409 shares) of the shares of Horizon common stock subject to the shareholders agreement. The shareholders agreement is being terminated to eliminate certain restrictions on voting and transferability that would otherwise continue to apply to the Cullen/Frost common stock received in the merger.

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If You Are Not a Party to the Bay Area Bank and Trust

Voting and Stock Restriction Agreement

You are being asked to consider and vote on the proposal to approve the Agreement and Plan of Merger, as amended, on the **white proxy card** by completing it and returning it in the self addressed, postage prepaid envelope.

Regardless of the number of shares you own, or whether you plan to attend the special meeting, it is very important that you read the enclosed material carefully and vote as soon as possible to make sure that your shares are represented at the meeting. Not voting at all will have the same effect as voting against the merger.

If you have questions, or need any assistance regarding voting, you may call me at (713) 679-2600.

We look forward to seeing you at the special meeting.

Sincerely,

Jack L. Thetford

Chairman of the Board

This document and risks. Please read this document carefully, because it contains important information about the merger. **Read carefully the risk factors relating to the merger beginning on page 12.**

Neither the SEC nor any state securities commission has approved or disapproved the securities to be issued in the merger or determined if this document is accurate or adequate. It is illegal to tell you otherwise.

The securities to be issued in the merger are not savings or deposit accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

Proxy statement-prospectus dated July 28, 2005, and first mailed to shareholders on or about July 29, 2005.

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GENERAL INFORMATION

This proxy statement-prospectus incorporates by reference important business and financial information about Cullen/Frost Bankers, Inc. from other documents that are not included in or delivered with this proxy statement-prospectus. This information is available to you without charge upon your written or oral request. You can obtain those documents incorporated by reference in this proxy statement-prospectus by accessing the Securities and Exchange Commission's website maintained at <http://www.sec.gov> or by requesting copies in writing or by telephone from Cullen/Frost at the following address:

Cullen/Frost Bankers, Inc.

Attention: Investor Relations

100 West Houston Street

San Antonio, Texas 78205

(210) 220-4011

Horizon is not subject to the reporting and informational requirements maintained by the Securities and Exchange Commission and does not file reports or other information with the Securities and Exchange Commission.

If you would like to request documents, please do so by August 23, 2005 in order to receive them before Horizon's special shareholder meeting. If you request any documents incorporated by reference from Cullen/Frost, Cullen/Frost will mail them to you within one business day by first-class mail, or similar means.

See "Where You Can Find More Information" on page 67.

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HORIZON CAPITAL BANK
NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON AUGUST 30, 2005

To the Shareholders of

Horizon Capital Bank:

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of Horizon Capital Bank, a Texas banking association, will be held at Horizon, 3707 Richmond Avenue, Houston, Texas, on August 30, 2005 at 4:00 p.m. local time, for the purpose of considering and voting upon the following matters:

Approval of the Agreement and Plan of Merger, dated April 19, 2005, as amended, between Cullen/Frost Bankers, Inc., a Texas corporation, and Horizon, the plan of merger contained in the merger agreement and the merger, pursuant to which Horizon will merge with and into a wholly owned subsidiary of Cullen/Frost, as more fully described in the attached proxy statement-prospectus.

To adjourn or postpone the special meeting, if necessary, to solicit additional proxies in favor of the merger.

Transaction of such other business as may properly come before the special meeting and any adjournments or postponements thereof.

We have fixed the close of business on July 25, 2005, as the record date for determining those shareholders entitled to notice of and to vote at the special meeting and any adjournments or postponements of the special meeting. Only Horizon shareholders of record at the close of business on that date are entitled to notice of the special meeting and any adjournments or postponements of the special meeting, and only Horizon common shareholders of record at the close of business on that date are entitled to vote at the special meeting and any adjournments or postponements of the special meeting. In order for the proposal to approve the merger agreement, the plan of merger and the merger to be adopted, the holders of 66²/₃% of the outstanding shares of Horizon common stock entitled to vote must vote in favor of approval of the proposal. Abstentions and broker non-votes will have the same effect as votes against approval of the merger agreement, the plan of merger and the merger. If you wish to attend the special meeting and your shares are held in the name of a broker, trust, bank or other nominee, you must bring with you a proxy or letter from the broker, trustee, bank or nominee to confirm your beneficial ownership of the shares.

By Order of the Board of Directors,

Jack L. Thetford

Chairman of the Board

Houston, Texas

July 27, 2005

Whether or not you plan to attend the special meeting in person, please complete, date, sign and return the enclosed white proxy card in the enclosed envelope. The enclosed envelope requires no postage if mailed in the United States. If you attend the special meeting, you may vote in person if you wish, even if you have previously returned your proxy card.

Horizon's board of directors unanimously recommends that you vote FOR approval of the merger agreement, the plan of merger and the merger.

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HORIZON CAPITAL BANK
NOTICE OF VOTING MEETING OF SHAREHOLDERS
SUBJECT TO THE
BAY AREA BANK AND TRUST VOTING AND STOCK RESTRICTION AGREEMENT
TO BE HELD ON AUGUST 30, 2005

To the Parties to the

Bay Area Bank and Trust Voting

and Stock Restriction Agreement:

NOTICE IS HEREBY GIVEN that Jack L. Thetford, the voting representative (the Voting Representative) under the Bay Area Bank and Trust Voting and Stock Restriction Agreement (the Shareholders Agreement), has called a voting meeting of the shareholders subject to the Shareholders Agreement to be held at Horizon Capital Bank, 3707 Richmond Avenue, Houston, Texas on August 30, 2005 at 3:30 p.m. local time, for the purpose of directing the Voting Representative on how to vote at the special meeting of the shareholders of Horizon Capital Bank upon the following matters:

Approval of the Agreement and Plan of Merger, dated April 19, 2005, as amended, between Cullen/Frost Bankers, Inc., a Texas corporation, and Horizon, pursuant to which Horizon will merge with and into a wholly owned subsidiary of Cullen/Frost, as more fully described in the attached proxy statement-prospectus.

To terminate the Shareholders Agreement immediately prior to the effectiveness of the merger.

To adjourn or postpone the special meeting, if necessary, to solicit additional proxies in favor of the merger.

Transaction of such other business as may properly come before the special meeting and any adjournments or postponements thereof.

The Voting Representative has fixed the close of business on July 25, 2005, as the record date for determining those shareholders entitled to notice of and to vote at the voting meeting and any adjournments or postponements of the voting meeting. Only Horizon shareholders of record at the close of business on that date and subject to the Shareholders Agreement are entitled to notice of the voting meeting and any adjournments or postponements of the voting meeting, and only such Horizon shareholders are entitled to vote at the voting meeting and any adjournments or postponements of the voting meeting. All shares subject to the Shareholders Agreement will be voted by the Voting Representative either for or against each proposal at the special meeting in the same proportion as the Voting Representative receives for or against proxies or votes at the voting meeting. In order for the proposal to terminate the Shareholders Agreement to be adopted, the holders of at least 65% of the shares of Horizon common stock subject to the Shareholders Agreement entitled to vote must vote in favor of approval of the proposal, and agree in writing, to terminate the Shareholders Agreement by means of voting for Item 2 on the blue proxy card. Abstentions and broker non-votes will have the same effect as votes against approval of each proposal. If you wish to attend the voting meeting and your shares are held in the name of

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a broker, trust, bank or other nominee, you must bring with you a proxy or letter from the broker, trustee, bank or nominee to confirm your beneficial ownership of the shares.

By Order of the Voting Representative

Jack L. Thetford

Voting Representative

Houston, Texas

July 27, 2005

Whether or not you plan to attend the voting meeting in person, please complete, date, sign and return the enclosed blue proxy card in the enclosed envelope. The enclosed envelope requires no postage if mailed in the United States. If you attend the voting meeting, you may vote in person if you wish, even if you have previously returned your proxy card.

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SUMMARY

This summary highlights selected information from this document. It may not contain all the information that is important to you. We urge you to read carefully this entire document and the other documents to which we refer you for a more complete understanding of the merger between Cullen/Frost and Horizon. In addition, we incorporate by reference into this document important business and financial information about Cullen/Frost. You may obtain the information incorporated by reference in this document without charge by following the instructions in the section entitled **Where You Can Find More Information on page 67. Each item in this summary includes a page reference directing you to a more complete description of that item.**

We Propose a Merger of Horizon and Cullen/Frost (Page 17)

We propose that Horizon merge with and into a newly formed, wholly owned bank subsidiary of Cullen/Frost, with the bank subsidiary as the surviving corporation. The separate existence of Horizon will terminate. Immediately following the merger, the capital stock of the bank subsidiary will be contributed to a wholly owned, bank holding company subsidiary of Cullen/Frost. Immediately following the contribution, the bank subsidiary will merge with and into The Frost National Bank, an indirect, wholly owned subsidiary of Cullen/Frost. We expect to complete the merger in the fourth quarter of 2005.

You Will Receive Cash and/or Shares of Cullen/Frost Common Stock in the Merger Depending on Your Election and Subject to the Proration Provisions of the Merger Agreement (Page 34)

You will have the right to elect to receive merger consideration for each of your shares of Horizon common stock in the form of cash or shares of Cullen/Frost common stock, subject to proration and adjustment in circumstances described below. If you do not submit an election prior to the election deadline, you will be allocated Cullen/Frost common stock and/or cash pursuant to the procedures described under **The Merger Agreement Merger Consideration** on page 32.

The value and amount of the merger consideration will fluctuate with the value of Cullen/Frost common stock and will be determined based on the average of the last reported per share sales prices of Cullen/Frost common stock on the New York Stock Exchange over the ten-trading-day period immediately prior to the merger's closing date. As explained in more detail in this document, based on the Cullen/Frost stock price used to calculate the merger consideration, the value of the consideration that you will receive upon completion of the merger will be the same regardless of whether you elect to receive the cash or stock consideration. You may specify different elections with respect to different shares that you hold (if, for example, you own 100 shares, you could make a cash election with respect to 50 shares and a stock election with respect to the other 50 shares).

The total consideration to be paid to Horizon shareholders in the merger consists of 1,400,000 shares of Cullen/Frost common stock and \$45,000,000 in cash. If the average trading price of the Cullen/Frost stock over the ten-trading-day period immediately prior to the merger's closing date is greater than \$53.46, the amount of cash will be reduced. If such average trading price is less than \$43.74, the amount of cash will be increased, but not above \$50,236,000. Under certain circumstances, the aggregate amount of cash consideration may also be increased to the extent that the amount of pre-closing shareholders equity minus \$38,000,000 exceeds 5% of the amount of pre-closing shareholders equity. Pre-closing shareholders equity means the total shareholders equity of Horizon as of the month-end immediately preceding the merger's closing date, adjusted to take into account certain transaction expenses.

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Each Horizon shareholder will be entitled to elect to receive for each share of Horizon common stock either shares of Cullen/Frost common stock or cash, subject to the amount of shares and cash available and the election and allocation procedures in the merger agreement.

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The number of shares of Cullen/Frost common stock and the amount of cash to be received for each share of Horizon common stock will be based on a formula. This formula first values the aggregate consideration to be received by all Horizon shareholders in the merger using the average trading price of Cullen/Frost common stock described above and the amount of cash to be paid. It then divides that value by the number of shares of Horizon common stock outstanding at the time of the merger, which is expected to be 944,966. The result would be the amount of cash per share to be paid to Horizon shareholders. The number of shares of Cullen/Frost common stock to be exchanged for each share of Horizon stock would be equal to that per share cash amount divided by the average trading price of the Cullen/Frost common stock described above.

The total amount of Cullen/Frost common stock and cash available in the merger will be fixed at the time of the closing but the value of the consideration to be received by Horizon shareholders will change depending on changes in the market price of Cullen/Frost common stock and will not be known at the time Horizon's shareholders vote on the merger.

Set forth below is a table showing a hypothetical range of prices for shares of Cullen/Frost common stock and the corresponding consideration that a Horizon shareholder would receive in a cash election and a stock election under the merger consideration formula based on the number of fully diluted shares of Horizon common stock currently outstanding, after exercise of stock options. The table does not reflect the fact that cash will be paid instead of fractional shares and the additional amount of cash that may be payable because of the limit on the special dividend, if any.

Total Merger Consideration					
Aggregate					
Amount of					
Cash					
Hypothetical	(excluding any			Number of	Value of
Ten-Day	Aggregate	additional	Cash Amount	Shares of	Shares of
Average	Number of	amount	Per Share of	Cullen/Frost	Cullen/Frost
Closing Sales	Shares of	resulting from	the limit on	Stock for	Common
Price for	Cullen/Frost	the special	Horizon Stock	Each Share of	Stock Based
Cullen/Frost	Common	dividend)	Per Share of	Horizon Stock	on Ten-Day
Common	Stock	Horizon Stock	Horizon Stock	Horizon Stock	Average
Stock	Stock	dividend)	Horizon Stock	Horizon Stock	Average
\$35.00	1,400,000	\$50,236,000.00	\$105.02	3.0004	\$49,000,000.00
36.00	1,400,000	50,236,000.00	106.50	2.9582	50,400,000.00
37.00	1,400,000	50,236,000.00	107.98	2.9183	51,800,000.00
38.00	1,400,000	50,236,000.00	109.46	2.8805	53,200,000.00
39.00	1,400,000	50,236,000.00	110.94	2.8447	54,600,000.00
40.00	1,400,000	50,236,000.00	112.42	2.8106	56,000,000.00
41.00	1,400,000	48,836,000.00	112.42	2.7420	57,400,000.00
42.00	1,400,000	47,436,000.00	112.42	2.6767	58,800,000.00
43.00	1,400,000	46,036,000.00	112.42	2.6145	60,200,000.00
44.00	1,400,000	45,000,000.00	112.81	2.5638	61,600,000.00
45.00	1,400,000	45,000,000.00	114.29	2.5398	63,000,000.00
46.00	1,400,000	45,000,000.00	115.77	2.5168	64,400,000.00
47.00	1,400,000	45,000,000.00	117.25	2.4947	65,800,000.00

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48.00	1,400,000	45,000,000.00	118.73	2.4736	67,200,000.00
49.00	1,400,000	45,000,000.00	120.22	2.4534	68,600,000.00
50.00	1,400,000	45,000,000.00	121.70	2.4340	70,000,000.00
51.00	1,400,000	45,000,000.00	123.18	2.4153	71,400,000.00
52.00	1,400,000	45,000,000.00	124.66	2.3973	72,800,000.00
53.00	1,400,000	45,000,000.00	126.14	2.3800	74,200,000.00
54.00	1,400,000	44,244,000.00	126.82	2.3486	75,600,000.00
55.00	1,400,000	42,844,000.00	126.82	2.3059	77,000,000.00

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The examples above are illustrative only. The value of the merger consideration that you actually receive will be based on the average trading price of Cullen/Frost common stock prior to completion of the merger, as described above. If that average price is not included in the table above, including because the price is outside the range of the amounts set forth above, we do not intend to re-solicit proxies from Horizon shareholders in connection with the merger.

The consideration to be paid to shareholders and the amount of the special dividend is not expected to be determined until shortly before the completion of the merger. We intend to announce these amounts by press release when known and to post this release on Cullen/Frost's website (www.frostbank.com). For a summary of the formula contained in the merger agreement, see "The Merger Agreement Merger Consideration" on page 32.

Regardless of Whether You Make a Cash Election or a Stock Election, You May Nevertheless Receive a Mix of Cash and Stock (Page 34)

The aggregate number of shares of Cullen/Frost common stock that will be issued and the aggregate amount of cash that will be paid to Horizon shareholders as consideration in the merger are fixed at 1,400,000 shares and \$45,000,000 in cash, respectively, subject to possible adjustment of the cash amount, as described under "The Merger Agreement Merger Consideration" on page 32. **As a result, if too many shareholders elect to receive Cullen/Frost common stock or cash, shareholders electing the over-subscribed form of consideration will be proportionately cut back and will receive a portion of their consideration in the other form, despite their election.**

In Order to Make an Election, You Must Properly Complete and Deliver an Election Form Prior to the Election Deadline, which is 5:00 p.m. on the date of the Special Meeting (Page 36)

At the time this proxy statement-prospectus is mailed, an exchange agent will mail or deliver to holders of record a **form of election and transmittal materials**. You must properly complete and deliver to the exchange agent the election materials along with your stock certificates (or a properly completed notice of guaranteed delivery). Please **do not** send your stock certificates or form of election with your proxy card for the special meeting or the voting meeting.

Forms of election and stock certificates (or a properly completed notice of guaranteed delivery) must be received by the exchange agent by the election deadline, which will be 5:00 p.m., Central Time, on the date of the special meeting. Once you tender your stock certificates to the exchange agent, you may not transfer your Horizon shares, unless you revoke your election by written notice to the exchange agent which is received prior to the election deadline.

If you fail to submit a properly completed form of election, together with your stock certificates (or a properly completed notice of guaranteed delivery), prior to the election deadline, you will be deemed not to have made an election. As a non-election holder, you will be paid approximately equivalent value per share to the amount paid per share to the holders making elections, but you may be paid all in cash, all in Cullen/Frost common stock, or in part cash and in part Cullen/Frost common stock, depending on the remaining pool of cash and Cullen/Frost common stock available for paying the merger consideration after honoring the cash elections and stock elections that other shareholders have made.

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If you own shares of Horizon common stock in street name through a bank, broker or other financial institution and you wish to make an election, you should seek instructions from the financial institution holding your shares concerning how to make your election.

If the merger is not completed for any reason or if a shareholder revokes his or her election, any stock certificates submitted prior to that time will be returned by the exchange agent.

Horizon May Pay a Special Dividend (Page 40)

Prior to the effective date of the merger, Horizon is permitted to pay a one-time, special dividend on the outstanding shares of Horizon common stock to the extent that as of the close of the month prior to the merger's scheduled closing, Horizon's shareholders equity, adjusted to take into account certain transaction expenses, exceeds \$38,000,000, provided that such amount does not exceed 5% of Horizon's pre-closing shareholders equity. This amount will be divided by the number of shares of Horizon common stock outstanding

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immediately prior to the merger's effective time to determine the per share amount of the special dividend. If the amount of Horizon's shareholders' equity minus \$38,000,000 would exceed 5% of Horizon's pre-closing shareholders' equity, the amount of cash to be paid in the merger would be increased by an amount equal to the excess over 5%.

Based on estimated pre-closing shareholders' equity of \$40.8 million at June 30, 2005, after giving effect to the exercise of all stock options that occurred prior to the date hereof, the special dividend in the aggregate would be approximately \$2.04 million or \$2.16 per share of Horizon common stock and the additional amount added to the aggregate merger consideration would be approximately \$0.75 million or \$0.79 per share of Horizon common stock. The final amount of the special dividend will not be known until shortly before the consummation of the merger and may be more or less than the amount that would have been paid if the special dividend was based on June 30, 2005 financials.

Treatment of Horizon Stock Options (Page 35)

In the merger agreement, Horizon agreed to take all action necessary to ensure that each stock option held by Horizon directors or employees will be exercised before the record date of its special meeting. Pursuant to the merger agreement, Horizon has taken such action and each option was exercised before the record date.

Tax Consequences of the Merger (Page 27)

The tax consequences of the merger to you will depend upon the form of consideration you receive in the merger.

If you receive solely shares of Cullen/Frost common stock and cash in lieu of a fractional share in exchange for your Horizon common stock, then you generally will not recognize any gain or loss, except with respect to the fractional share.

If you receive solely cash, then you generally will recognize gain and likely will be permitted to recognize loss equal to the difference between the amount of cash you receive and your cost basis in your Horizon common stock. The tax treatment of any gain will depend upon your individual circumstances. Horizon shareholders should consult their tax advisors regarding the tax consequences of the merger on them personally.

If you receive a combination of Cullen/Frost common stock and cash, other than cash in lieu of a fractional share, in exchange for your Horizon common stock, then you generally will recognize gain in an amount equal to the lesser of the total amount of cash received or the amount of gain realized on the exchange, but you are not permitted to recognize a loss. Any gain recognized may be treated as a dividend or capital gain, depending on your particular circumstances.

In the opinion of Sullivan & Cromwell LLP and Jenkins & Gilchrist, P.C., for United States federal income tax purposes:

the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and each of Cullen/Frost and Horizon will be a party to the reorganization within the meaning of Section 368(b) of the Internal Revenue Code; and

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no gain or loss will be recognized by the holders of Horizon common stock who receive Cullen/Frost common stock in exchange for Horizon common stock pursuant to the merger, except with respect to cash consideration or cash received in lieu of fractional share interests.

For a complete description of the material United States federal income tax consequences of the transaction, see Material Federal Income Tax Consequences of the Merger on page 27.

The opinions of Sullivan & Cromwell LLP and Jenkins & Gilchrist, P.C. are based in part on certain assumptions and on representations that Cullen/Frost and Horizon made to Sullivan & Cromwell LLP and Jenkins & Gilchrist, P.C. These opinions are exhibits to the registration statement filed with the SEC in connection with this document.

Cullen/Frost and Horizon will not be obligated to complete the merger unless Sullivan & Cromwell LLP and Jenkins & Gilchrist, P.C. confirm the tax

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consequences summarized above by issuing additional opinion letters to the same effect on the closing date.

The Merger Will Be Accounted for as a Purchase (Page 30)

The merger will be treated as a purchase by Cullen/Frost of Horizon under generally accepted accounting principles, or GAAP.

Horizon's Board Recommends That You Vote FOR the Merger (Page 18)

Horizon's board of directors believes that the merger is in the best interests of Horizon and its shareholders and that the merger consideration is fair to Horizon shareholders, and unanimously recommends that Horizon shareholders vote FOR approval of the merger agreement, the plan of merger and the merger.

Horizon's Reasons for the Merger (Page 18)

For a discussion of the factors considered by the Horizon board of directors in reaching its decision to approve the merger agreement and the transactions contemplated thereby, see The Merger Recommendation of Horizon's Board and Its Reasons for the Merger .

Hovde Financial Provided an Opinion to Horizon's Board stating that, as of April 19, 2005 and based upon and subject to the factors and assumptions set forth in the opinion, that the Merger Consideration was Fair From a Financial Point of View to Horizon Shareholders (Page 19)

On March 30, 2005, the date the Horizon board approved the merger, Hovde Financial LLC, Horizon's financial advisor, rendered an oral opinion to Horizon's board that, as of that date and subject to a number of factors and assumptions, the aggregate merger consideration to be received by Horizon shareholders was fair from a financial point of view to the holders of Horizon common stock. Hovde Financial confirmed its opinion by delivery of a written opinion dated April 19, 2005. The full text of Hovde Financial's written opinion is attached to this proxy statement-prospectus as *Appendix C*. We encourage you to read this opinion carefully and in its entirety. The Hovde Financial opinion is not a recommendation as to how any Horizon shareholder should vote or act with respect to the merger.

Under the terms of its engagement, Horizon has agreed to pay Hovde Financial an aggregate fee equal to \$35,000 plus the sum of the following for its financial advisory services, including its opinion, in connection with the merger:

one-half of one percent (0.50%) of that portion of the merger consideration that is less than or equal to one-hundred-million dollars (\$100,000,000); plus

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three percent (3.0%) of that portion of the purchase consideration that is greater than one-hundred-million dollars (\$100,000,000) but less than or equal to one-hundred-ten-million dollars (\$110,000,000); plus

five percent (5.0%) of that portion of the purchase consideration that is greater than one-hundred-ten-million dollars (\$110,000,000) but less than or equal to one-hundred-twenty-million dollars (\$120,000,000); plus

seven percent (7.0%) of that portion of the purchase consideration that is greater than one-hundred-twenty-million dollars (\$120,000,000).

In addition, Horizon has agreed to reimburse Hovde Financial for its reasonable out-of-pocket expenses and indemnify Hovde Financial against various liabilities.

Horizon's Directors and Executive Officers May Have Interests in the Merger that Differ from Your Interests (Page 30)

Some of Horizon's directors and executive officers have interests in the merger other than their interests as shareholders. The members of Horizon's board of directors knew about these additional interests and considered them when they adopted the merger agreement, the plan of merger and the merger.

The following provides more detail about the payments, benefits and other interests of certain Horizon directors and executive officers.

Horizon has a stock option plan for its officers and key employees to purchase common stock of Horizon. Under the merger agreement, Horizon agreed to take all action necessary to ensure that each stock option granted under the plan will be exercised before the record date of

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Horizon's special meeting. Each option not exercised or forfeited before Horizon's special meeting would be cancelled for no consideration. As of April 19, 2005, the officers and directors as a group held options on 117,600 shares with an average exercise price of \$45.23. All of these options were exercised prior to the record date. Under the merger agreement, if an officer or director exercises his or her stock options, that officer or director has priority to receive, as consideration for his or her shares of Horizon common stock, all Cullen/Frost common stock under the proration procedures described below in the event that the stock election is oversubscribed.

Under the merger agreement, Cullen/Frost has agreed to grant, as of the effective time of the merger, 70,000 options to purchase Cullen/Frost common stock to Horizon employees selected by Cullen/Frost in its sole discretion.

Under the merger agreement, Cullen/Frost has agreed to indemnify the directors and officers of Horizon against liabilities arising out of actions or omissions occurring at or before the completion of the merger.

The merger agreement also provides that, subject to certain limitations, Cullen/Frost will maintain Horizon's existing director's and officer's liability insurance for a period of three years after the merger is completed.

Horizon Shareholders Have Dissenters' Rights of Appraisal (Page 47)

If you are a shareholder of Horizon, you may elect to dissent from the merger by following the procedures set forth in Article 5 of the Texas Business Corporation Act (the "TBCA") and receive the fair value of your shares of Horizon common stock in cash. For more information regarding your right to dissent from the merger, please read the section titled "Dissenters' Rights of Appraisal of Horizon Shareholders," beginning on page 47. We have also attached a copy of the relevant provisions of Article 5 of the TBCA as *Appendix D* to this proxy statement-prospectus.

We Have Agreed When and How Horizon Can Consider Third-Party Acquisition Proposals (Page 39)

We have agreed that Horizon will not initiate or solicit proposals from third parties regarding acquiring Horizon or its businesses. In addition, we have agreed that Horizon will not engage in negotiations with or provide confidential information to a third party regarding acquiring Horizon or its businesses. However, if Horizon receives an acquisition proposal from a third party, Horizon can participate in negotiations with and provide confidential information to the third party if, among other steps, Horizon's board of directors concludes in good faith that the proposal is a proposal that is superior to our merger. Horizon's receipt of a superior proposal or participation in such negotiations does not give Horizon the right to terminate the merger agreement.

Merger Approval Requires a Vote of 66²/3% by Horizon Shareholders (Page 14)

In order to approve the merger agreement, the plan of merger and the merger, the holders of 66²/3% of Horizon's common shares outstanding as of July 25, 2005 must vote in favor of those matters. As of that date, Horizon directors and executive officers and their affiliates beneficially owned about 370,178, or approximately 39.2%, of the shares entitled to vote at the Horizon special meeting excluding shares attributable to Mr. Thetford as a result of the Bay Area Bank and Trust Voting and Stock Restriction Agreement. There are 85,658 shares subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement that Mr. Thetford is deemed to beneficially own.

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How you vote depends upon whether you are a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement.

If you are a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement: The voting representative is calling a voting meeting of the parties to the Bay Area Bank and Trust Voting and Stock Restriction Agreement, or shareholders agreement, immediately prior to the special meeting for the purpose of directing the voting representative's vote of the Horizon common stock subject to such agreement. These shareholders are

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being asked to indicate their approval of the proposal to approve the Agreement and Plan of Merger and thus provide direction to the voting representative. In addition, Horizon shareholders who are a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement are being asked to provide their written consent to the termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement to take effect immediately prior to the merger by means of voting for Item 2 on the blue proxy card.

All of the shares subject to the shareholders agreement will be voted by the voting representative for or against the proposal in the same proportion as he receives for or against directions. Shares of Horizon common stock subject to the shareholders agreement represent approximately 91% of the issued and outstanding shares of Horizon common stock. Termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement requires the written consent of holders of at least 65% (or 557,409 shares) of the shares of Horizon common stock subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement. The Bay Area Bank and Trust Voting and Stock Restriction Agreement is being terminated to eliminate certain restrictions on voting and transferability that would otherwise continue to apply to the Cullen/Frost common stock received in the merger.

If you are not a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement: Horizon is calling a special meeting of shareholders and if you are not a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement, you are being asked to consider and vote on the proposal to approve the merger agreement, plan of merger and merger at that special meeting.

Certain Shareholders of Horizon Have Agreed to Vote Their Shares FOR the Merger (Page 50 and Appendix A, Annex 1)

As an inducement to and condition of Cullen/Frost's willingness to enter into the merger agreement, the beneficial owners of an aggregate of 30.2% of Horizon's outstanding common stock entered into voting agreements, pursuant to which, among other things, those owners agreed to vote all of their shares of Horizon common stock in favor of the merger agreement, the plan of merger, the merger and other matters required to be approved or adopted to effect the merger and the other transactions contemplated by the merger agreement and plan of merger.

We Must Meet Several Conditions to Complete the Merger (Page 43)

Our obligations to complete the merger depend on a number of conditions being met. These include:

the approval of the merger agreement, the plan of merger and the merger by Horizon shareholders;

the listing of the shares of Cullen/Frost common stock to be issued in the merger on the NYSE;

the receipt of the required approvals of federal and state regulatory authorities;

the absence of any government action or other legal restraint or prohibition that would prohibit the merger or make it illegal;

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the receipt of legal opinions that, for United States federal income tax purposes, the merger will be treated as a reorganization and no gain or loss will be recognized by Horizon shareholders who receive Cullen/Frost common stock in exchange for all of their Horizon common stock, except with respect to any cash consideration or cash received for fractional interests. These opinions will be based on customary assumptions and on factual representations made by Cullen/Frost and Horizon and will be subject to various limitations;

the representations and warranties of the other party to the merger agreement being true and correct in all material respects, and the other party to the merger agreement having performed in all material respects all its obligations under the merger agreement; and

the aggregate value at closing of the stock consideration divided by the total closing consideration must be equal to or greater than 0.45;

with regard to Cullen/Frost's obligation (but not Horizon's), the number of dissenting shares must not exceed 15% of Horizon's common stock.

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Where the law permits, either of us could choose to waive a condition to our obligation to complete the merger even when that condition has not been satisfied. We cannot be certain when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed. Although the merger agreement allows us to waive the tax opinion condition, we do not currently anticipate doing so. If either of us does waive the condition, we will inform you of this fact and ask you to vote on the merger taking this into consideration.

We Must Obtain Regulatory Approvals to Complete the Merger (Page 46)

The Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency must approve the merger before the merger can be completed.

The merger is also subject to certain filing and other requirements with the Texas Department of Banking.

We May Terminate the Merger Agreement (Page 43)

We can mutually agree at any time to terminate the merger agreement without completing the merger, even if Horizon's shareholders have approved the merger agreement, the plan of merger and the merger. Also, either of us can decide, without the consent of the other, to terminate the merger agreement in certain circumstances, including:

if there is a final denial of a required regulatory approval;

if the merger is not completed on or before November 30, 2005; or

if there is a continuing breach of the merger agreement by the other party, after 60 days' written notice to the breaching party, as long as that breach would allow the non-breaching party not to complete the merger.

Also, Cullen/Frost may terminate the merger agreement:

if Horizon's board of directors fails to recommend approval of the merger agreement, the plan of merger and the merger to its shareholders, or withdraws or materially and adversely modifies its recommendation;

if Horizon's board recommends an acquisition proposal other than the merger, or if Horizon's board negotiates or authorizes negotiations with a third party regarding an acquisition proposal other than the merger and those negotiations continue for at least five business days;

if a continuing violation, breach or default has occurred under a voting agreement; or

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if the number of dissenting shares exceeds 15% of the outstanding shares of Horizon common stock.

Horizon may terminate the merger agreement if the sum of the total merger consideration and the special dividend that Horizon is permitted to pay is less than \$105,000,000 and Cullen/Frost does not exercise its option to increase the total merger consideration by increasing the total cash consideration.

Whether or not the merger is completed, we will each pay our own fees and expenses, except that Cullen/Frost will pay the costs and expenses that we incur in preparing, printing and mailing this document and filing fees paid in connection with the registration statement and all applications for government approvals, except fees paid to counsel, financial advisors and accountants.

The merger agreement also provides that Horizon must pay Cullen/Frost a fee equal to \$3,750,000 if one of the following situations occurs on or before certain specified dates:

Horizon enters into an agreement to engage in a competing acquisition proposal with any person other than Cullen/Frost or any of Cullen/Frost's subsidiaries;

Horizon authorizes, recommends, proposes (or publicly announces its intention to authorize, recommend or propose) an agreement to engage in a competing acquisition proposal with any such person or its board recommends that Horizon shareholders approve or accept such competing acquisition proposal; or

any person, other than Cullen/Frost or its subsidiaries, acquires beneficial ownership

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or the right to acquire beneficial ownership of 33 ¹/₃% or more of the outstanding shares of Horizon common stock.

We May Amend or Waive Merger Agreement Provisions (Page 45)

We may jointly amend the merger agreement, and each of us may waive our right to require the other party to follow particular provisions of the merger agreement. However, we may not amend the merger agreement after Horizon's shareholders approve it if the amendment would legally require the plan of merger to be resubmitted to Horizon shareholders or would violate Texas law.

Cullen/Frost may also change the structure of the merger, as long as any change does not change the amount or type of stock or other payment to be received by Horizon shareholders and the holders of options to purchase Horizon common stock, does not adversely affect the timing of completion of the merger, does not adversely affect the tax consequences of the merger to Horizon shareholders and does not cause any of the conditions to complete the merger to be incapable of being satisfied.

The Rights of Horizon Shareholders Following the Merger Will be Different (Page 63)

The rights of Cullen/Frost shareholders are governed by Texas law and by Cullen/Frost's restated articles of incorporation and amended by-laws. The rights of Horizon shareholders are also governed by Texas law, and by Horizon's amended and restated articles of association and by-laws. Upon our completion of the merger, the rights of both shareholder groups will be governed by Texas law and Cullen/Frost's restated articles of incorporation and amended by-laws.

Information About Cullen/Frost and Horizon (Page 55)

Cullen/Frost Bankers, Inc.

100 West Houston Street

San Antonio, Texas 78205

(210) 220-4011

Cullen/Frost is a financial holding company and a bank holding company headquartered in San Antonio, Texas that provides, through its subsidiaries, a broad array of products and services throughout 12 Texas markets. Cullen/Frost and its subsidiaries offer commercial and consumer banking services, as well as trust and investment management, investment banking, insurance brokerage, leasing, asset-based lending, treasury management and item processing services. At June 30, 2005, Cullen/Frost had consolidated total assets of \$10.0 billion and was one of the largest independent bank holding companies headquartered in the State of Texas.

Horizon Capital Bank

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1021 Main Street, Suite 100

Houston, Texas 77002

(713) 679-2600

Horizon is a Texas banking association with its main office in Houston, Texas. Horizon has no holding company and no operating subsidiaries. Horizon provides traditional deposit, lending and mortgage products and services to its commercial and retail customers through five full service branch offices (with a sixth location scheduled to open summer of 2005) located in Houston and the Bay Area. Horizon was originally formed as a community bank in 1963. At June 30, 2005, Horizon had total assets of \$395.3 million, total deposits of \$294.6 million, a Tier 1 risk-based capital ratio of 11.7%, a total risk-based capital ratio of 12.7% and a leverage ratio of 9.5%.

Special Meeting of Horizon (Page 13)

Horizon plans to hold its special meeting of shareholders on August 30, 2005, at 4:00 p.m., local time, at Horizon, 3707 Richmond Avenue, Houston, Texas. At the meeting you will be asked to approve the merger agreement, the plan of merger and the merger of Horizon into The Frost National Bank, an indirect, wholly owned subsidiary of Cullen/Frost.

You can vote at the Horizon special meeting of shareholders if you owned Horizon common stock at the close of business on July 25, 2005. As of that date, there were 944,966 shares of Horizon common stock outstanding and entitled to vote. You can cast one vote for each share of Horizon common stock that you owned on that date.

Table of Contents**Selected Financial Data of Cullen/Frost (Historical)**

The following consolidated selected financial data is derived from Cullen/Frost and its subsidiaries (collectively referred to as the Corporation) audited financial statements as of and for the five years ended December 31, 2004 and from the Corporation's unaudited quarterly financial statements as of and for the six months ended June 30, 2005 and 2004. The following consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes incorporated by reference into this registration statement. All of the Corporation's acquisitions during the periods presented were accounted for using the purchase method. Accordingly, the operating results of the acquired companies are included with the Corporation's results of operations since their respective dates of acquisition. Dollar amounts are in thousands, except per share data.

	As of or for the Six Months Ended June 30,		As of or for the Year Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
Consolidated Statements of Income							
Interest income:							
Loans, including fees	\$ 161,032	\$ 115,811	\$ 249,612	\$ 233,463	\$ 265,514	\$ 343,928	\$ 394,073
Securities	66,951	68,170	135,035	125,778	120,221	106,933	109,248
Interest-bearing deposits	51	27	63	104	172	200	331
Federal funds sold and resell agreements	5,149	2,085	8,834	9,601	3,991	9,784	8,488
Total interest income	233,183	186,093	393,544	368,946	389,898	460,845	512,140
Interest expense:							
Deposits	32,157	16,468	39,150	37,406	55,384	118,699	158,858
Federal funds purchased and repurchase agreements	6,268	2,106	5,775	4,059	5,359	12,054	17,889
Junior subordinated deferrable interest debentures	7,142	5,685	12,143	8,735	8,735	8,735	8,735
Subordinated notes payable and other borrowings	3,435	2,260	5,038	4,988	6,647	5,531	4,346
Total interest expense	49,002	26,519	62,106	55,188	76,125	145,019	189,828
Net interest income	184,181	159,574	331,438	313,758	313,773	315,826	322,312
Provision for possible loan losses	4,575	2,500	2,500	10,544	22,546	40,031	14,103
Net interest income after provision for possible loan losses	179,606	157,074	328,938	303,214	291,227	275,795	308,209
Non-interest income:							
Trust fees	28,831	26,811	53,910	47,486	47,463	48,784	49,266
Service charges on deposit accounts	38,829	44,151	87,415	87,805	78,417	70,534	60,627
Insurance commissions and fees	14,803	16,397	30,981	28,660	25,912	18,598	10,698
Other charges, commissions and fees	9,109	9,261	19,353	18,668	16,860	16,176	15,548
Net gain (loss) on securities transactions		(1,739)	(3,377)	40	88	78	4
Other	24,200	18,844	36,828	32,702	32,229	29,547	29,472
Total non-interest income	115,772	113,725	225,110	215,361	200,969	183,717	165,615
Non-interest expense:							
Salaries and wages	80,454	77,615	158,039	146,622	139,227	138,347	133,525
Employee benefits	22,352	21,076	40,176	38,316	34,614	35,000	28,808
Net occupancy	14,752	14,694	29,375	29,286	28,883	29,419	27,693
Furniture and equipment	11,727	11,110	22,771	21,768	22,597	23,727	21,329
Intangible amortization	2,649	2,691	5,346	5,886	7,083	15,127	15,625
Restructuring charges						19,865	
Other	48,003	44,610	89,323	84,157	79,738	78,172	76,832

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Total non-interest expense	179,937	171,796	345,030	326,035	312,142	339,657	303,812
Income from continuing operations before income taxes and cumulative effect of accounting change:	115,441	99,003	209,018	192,540	180,054	119,855	170,012
Income taxes	37,390	31,980	67,693	62,039	57,821	39,749	58,746
Income from continuing operations	78,051	67,023	141,325	130,501	122,233	80,106	111,266
Loss from discontinued operations, net of tax					(5,247)	(2,200)	(2,449)
Cumulative effect of change in accounting for derivatives, net of tax						3,010	
Net income	\$ 78,051	\$ 67,023	\$ 141,325	\$ 130,501	\$ 116,986	\$ 80,916	\$ 108,817

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	As of or for the Six Months Ended June 30,		As of or for the Year Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
Per Common Share Data:							
Basic:							
Income from continuing operations	\$ 1.51	\$ 1.30	\$ 2.74	\$ 2.54	\$ 2.40	\$ 1.55	\$ 2.13
Net income	1.51	1.30	2.74	2.54	2.29	1.57	2.09
Diluted:							
Income from continuing operations	1.47	1.27	2.66	2.48	2.33	1.50	2.07
Net income	1.47	1.27	2.66	2.48	2.23	1.52	2.03
Cash dividends declared and paid	0.565	0.505	1.035	0.94	0.875	0.84	0.76
Book value	16.81	14.41	15.84	14.87	13.72	11.58	11.14
Common Shares Outstanding:							
Period-end	52,308	51,520	51,924	51,776	51,295	51,355	51,430
Weighted-average shares basic	51,769	51,474	51,651	51,442	51,001	51,530	52,123
Dilutive effect of stock compensation	1,331	1,438	1,489	1,216	1,422	1,818	1,534
Weighted-average shares diluted	53,100	52,912	53,140	52,658	52,423	53,348	53,657
Performance Ratios:							
Return on average assets:							
Income from continuing operations	1.60%	1.42%	1.47%	1.36%	1.46%	1.02%	1.56%
Net income	1.60	1.42	1.47	1.36	1.40	1.03	1.52
Return on average equity:							
Income from continuing operations	18.83	17.49	17.91	17.78	18.77	13.05	20.87
Net income	18.83	17.49	17.91	17.78	17.96	13.18	20.41
Net interest income to average earning assets	4.35	4.03	4.05	3.98	4.58	4.89	5.32
Dividend pay-out ratio	37.66	38.99	38.06	37.15	38.24	53.51	36.35
Balance Sheet Data:							
Period-end:							
Loans	\$ 5,588,662	\$ 4,813,058	\$ 5,164,991	\$ 4,590,746	\$ 4,518,913	\$ 4,518,608	\$ 4,534,645
Earning assets	8,903,098	8,131,520	8,891,859	8,132,479	7,709,980	6,811,284	6,421,753
Total assets	9,950,973	9,570,376	9,952,787	9,672,114	9,536,050	8,375,461	7,665,006
Non-interest-bearing demand deposits	2,999,007	3,130,756	2,969,387	3,143,473	3,229,052	2,669,829	2,118,624
Interest-bearing deposits	5,011,597	4,803,092	5,136,291	4,925,384	4,399,091	4,428,178	4,381,066
Total deposits	8,010,604	7,933,848	8,105,678	8,068,857	7,628,143	7,098,007	6,499,690
Long-term debt and other borrowings	377,563	377,819	377,677	255,845	271,257	284,152	139,307
Shareholders equity	879,176	742,275	822,395	770,004	703,790	594,919	573,026
Average:							
Loans	\$ 5,385,067	\$ 4,711,253	\$ 4,823,198	\$ 4,497,489	\$ 4,536,999	\$ 4,546,596	\$ 4,352,868
Earning assets	8,681,552	8,118,029	8,352,334	8,011,081	6,961,439	6,564,678	6,148,154
Total assets	9,810,050	9,470,363	9,618,849	9,583,829	8,353,145	7,841,823	7,154,300
Non-interest-bearing demand deposits	2,882,478	2,909,804	2,914,520	3,037,724	2,540,432	2,186,690	1,897,172
Interest-bearing deposits	5,031,623	4,746,817	4,852,166	4,539,622	4,353,878	4,364,667	4,154,498
Total deposits	7,914,101	7,656,621	7,766,686	7,577,346	6,894,310	6,551,357	6,051,670
Long-term debt and other borrowings	377,618	348,855	363,386	264,428	275,136	200,166	170,105
Shareholders equity	835,732	770,741	789,073	733,994	651,273	614,010	533,125
Asset Quality:							
Allowance for possible loan losses	\$ 77,103	\$ 80,485	\$ 75,810	\$ 83,501	\$ 82,584	\$ 72,881	\$ 63,265
Allowance for possible loan losses to period-end loans	1.38%	1.67%	1.47%	1.82%	1.83%	1.61%	1.40%
Net loan charge-offs	\$ 3,282	\$ 5,516	\$ 10,191	\$ 9,627	\$ 12,843	\$ 30,415	\$ 9,183
Net loan charge-offs to average loans	0.12%	0.23%	0.20%	0.21%	0.28%	0.67%	0.21%
Non-performing assets	\$ 41,335	\$ 46,198	\$ 39,116	\$ 52,794	\$ 42,908	\$ 37,430	\$ 18,933
Non-performing assets to:							
Total loans plus foreclosed assets	0.74%	0.96%	0.76%	1.15%	0.95%	0.83%	0.42%
Total assets	0.42	0.48	0.39	0.55	0.45	0.45	0.25
Consolidated Capital Ratios:							
Tier 1 risk-based capital ratio	12.84%	13.08%	12.83%	11.41%	10.46%	10.14%	10.08%
Total risk-based capital ratio	15.82	16.52	15.99	15.01	14.16	13.98	11.24

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Leverage ratio	10.06	9.12	9.18	7.83	7.25	7.21	7.54
Average shareholders equity to average total assets	8.52	8.14	8.20	7.66	7.80	7.83	7.45

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RISK FACTORS

*In addition to the other information contained in or incorporated by reference into this proxy statement-prospectus, including the matters addressed under the heading **Forward-Looking Statements** beginning on page 70, you should carefully consider the following risk factors in deciding how to vote on the merger agreement, the plan of merger and the merger.*

The Price of Cullen/Frost Common Stock May Decrease Before and After the Merger, Which Would in Certain Cases Decrease the Market Value of the Merger Consideration Received by Horizon Stockholders.

On April 18, 2005, the day before the merger was announced, the per share closing price for Cullen/Frost common stock on the New York Stock Exchange, or NYSE, was \$44.43. On July 26, 2005, the most recent practicable date before the mailing of this document, the closing price was \$49.44. The price of Cullen/Frost common stock may decrease before the merger is completed. The amount of cash or stock that a Horizon shareholder will receive will be determined based upon the average of the last reported per share sales price of Cullen/Frost common stock on the New York Stock Exchange for each of the ten full consecutive NYSE trading days ending on the day before the merger is completed. A decrease in the stock price over the ten-trading-day period immediately prior to the merger's closing date to below \$43.74 would in certain cases result in a reduction in the fixed amount of the per share cash consideration to be received by Horizon shareholders.

In addition, fluctuations in the price of Cullen/Frost stock will occur after completion of the merger. The trading price of Cullen/Frost stock received by a Horizon shareholder in connection with the merger, therefore, could be lower than the trading price of Cullen/Frost stock on the closing date of the merger. Cullen/Frost's stock price changes may result from a variety of factors, including general market and economic conditions, changes in our businesses, operations and prospects and regulatory considerations. Many of these factors are beyond our control. Because the date the merger is completed will be later than the date of the meeting, at the time of your shareholders' meeting, you will not necessarily know the market value of Cullen/Frost common stock that Horizon shareholders will receive upon completion of the merger.

Stockholders May Receive a Form of Consideration Different From What They Elect.

While each Horizon shareholder may elect to receive all cash or all Cullen/Frost stock in the merger, the pools of cash and Cullen/Frost stock available for the Horizon shareholders will be fixed at the time of the closing. As a result, if more Horizon shareholders elect to receive cash or stock than the fixed amounts, and you choose the election that is oversubscribed, you might receive a portion of your consideration in cash and a portion of your consideration in Cullen/Frost stock.

If the Aggregate Amount of the Special Dividend that Horizon May Pay and the Total Merger Consideration is Less than Certain Pre-Agreed Levels, and Cullen/Frost Does Not Elect to Increase the Total Consideration, Horizon May Terminate the Merger Agreement.

Under the merger agreement, if the sum of the total merger consideration and the special dividend that Horizon may declare is less than \$105,000,000, Horizon can terminate the merger agreement as long as Cullen/Frost does not exercise its option to increase the total merger consideration by increasing the aggregate amount of cash consideration.

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As a result, even if the merger agreement, the plan of merger and the merger are approved by Horizon's shareholders, the merger may not ultimately be completed. Although the Cullen/Frost board has the ability to increase the total merger consideration and the Horizon board has the power to terminate the merger agreement and abandon the merger if the condition discussed above does not occur, there is no obligation of either board to exercise such powers.

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Regulatory Approvals May Not Be Received, May Take Longer than Expected or Impose Conditions Which Are Not Presently Anticipated.

The merger must be approved by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Texas Department of Banking. The Federal Reserve and the Office of the Comptroller of the Currency will consider, among other factors, the competitive impact of the merger, the financial and managerial resources of our companies and their subsidiary banks and the convenience and needs of the communities to be served. As part of that consideration, we expect that the Federal Reserve and the Office of the Comptroller of the Currency will review capital position, safety and soundness, and legal and regulatory compliance, including compliance with anti-money laundering laws.

There can be no assurance as to whether this and other regulatory approvals will be received, the timing of those approvals, or whether any conditions will be imposed.

The merger agreement permits Cullen/Frost to make acquisitions and dispositions and to issue capital stock in connection therewith if such transactions do not present a material risk that the completion of the merger will be materially delayed or that any required regulatory approvals will be materially more difficult to obtain.

The Merger Agreement Limits Horizon's Ability to Pursue Alternatives to the Merger.

The merger agreement contains provisions that limit Horizon's ability to discuss competing third-party proposals to acquire all or a significant part of Horizon. These provisions might discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of Horizon from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share market price than that proposed in the merger, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire Horizon than it might otherwise have proposed to pay.

HORIZON SPECIAL MEETING

This section contains information from Horizon for Horizon shareholders about the special meeting Horizon has called to consider and approve the merger agreement, the plan of merger contained in the merger agreement and the merger. We are mailing this proxy statement-prospectus to you, as a Horizon shareholder, on or about July 29, 2005. Together with this proxy statement-prospectus, if you are not subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement, we are also sending to you a notice of the Horizon special meeting and a form of white proxy card that our board is soliciting for use at the special meeting of Horizon shareholders not subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement and at any adjournments or postponements of the meeting. The special meeting will be held on August 30, 2005, at 4:00 p.m. local time, at Horizon, 3707 Richmond Avenue, Houston, Texas. If you are subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement, the voting representative is calling a voting meeting of the parties to that agreement and, together with this proxy statement-prospectus, we are sending you a blue proxy card that the voting representative is soliciting for use at the special meeting. The voting meeting will be held on August 30, 2005 at 3:30 p.m. local time, at Horizon, 3707 Richmond Avenue, Houston, Texas.

This proxy statement-prospectus is also being furnished by Cullen/Frost to Horizon shareholders as a prospectus in connection with the issuance by Cullen/Frost of shares of Cullen/Frost common stock upon consummation of the merger.

Matters To Be Considered

The only matter to be considered at the Horizon special meeting is the approval of the merger agreement, the plan of merger and the merger. You may also be asked to vote upon a proposal to adjourn or postpone the special meeting. Horizon could use any adjournment or postponement of the special meeting for the purpose, among others, of allowing more time to solicit votes to approve the merger agreement, the plan of merger and the merger.

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Record Date

The Horizon board has fixed the close of business on July 25, 2005, as the record date for determining the Horizon shareholders entitled to receive notice of and to vote at the special meeting. Only Horizon shareholders of record as of the record date are entitled to notice of and to vote at the special meeting. As of the record date, 944,966 shares of Horizon common stock were issued and outstanding and held by approximately 345 record holders. Horizon shareholders are entitled to one vote on each matter considered and voted on at the special meeting for each share of Horizon common stock held of record at the close of business on the record date. The presence, in person or by properly executed proxy, of the holders of a majority of the shares of Horizon common stock entitled to vote at the special meeting is necessary to constitute a quorum at the special meeting. For purposes of determining the presence of a quorum, abstentions will be counted as shares present but shares represented by a proxy from a broker or nominee indicating that such person has not received instructions from the beneficial owner or other person entitled to vote the shares, which we refer to as "broker non-votes", will not be counted as shares present. Neither abstentions nor broker non-votes will be counted as votes cast for purposes of determining whether a proposal has received sufficient votes for approval.

Action Required

Approval of the merger agreement, the plan of merger and the merger requires the affirmative vote of the Horizon shareholders of at least 66²/₃% of the outstanding shares of Horizon common stock. The merger agreement and the consummation of the transactions contemplated therein will not require the approval of the holders of Cullen/Frost common stock under the Texas Business Corporation Act, or the TBCA, or the rules of the NYSE.

857,551 shares (or approximately 91% of the outstanding shares) of Horizon common stock are subject to the terms of the Bay Area Bank and Trust Voting and Stock Restriction Agreement. All of the shares of Horizon common stock subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement will be voted by the voting representative for or against the merger agreement, the plan of merger and the merger in the same proportion as he receives for or against directions.

Shareholders with shares subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement are also being asked to consent in writing to the termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement by means of voting for Item 2 on the blue proxy card. The consent of Horizon shareholders representing at least 65% of the shares of Horizon common stock (or 557,409 shares) subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement is required to terminate the Bay Area Bank and Trust Voting and Stock Restriction Agreement. See "The Merger Agreement - Termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement".

As of the record date, Horizon directors and executive officers and their affiliates held 370,178 shares (or approximately 39.2% of the outstanding shares) of Horizon common stock entitled to vote at the special meeting excluding shares attributable to Mr. Thetford as a result of the Bay Area Bank and Trust Voting and Stock Restriction Agreement. There are 85,658 shares subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement that Mr. Thetford is deemed to beneficially own. All of the directors holding shares of Horizon common stock have signed voting agreements with Cullen/Frost agreeing to vote for the merger and to consent to termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement. 33.2% of the shares of Horizon common stock are subject to voting agreements to vote in favor of the transaction.

As of the record date, Cullen/Frost held no shares of Horizon common stock and none of its directors and executive officers or their affiliates held any shares of Horizon common stock. See "The Merger - Interests of Certain Persons in the Merger".

Solicitation Shareholders Who Are Party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement

Proxies are being solicited by the voting representative under the Bay Area Bank and Trust Voting and Stock Restriction Agreement from Horizon shareholders who are a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement. As indicated above, all of the shares of Horizon common stock subject to the

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shareholders agreement will be voted by the voting representative for or against the merger agreement, the plan of merger and the merger in the same proportion as he receives for or against directions on the blue proxy card. If no instructions are indicated, the blue proxy card provides that the shareholder will be deemed to instruct the voting representative to vote FOR approval of the merger agreement, the plan of merger and the merger, FOR termination the Bay Area Bank and Trust Voting and Stock Restriction Agreement effective immediately prior to the effectiveness of the merger and in the discretion of the voting representative as to any other matter that may come before the special meeting including, among other things, a motion to adjourn or postpone the special meeting to another time and/or place, for the purpose of soliciting additional proxies or otherwise.

Solicitation Shareholders Who Are Not a Party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement

Proxies are being solicited by the Horizon board from Horizon shareholders who are not parties to the Bay Area Bank and Trust Voting and Stock Restriction Agreement. Shares of Horizon common stock represented by properly executed white proxies, and which have not been revoked, will be voted in accordance with the instructions indicated on the white proxies. If no instructions are indicated, such proxies will be voted FOR approval of the merger agreement, the plan of merger and the merger and in the discretion of the individuals named as proxies as to any other matter that may come before the special meeting including, among other things, a motion to adjourn or postpone the special meeting to another time and/or place, for the purpose of soliciting additional proxies or otherwise. However, no proxy which is voted against the proposal to approve the merger agreement, the plan of merger and the merger will be voted in favor of any such adjournment or postponement.

Proxies

A Horizon shareholder who is not a party to the Bay Area Bank and Trust Voting Agreement and Stock Restriction Agreement and has given a proxy may revoke it at any time prior to its exercise at the special meeting by (i) giving written notice of revocation to Jack L. Thetford, Chairman of the Board of Horizon or (ii) properly submitting to Horizon a duly executed proxy bearing a later date. All written notices of revocation and other communications with respect to revocation of proxies should be addressed to Horizon as follows: 1021 Main Street, Suite 100, Houston, Texas 77002, Attention: Jack L. Thetford, Chairman of the Board.

Proxies given by Horizon shareholders who are a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement may be revoked at any time prior to the voting meeting by written notice to the voting representative or by executing and delivering to the voting representative a proxy bearing a later date.

Consent

The voting representative is calling a meeting of the parties to the Bay Area Bank and Trust Voting and Stock Restriction Agreement for the purpose of directing the voting representative's vote of the Horizon common stock subject to such agreement. These shareholders are being asked to indicate their approval of or opposition to the proposal to approve the merger agreement, the plan of the merger and the merger, which proposal is to be considered at the special meeting. The voting representative will vote all of the shares subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement for or against the merger agreement, the plan of merger and the merger in the same proportion as he receives for or against directions on the blue proxy cards.

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In addition, Horizon shareholders subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement are being asked to consent to the termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement. The consent of Horizon shareholders representing at least 65% of the shares of Horizon common stock (or 557,409 shares) subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement is required to terminate the Bay Area Bank and Trust Voting and Stock Restriction Agreement. Termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement is not a condition to the consummation of the merger. See The Merger Agreement Termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement .

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Recommendation of Horizon's Board

The Horizon board has unanimously adopted the merger agreement, the plan of merger and the merger. The Horizon board believes that these items and the transactions they contemplate are in the best interests of Horizon and its shareholders and that the aggregate merger consideration is fair to Horizon shareholders, and unanimously recommends that Horizon shareholders vote FOR approval of the merger agreement, the plan of merger and the merger.

See Recommendation of Horizon's Board and Its Reasons for the Merger beginning on page 18 for a more detailed discussion of the Horizon board's recommendation with regard to the merger agreement, the plan of merger and the merger.

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THE MERGER

The following discussion describes certain material information about the merger. We urge you to read carefully this entire document, including the merger agreement and the financial advisor opinion attached as Appendices to this document, for a more complete understanding of the merger.

Horizon's board of directors has adopted the merger agreement, including the plan of merger contained therein, and the merger. The merger agreement provides for combining our companies through the merger of Horizon with and into a newly formed, wholly owned bank subsidiary of Cullen/Frost, with the bank subsidiary as the surviving corporation. The separate existence of Horizon will terminate. Immediately following the merger, the capital stock of the bank subsidiary will be contributed to a wholly owned, bank holding company subsidiary of Cullen/Frost. Immediately following the contribution, the bank subsidiary will merge with and into The Frost National Bank, an indirect wholly owned subsidiary of Cullen/Frost.

Horizon shareholders will be entitled to elect to receive upon completion of the merger shares of Cullen/Frost common stock or cash, subject to potential proration and adjustment, for each share of Horizon common stock. Shares of Cullen/Frost common stock issued and outstanding at the completion of the merger will remain outstanding and those stock certificates will be unaffected by the merger. Cullen/Frost's common stock will continue to trade on the NYSE under the Cullen/Frost Bankers, Inc. name with the symbol "CFR" following the merger.

Please see "The Merger Agreement" beginning on page 32 for additional and more detailed information regarding the legal documents that govern the merger, including information about the conditions to the merger and the provisions for terminating or amending the merger agreement.

Background of the Merger

During the last several years, there have been significant developments in the banking and financial services industry. These developments have included the increased emphasis and dependence on automation, specialization of products and services, increased competition from other financial institutions and a trend toward consolidation and geographic expansion, coupled with a relaxation of regulatory restrictions on interstate conduct of the business of financial institutions.

Mindful of these factors, the board of directors and management of Horizon have periodically reviewed and updated strategic plans for Horizon. As part of this ongoing process, Horizon has historically received inquiries regarding its willingness to consider an acquisition by, or affiliation with, larger financial institutions. Consistent with its fiduciary obligations to its shareholders, Horizon has considered such inquiries and evaluated them with respect to the level and form of consideration proposed, and the seriousness and specificity that has been conveyed to Horizon in terms of consideration, as well as the expected future operation of Horizon, and other considerations and factors deemed relevant by Horizon, in formulating its business plan with the intent to provide maximum value to its shareholders. As the nature of banking has become increasingly competitive, larger organizations have demonstrated a willingness to pay for a premium franchise in a high-growth market, such as Houston. In considering the market conditions, Horizon felt it was necessary to consult with investment banking firms experienced in the area of financial institution mergers and acquisitions to evaluate the prospects of potentially accomplishing a transaction that would both maximize shareholder value and continue to provide its customers with quality products and services.

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Based upon deliberations by the board of directors of Horizon in October 2004 regarding the cost of providing the increasingly broad array of financial products and alternative delivery channels to remain competitive in the marketplace and to continue to deliver exceptional service to its customers, while still providing superior returns to its shareholders, the board of directors retained Hovde Financial LLC to assist and advise Horizon in exploring a merger with a larger financial institution that would satisfy these objectives.

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Subsequently, Hovde contacted those financial institutions that it believed might meet the criteria for such a transaction with Horizon. In November 2004, these institutions were provided information (pursuant to a confidentiality agreement) and various levels of discussions were held with each regarding the potential for a suitable transaction between such institution and Horizon. Thereafter, certain of these institutions were asked to convey to Horizon and its representative their interest in pursuing a transaction with Horizon. After receipt of these indications of interest, and giving careful consideration to the entirety of the proposals, including the consideration proposed to be paid in connection with the transaction (and the form and characteristics thereof), Horizon selected Cullen/Frost and one other party to continue with the process and perform a more detailed due diligence on Horizon. The other party proceeded first, conducting due diligence over several days in January. However, after several meetings with this party, Horizon believed its overall objectives were more likely to be achieved by pursuing further discussions with Cullen/Frost. Horizon ceased discussions with the other party and Cullen/Frost began its due diligence during February 2005, submitting its final indication in early March 2005.

As a result of this process, Horizon and Cullen/Frost commenced extensive negotiations throughout March and April 2005.

During this time period, Cullen/Frost completed its due diligence evaluation and the merger agreement was negotiated and finalized. On March 30, 2005, representatives of Hovde presented the final material terms memorialized in the definitive agreement to the board of Horizon. At this meeting, Hovde provided a summary of all the financial and social terms of the transaction, comparable transaction analysis, discounted cash flow analysis, and detailed the financial implications the transaction would have on the pro forma combined company from an earnings per share and tangible book value per share perspective. Furthermore, at this meeting, Hovde indicated that it was prepared to issue a fairness opinion stating that the merger consideration was fair to the shareholders of Horizon from a financial point of view.

Following Hovde's presentation, the Horizon board considered carefully Hovde's opinion as well Hovde's experience, qualifications and interests in the transaction. On March 30, 2005, the board of directors of Horizon then unanimously approved the transaction and authorized management to execute and deliver the merger agreement. After the completion of further negotiations on the merger agreement and the completion of final due diligence, Horizon and Cullen/Frost then executed the merger agreement on April 19, 2005.

The aggregate consideration to be paid to holders of Horizon common stock resulted from negotiations that considered the historical earnings and dividends of Cullen/Frost and Horizon; the potential growth in Horizon's market and earnings, both as an independent entity and as a part of a larger organization such as Cullen/Frost; Horizon's asset quality; and the effect of the merger on the shareholders, customers, and employees of Horizon.

Recommendation of Horizon's Board and Its Reasons for the Merger

After careful consideration, at its meeting on March 30, 2005, Horizon's board determined that the merger agreement, the plan of merger, and the merger are in the best interests of Horizon and its shareholders and that the aggregate merger consideration is fair to the Horizon shareholders. Accordingly, Horizon's board, by a unanimous vote of the directors present, adopted the merger agreement, the plan of merger and the merger and unanimously recommends that Horizon shareholders vote FOR approval of these items.

Horizon's Reasons for the Merger

In approving the merger, the directors of Horizon considered a number of factors:

the financial terms of the merger, including the relationship of the merger consideration to be received by the shareholders of Horizon to the book value of Horizon common stock;

the fact that shareholders of Horizon will receive part of the merger consideration in shares of Cullen/Frost common stock, which is publicly traded on the New York Stock Exchange, contrasted to the absence of a public market for Horizon common stock;

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the opinion rendered by Hovde that from a financial standpoint the exchange of Horizon common shares for cash and Cullen/Frost common shares on the terms and conditions set forth in the merger agreement is fair to the shareholders of Horizon;

the growth of Horizon without the affiliation with a larger holding company which would likely be limited because of Horizon's need for increased capital resources to support growth;

the treatment of the merger as a tax-free exchange for federal income tax purposes with respect to the Horizon common shares exchanged for Cullen/Frost common shares;

affiliation with a larger holding company would provide the opportunity to realize economies of scale, increase efficiencies of operations, and enhance the development of new products and services;

potential benefits and opportunities for employees of Horizon, as a result of both employment opportunities and benefit plans in a larger organization; and

the likelihood of the merger being approved by applicable regulatory authorities without undue conditions or delay.

The reasons set out above for the merger are not intended to be exhaustive but include all material factors considered by Horizon's board of directors in approving the merger. In reaching its determination, the Horizon board of directors did not assign any relative or specific weights to different factors, and individual directors may have given different weights to different factors. Based on the reasons stated, the board felt that the merger was in the best interest of Horizon and its shareholders, therefore the board of directors of Horizon unanimously approved the merger. Each member of the Horizon board of directors has agreed to vote the stock of Horizon over which they have voting authority in favor of the merger agreement, the plan of merger and the merger.

The Horizon board of directors unanimously recommends that the Horizon shareholders vote in favor of the merger and the merger agreement.

Opinion of Horizon's Financial Advisor

Hovde Financial has delivered to the board of directors of Horizon its opinion that, based upon and subject to the various considerations set forth in its written opinion dated April 19, 2005, the total transaction consideration to be paid to the shareholders of Horizon is fair from a financial point of view as of such date. In requesting Hovde Financial's advice and opinion, no limitations were imposed by Horizon upon Hovde Financial with respect to the investigations made or procedures followed by it in rendering its opinion. **The full text of the opinion of Hovde, dated April 19, 2005, which describes the procedures followed, assumptions made, matters considered and limitations on the review undertaken, is attached hereto as Appendix C. The shareholders of Horizon should read this opinion in its entirety.**

Hovde Financial is a nationally recognized investment banking firm and, as part of its investment banking business, is continually engaged in the valuation of financial institutions in connection with mergers and acquisitions, private placements and valuations for other purposes. As a specialist in securities of financial institutions, Hovde Financial has experience in, and knowledge of, banks, thrifts and bank and thrift holding companies. The board of directors of Horizon selected Hovde Financial to act as its financial advisor in connection with the merger on the basis of the firm's reputation and expertise in transactions such as the merger.

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Hovde Financial received a fee from Horizon for performing a financial analysis of the merger and rendering a written opinion to the board of directors of Horizon as to the fairness, from a financial point of view, of the merger to the shareholders of Horizon. Hovde Financial received its fee subsequent to Hovde Financial's presentation of its fairness opinion and analysis to the board of directors of Horizon. Horizon has also agreed to indemnify Hovde Financial against any claims, losses and expenses arising out of the merger or Hovde Financial's engagement that did not arise from Hovde Financial's gross negligence or willful misconduct.

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Hovde Financial's opinion is directed only to the fairness, from a financial point of view, of the total transaction consideration, and, as such, does not constitute a recommendation to any shareholder of Horizon as to how the shareholder should vote at the Horizon special meeting. The summary of the opinion of Hovde Financial set forth in this proxy statement-prospectus is qualified in its entirety by reference to the full text of the opinion.

The following is a summary of the analyses performed by Hovde Financial in connection with its fairness opinion. Certain of these analyses were confirmed in a presentation to the board of directors of Horizon by Hovde Financial. The summary set forth below does not purport to be a complete description of either the analyses performed by Hovde Financial in rendering its opinion or the presentation delivered by Hovde Financial to the board of directors of Horizon, but it does summarize all of the material analyses performed and presented by Hovde Financial.

The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analyses and the application of those methods to the particular circumstances. In arriving at its opinion, Hovde Financial did not attribute any particular weight to any analysis and factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Hovde Financial believes that its analyses and the following summary must be considered as a whole and that selecting portions of its analyses, without considering all factors and analyses, could create an incomplete view of the process underlying the analyses set forth in its report to the board of directors of Horizon and its fairness opinion.

In performing its analyses, Hovde Financial made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Horizon and Cullen/Frost. The analyses performed by Hovde Financial are not necessarily indicative of actual value or actual future results, which may be significantly more or less favorable than suggested by such analyses. Such analyses were prepared solely as part of Hovde Financial's analysis of the fairness of the transaction consideration, from a financial point of view, to the shareholders of Horizon. The analyses do not purport to be an appraisal or to reflect the prices at which a company might actually be sold or the prices at which any securities may trade at the present time or at any time in the future. Hovde Financial's opinion does not address the relative merits of the merger as compared to any other business combination in which Horizon might engage. In addition, as described above, Hovde Financial's opinion to the board of directors of Horizon was one of many factors taken into consideration by the board of directors of Horizon in making its determination to approve the merger agreement.

During the course of its engagement, and as a basis for arriving at its opinion, Hovde Financial reviewed and analyzed material bearing upon the financial and operating conditions of Horizon and Cullen/Frost and material prepared in connection with the merger, including, among other things, the following:

the merger agreement;

certain historical publicly available information concerning Horizon and Cullen/Frost;

certain internal financial statements and other financial and operating data concerning Horizon;

certain financial projections prepared by the management of Horizon;

certain other information provided to Hovde Financial by members of the senior management of Horizon for the purpose of reviewing the future prospects of Horizon and Cullen/Frost;

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historical market prices and trading volumes for Cullen/Frost common stock;

the nature and terms of recent merger and acquisition transactions to the extent publicly available, involving banks, thrifts and bank and thrift holding companies that it considered relevant;

the pro forma ownership of Cullen/Frost's common stock by the shareholders of Horizon relative to the pro forma contribution of Horizon's assets, liabilities, equity and earnings to the combined company;

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the pro forma impact of the merger on the combined company's earnings per share, consolidated capitalization and financial ratios; and such other information and factors as we have deemed appropriate.

Hovde Financial also took into account its assessment of general economic, market and financial conditions and its experience in other transactions, as well as its knowledge of the commercial banking industry and its general experience in securities valuations.

In rendering its opinion, Hovde Financial assumed, without independent verification, the accuracy and completeness of the financial and other information and relied upon the accuracy of the representations of the parties contained in the merger agreement. Hovde Financial also assumed that the financial forecasts furnished to or discussed with Hovde Financial by Horizon were reasonably prepared and reflected the best currently available estimates and judgments of senior management of Horizon as to the future financial performance of Horizon. Hovde Financial has not made any independent evaluation or appraisal of any properties, assets or liabilities of Horizon or Cullen/Frost. Hovde Financial assumed and relied upon the accuracy and completeness of the publicly available and other non-public financial information provided to it by Horizon, relied upon the representations and warranties of Horizon and Cullen/Frost made pursuant to the merger agreement, and did not independently attempt to verify any of such information.

Analysis of Selected Mergers. As part of its analysis, Hovde Financial reviewed three groups of comparable merger transactions. The first peer group included transactions, which have occurred since January 1, 2004, that involved target banks in the entire United States that had total assets between \$250 million and \$500 million as well as a Return on Average Assets between 0.50% and 1.50% (the Nationwide Merger Group). This Nationwide Merger Group consisted of the following 19 transactions:

<u>BUYER</u>	<u>SELLER</u>
First Citizens Bancorp. (SC)	Summit Financial Corp. (SC)
Pacific Capital Bancorp (CA)	First Bancshares Inc. (CA)
Fulton Financial Corp. (PA)	SVB Financial Services Inc. (NJ)
City Holding Co. (WV)	Classic Bancshares Inc. (KY)
Centennial Bank Holdings Inc. (CO)	First Mainstreet Financial (CO)
Sky Financial Group Inc. (OH)	Belmont Bancorp. (OH)
Valley National Bancorp (NJ)	Shrewsbury Bancorp (NJ)
Seacoast Banking Corp. of FL (FL)	Century National Bank (FL)
South Financial Group Inc. (SC)	Pointe Financial Corp. (FL)
Wintrust Financial Corp. (IL)	Antioch Holding Company (IL)
Whitney Holding Corp. (LA)	Destin Bancshares Inc. (FL)
IBERIABANK Corp. (LA)	American Horizons Bancorp Inc (LA)
Placer Sierra Bancshares (CA)	First Financial Bancorp (CA)
Fulton Financial Corp. (PA)	First Washington Financial Corp (NJ)
Wintrust Financial Corp. (IL)	Northview Financial Corp. (IL)
F.N.B. Corp. (PA)	Slippery Rock Financial Corp. (PA)
Sun Bancorp Inc. (NJ)	Community Bancorp of NJ (NJ)
Heartland Financial USA Inc. (IA)	Rocky Mountain Bancorp. Inc. (MT)
Community Bank System Inc. (NY)	First Heritage Bank (PA)

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Hovde Financial also reviewed comparable mergers involving banks headquartered in the Southern United States (TX, LA, MS, AL, GA, FL, TN, SC, NC, VA) announced since January 1, 2003, in which the total assets of the seller were between \$200 million and \$600 million (the Southern Merger Group). This Southern Merger Group consisted of the following 27 transactions:

BUYER	SELLER
First Citizens Bancorp. (SC)	Summit Financial Corp. (SC)
Capital City Bank Group Inc. (FL)	First Alachua Banking Corp. (FL)
Franklin Bank Corp. (TX)	First National Bank of Athens (TX)
Seacoast Banking Corp. of FL (FL)	Century National Bank (FL)
South Financial Group Inc. (SC)	Pointe Financial Corp. (FL)
Whitney Holding Corp. (LA)	Destin Bancshares Inc. (FL)
IBERIABANK Corp. (LA)	American Horizons Bancorp Inc (LA)
Wells Fargo & Co. (CA)	First Community Capital Corp. (TX)
Peoples Holding Co. (MS)	Heritage Financial Hldg Corp (AL)
Southwest Bancorp. of Texas (TX)	Klein Bancshares Inc. (TX)
Capital City Bank Group Inc. (FL)	Farmers & Merchants Bank (GA)
Texas United Bancshares Inc. (TX)	GNB Bancshares Inc. (TX)
State National Bancshares Inc. (TX)	Mercantile Bank Texas (TX)
Whitney Holding Corp. (LA)	Madison Bancshares Inc. (FL)
Peoples Holding Co. (MS)	Renasant Bancshares Inc. (TN)
Synovus Financial Corp. (GA)	Trust One Bank (TN)
NBC Capital Corp. (MS)	Enterprise Bancshares Inc. (TN)
Southwest Bancorp. of Texas (TX)	Reunion Bancshares Inc. (TX)
TowneBank (VA)	Harbor Bank (VA)
Alabama National BanCorp. (AL)	Indian River Banking Co. (FL)
Synovus Financial Corp. (GA)	Peoples Florida Banking Corp (FL)
CNB Holdings Inc. (GA)	First Capital Bancorp Inc. (GA)
Southern Community Financial (NC)	Community Bank (NC)
Prosperity Bancshares Inc. (TX)	MainBancorp Inc. (TX)
BancTrust Financial Group Inc. (AL)	CommerceSouth Inc. (AL)
Southwest Bancorp. of Texas (TX)	Maxim Financial Holdings Inc. (TX)
United Community Banks Inc. (GA)	First Georgia Holding Inc. (GA)

Hovde Financial then reviewed comparable mergers involving banks headquartered in Texas that have announced since January 1, 2003, in which the total assets of the seller were between \$100 million and \$1 billion (the Texas Merger Group). This Texas Merger Group consisted of the following 15 transactions:

BUYER	SELLER
Franklin Bank Corp. (TX)	First National Bank of Athens (TX)
First Financial Bankshares (TX)	Clyde Financial Corporation (TX)
Franklin Bank Corp. (TX)	Cedar Creek Bancshares Inc. (TX)
Wells Fargo & Co. (CA)	First Community Capital Corp. (TX)
MidSouth Bancorp Inc. (LA)	Lamar Bancshares Inc. (TX)
Southwest Bancorp. of Texas (TX)	Klein Bancshares Inc. (TX)
Texas United Bancshares Inc. (TX)	GNB Bancshares Inc. (TX)
State National Bancshares Inc. (TX)	Mercantile Bank Texas (TX)
Happy Bancshares Inc. (TX)	Sun Banc Corporation (TX)
Southwest Bancorp. of Texas (TX)	Reunion Bancshares Inc. (TX)
Investor group (TX)	Snyder National Bank (TX)

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Adam Corporation Group (TX)
Prosperity Bancshares Inc. (TX)
Inwood Bancshares Inc. (TX)
Southwest Bancorp. of Texas (TX)

Beltline Bancshares Inc. (TX)
MainBancorp Inc. (TX)
WB&T Bancshares Inc. (TX)
Maxim Financial Holdings Inc. (TX)

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Hovde Financial calculated the medians and averages of the following relevant transaction ratios in the Nationwide Merger Group, the Southern Merger Group and the Texas Merger Group: the percentage of the offer value to the acquired company's total assets, the multiple of the offer value to the acquired company's tangible book value; the multiple of the offer value to the acquired company's earnings for the twelve months preceding the announcement date of the transaction; and the tangible book value premium to core deposits. Hovde Financial compared these multiples with the corresponding multiples for the merger, valuing the total consideration that would be received pursuant to the merger agreement at approximately \$112.4 million (\$64 million in consideration in the form of Cullen/Frost's stock, \$45 million in cash, and approximately \$4 million in special dividend and employee options consideration), or \$118.98 per Horizon diluted share. In calculating the multiples for the merger, Hovde Financial used Horizon's earnings for the twelve months ended December 31, 2004, and Horizon's tangible book value per share, total assets, and total deposits as of December 31, 2004. The results of this analysis are as follows:

	Offer Value to			Ratio of Tangible Book Value Premium to Core Deposits (%)
	Total Assets (%)	Tangible Book Value (x)	12 months Preceding Earnings (x)	
Horizon Capital Bank	29.59	3.30	33.6	31.3
Nationwide Merger Group median	22.76	2.58	24.6	20.5
Nationwide Merger Group average	22.23	2.76	25.2	20.5
Southern Merger Group median	24.39	2.89	26.3	21.4
Southern Merger Group average	24.20	3.07	29.7	23.6
Texas Merger Group median	21.42	2.23	23.6	15.6
Texas Merger Group average	21.19	2.55	27.2	16.3

Discounted Cash Flow Analysis. Hovde Financial estimated the present value of all shares of Horizon common stock by estimating the value of Horizon's estimated future earnings stream beginning in 2005. Reflecting Horizon's internal projections and Hovde Financial estimates, Hovde Financial assumed net income in 2005, 2006, 2007, 2008, and 2009 of \$4.11 million, \$4.73 million, \$5.43 million, \$6.25 million, and \$7.19 million, respectively. The present value of these earnings was calculated based on a range of discount rates of 9.0%, 10.0%, 11.0%, 12.0%, and 13.0%, respectively. In order to derive the terminal value of Horizon's earnings stream beyond 2009, Hovde Financial assumed a terminal value based on a multiple of between 18.0x and 22.0x applied to free cash flows in 2009. The present value of this terminal amount was then calculated based on the range of discount rates mentioned above. These rates and values were chosen to reflect different assumptions regarding the required rates of return of holders or prospective buyers of Horizon common stock. This analysis and its underlying assumptions yielded a range of value for all the shares of Horizon stock of approximately \$84.6 million (at a 13.0% discount rate and a 18.0x terminal multiple) to \$122.1 million (at a 9.0% discount rate and a 22.0x terminal multiple) with a midpoint of \$102.0 (using a 11.0% discount rate and a 20.0x terminal multiple), compared to total merger consideration of \$112.4 million.

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Contribution Analysis. Hovde Financial prepared a contribution analysis showing percentages of total assets, total net loans, total deposits, total equity and tangible equity at December 31, 2004 for Horizon and for Cullen/Frost, as well as the actual twelve months preceding earnings on a GAAP and cash basis and estimated fiscal year 2005 GAAP and cash earnings that would be contributed to the combined company on a pro-forma basis by Horizon and Cullen/Frost. This analysis indicated that holders of Horizon common stock would own approximately 2.6% of the pro forma common shares outstanding of Cullen/Frost, assuming an exchange ratio of 1.525 for the stock consideration portion, while contributing a median of 3.7% of the financial components listed above. This pro forma ownership is based on the total consideration being paid to Horizon consisting of 59% of Cullen/Frost common stock and 41% in cash; therefore, if pro forma ownership of 2.6% is divided by the percentage of stock (59%), the resulting value is 4.3%.

	Horizon
	Contribution To Cullen/Frost
Total assets	3.7%
Total net loans	5.5%
Total deposits	3.4%
Total equity	4.4%
Total tangible equity	5.1%
Net income LTM GAAP Basis	2.3%
Net income LTM Cash Basis	2.2%
Net income estimated fiscal year 2005 GAAP Basis	2.4%
Net income estimated fiscal year 2005 Cash Basis	2.3%
Median Horizon Contribution Percentage	3.7%
Actual Horizon Pro Forma Ownership	2.6%
Horizon Pro Forma Ownership adjusted for cash component	4.3%

Financial Implications to Horizon Shareholders. Hovde Financial prepared an analysis of the financial implications of Cullen/Frost's offer to a holder of Horizon common stock who receives 100% Cullen/Frost common stock. This analysis indicated that on a pro forma equivalent basis, assuming the exchange ratio of 1.525 for the stock consideration portion of the total consideration and excluding any potential revenue enhancement opportunities, a stockholder of Horizon would achieve approximately 7.06% accretion in GAAP earnings per share, approximately 9.48% accretion in cash earnings per share, a decrease in tangible book value per share of approximately 43.12%, and a decrease in total book value per share of approximately 29.07% as a result of the consummation of the merger. The table below summarizes the results discussed above:

	Per Share:			
	2004E GAAP	2004E Cash	Book	Tangible Book
	Earnings	Earnings	Value	Value
Horizon standalone	\$ 4.35	\$ 4.35	\$ 36.02	\$ 36.02
Horizon Pro Forma*	\$ 4.56	\$ 4.74	\$ 24.46	\$ 19.04
% Accretion Dilution	4.94%	8.98%	-32.11%	-47.15%

* Based on an exchange ratio of 1.525.

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Comparable Company Analysis. Using publicly available information, Hovde Financial compared the financial performance and stock market valuation of Cullen/Frost with the following Southern United States (TX, LA, MS, AL, GA, TN, SC, NC, VA, FL) publicly traded banking institutions with assets as of December 31, 2004 between \$3 billion and \$20 billion:

<u>Company Name (Ticker)</u>	<u>Assets (\$mm)</u>
Alabama National Bancorporation (ALAB)	5,315,869
BancorpSouth, Inc. (BXS)	10,848,193
Colonial BancGroup, Inc. (CNB)	18,897,150
First Charter Corporation (FCTR)	4,431,605
First Citizens Bancorporation, Inc. (FCBN)	4,533,651
First Citizens BancShares, Inc. (FCNCA)	13,258,740
Hancock Holding Company (HBHC)	4,664,726
International Bancshares Corporation (IBOC)	9,917,951
South Financial Group, Inc. (The) (TSFG)	13,789,814
Southwest Bancorporation of Texas, Inc. (ABNK)	7,505,603
Sterling Bancshares, Inc. (SBIB)	3,336,070
Texas Regional Bancshares, Inc. (TRBS)	5,839,347
Trustmark Corporation (TRMK)	8,052,957
United Community Banks, Inc. (UCBI)	5,087,702
Whitney Holding Corporation (WTNY)	8,222,624

Indications of such financial performance and stock market valuation included profitability measures, earnings composition, operating and performance metrics, loan portfolio compositions, deposit compositions, yield and cost analysis, capital adequacy, asset quality, and reserve adequacy, all based on financial information as of December 31, 2004 and, where relevant, closing stock market information as of March 23, 2005. Selected market information for Cullen/Frost and the group of comparable companies that was analyzed is provided below.

	<u>Mkt. Cap</u>	<u>Price/</u>	<u>Price/</u>	<u>Price/</u>	<u>Price/</u>	<u>Core</u>	<u>Inside</u>	<u>Instit 1</u>
	<u>(\$m)</u>	<u>BV (%)</u>	<u>TBV</u>	<u>LTM</u>	<u>LTM Core</u>	<u>Deposit</u>	<u>Ownership</u>	<u>Ownership</u>
			<u>(%)</u>	<u>EPS (x)</u>	<u>EPS (x)</u>	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>
Cullen/Frost	2,323	282.5	329.2	16.82	16.57	21.54	6.94	67.48
Comparable Company Average	1,393	197.1	266.6	17.39	17.68	18.67	17.57	33.30

	<u>ROAE (%)</u>	<u>ROAA (%)</u>	<u>Tangible</u>	<u>Net Interest</u>	<u>Efficiency</u>	<u>NPAs/</u>	<u>Reserves/</u>
			<u>Equity Ratio</u>	<u>Margin (%)</u>	<u>Ratio (%)</u>	<u>Average</u>	<u>NPAs</u>
			<u>(%)</u>			<u>Assets (%)</u>	<u>(%)</u>
Cullen/Frost	17.91	1.53	7.18	4.04	60.06	0.45	170.95
Comparable Company Average	12.57	1.09	6.83	3.84	60.52	0.39	255.93

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In addition, Hovde Financial compared the financial performance and stock market valuation of Cullen/Frost with a second comparable company group consisting of the following United States publicly traded banking institutions with assets as of December 31, 2004 between \$5 billion and \$15 billion and an ROAA between 1.25% and 1.75%:

<u>Company Name (Ticker)</u>	<u>Assets (\$mm)</u>
BOK Financial Corporation (BOKF)	14,395,414
Cathay General Bancorp, Inc. (CATY)	6,098,005
Chittenden Corporation (CHZ)	6,070,210
City National Corporation (CYN)	14,231,513
Commerce Bancshares, Inc. (CBSH)	14,250,368
Cullen/Frost Bankers, Inc. (CFR)	9,952,787
East West Bancorp, Inc. (EWBC)	6,028,880
First Midwest Bancorp, Inc. (FMBI)	6,863,381
Fulton Financial Corporation (FULT)	11,158,351
Hudson United Bancorp (HU)	9,079,042
International Bancshares Corporation (IBOC)	9,917,951
Investors Financial Services Corp. (IFIN)	11,167,825
MB Financial, Inc. (MBFI)	5,253,975
Mercantile Bankshares Corporation (MRBK)	14,425,690
Park National Corporation (PRK)	5,412,584
Silicon Valley Bancshares (SIVB)	5,153,600
Sky Financial Group, Inc. (SKYF)	14,944,423
Texas Regional Bancshares, Inc. (TRBS)	5,839,347
Trustmark Corporation (TRMK)	8,052,957
UCBH Holdings, Inc. (UCBH)	6,315,681
United Bankshares, Inc. (UBSI)	6,435,971
Valley National Bancorp (VLY)	10,763,391
W Holding Company Incorporated (WHI)	14,336,662
Whitney Holding Corporation (WTNY)	8,222,624
Wilmington Trust Corporation (WL)	9,510,182

Indications of such financial performance and stock market valuation included profitability measures, earnings composition, operating and performance metrics, loan portfolio compositions, deposit compositions, yield and cost analysis, capital adequacy, asset quality, and reserve adequacy, all based on financial information as of December 31, 2004 and, where relevant, closing stock market information as of March 23, 2005. Selected market information for Cullen/Frost and the group of comparable companies that was analyzed is provided below.

	<u>Mkt. Cap</u>	<u>Price/ BV</u>	<u>Price/ TBV</u>	<u>Price/ LTM EPS</u>	<u>Price/ LTM Core EPS</u>	<u>Core Deposit Prem.</u>	<u>Inside Ownership</u>	<u>Instit 1 Ownership</u>
	<u>(\$m)</u>	<u>(%)</u>	<u>(%)</u>	<u>(x)</u>	<u>(x)</u>	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>
Cullen/Frost	2,323	282.5	329.2	16.82	16.57	21.54	6.94	67.48
Comparable Company Average	2,100	261.9	335.8	17.20	17.75	29.53	13.65	47.20

	<u>ROAE (%)</u>	<u>ROAA (%)</u>	<u>Tangible Equity Ratio (%)</u>	<u>Net Interest Margin (%)</u>	<u>Efficiency Ratio (%)</u>	<u>NPAs/ Average Assets (%)</u>	<u>Reserves/ NPAs</u>

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Cullen/Frost	17.91	1.53	7.18	4.04	60.06	0.45	170.95
Comparable Company Average	16.54	1.46	7.33	3.90	52.38	0.41	261.17

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Based upon the foregoing analyses and other investigations and assumptions set forth in its opinion, without giving specific weightings to any one factor or comparison, Hovde Financial determined that the transaction consideration was fair from a financial point of view to the shareholders of Horizon.

Miscellaneous

Pursuant to a letter agreement between Horizon and Hovde Financial, dated as of October 5, 2004, Horizon agreed to pay Hovde Financial an aggregate fee equal to \$35,000 upon the delivery of Hovde Financial's fairness opinion *plus* the sum of the following for its financial advisory services, including its opinion, in connection with the merger, to be paid upon the closing of the transaction:

one-half of one percent (0.50%) of the portion of the merger consideration that is less than or equal to one-hundred-million dollars (\$100,000,000); plus

three percent (3.0%) of the portion of the merger consideration that is greater than one-hundred-million dollars (\$100,000,000) but less than or equal to one-hundred-ten-million dollars (\$110,000,000); plus

five percent (5.0%) of the portion of the merger consideration that is greater than one-hundred-ten-million dollars (\$110,000,000) but less than or equal to one-hundred-twenty-million dollars (\$120,000,000); plus

seven percent (7.0%) of the portion of the merger consideration that is greater than one-hundred-twenty-million dollars (\$120,000,000).

Horizon also agreed to indemnify Hovde Financial and its affiliates from and against certain liabilities and expenses, which may include certain liabilities under federal securities laws, in connection with its engagement.

Material Federal Income Tax Consequences of the Merger

The following discussion (including the limitations and qualifications set forth therein) is based on the opinion of Jenkens & Gilchrist, P.C. received by Horizon and the opinion of Sullivan & Cromwell LLP received by Cullen/Frost, in each case, in connection with the filing of the registration statement of which this document is a part.

This discussion addresses the material United States federal income tax consequences of the merger to holders of Horizon common stock. The discussion is based on the Internal Revenue Code, Treasury regulations, administrative rulings and judicial decisions, all as currently in effect and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This discussion applies only to Horizon stockholders that hold their Horizon common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code, each of which we refer to in this document as a holder. Further, this discussion does not address all aspects of United States federal taxation that may be relevant to a particular holder in light of its personal circumstances or to holders subject to special treatment under the United States federal income tax laws, including:

financial institutions,

investors in pass-through entities,

insurance companies,

tax-exempt organizations,

dealers in securities or currencies,

traders in securities that elect to use a mark to market method of accounting,

persons that hold Horizon common stock as part of a straddle, hedge, constructive sale or conversion transaction,

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persons who are not citizens or residents of the United States, and

shareholders who acquired their shares of Horizon common stock through the exercise of an employee stock option or otherwise as compensation.

In addition, the discussion does not address any alternative minimum tax or any state, local or foreign tax consequences of the merger.

Each holder of Horizon common stock should consult its tax advisor with respect to the particular tax consequences of the merger to such holder. In addition, because each Horizon stockholder may receive a mix of cash and stock regardless of whether such holder makes a cash election or stock election, it will not be possible for holders of Horizon common stock to determine the specific tax consequences of the merger to them at the time of making the election.

The completion of the merger is conditioned upon the delivery by each of Jenkens & Gilchrist, P.C., counsel to Horizon, and Sullivan & Cromwell LLP, counsel to Cullen/Frost, of its opinion to the effect that, on the basis of the facts, assumptions, and representations set forth in such opinion and certificates to be obtained from officers of Horizon and Cullen/Frost, the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. Neither of these opinions is binding on the Internal Revenue Service or the courts, and neither Horizon nor Cullen/Frost intends to request a ruling from the Internal Revenue Service regarding the United States federal income tax consequences of the merger. Consequently, no assurance can be given that the Internal Revenue Service will not assert, or that a court would not sustain, a position contrary to any of those set forth below. In addition, if any of the representations or assumptions upon which such opinions are based is inconsistent with the actual facts, the United States federal income tax consequences of the merger could be adversely affected.

In addition, in connection with the filing of the registration statement of which this document is a part, Horizon has received the opinion of Jenkens & Gilchrist, P.C. and Cullen/Frost has received the opinion of Sullivan & Cromwell LLP, each stating that the merger will qualify as a reorganization within the meaning of Section 368 of the Internal Revenue Code and that no gain or loss will be recognized by a holder of Horizon common stock who receives Cullen/Frost common stock pursuant to the merger (except with respect to cash received instead of a fractional share of Cullen/Frost common stock and except to the extent of cash consideration received pursuant to the merger).

The United States federal income tax consequences of the merger to a holder generally will depend on whether the holder exchanges its Horizon common stock for cash, Cullen/Frost common stock or a combination of cash and Cullen/Frost common stock.

Exchange Solely for Cash. In general, if, pursuant to the merger, a holder exchanges all of the shares of Horizon common stock actually owned by it solely for cash, that holder will recognize gain or loss equal to the difference between the amount of cash received and its adjusted tax basis in the shares of Horizon common stock surrendered, which gain or loss generally will be long-term capital gain or loss if the holder's holding period with respect to the Horizon common stock surrendered is more than one year at the effective time of the merger. If, however, the holder constructively owns shares of Horizon common stock that are exchanged for shares of Cullen/Frost common stock in the merger or owns shares of Cullen/Frost common stock actually or constructively after the merger, the consequences to that holder may be similar to the consequences described below under the heading *Exchange for Cullen/Frost Common Stock and Cash*, except that the amount of consideration, if any, deemed to be a dividend may not be limited to the amount of that holder's gain.

Exchange Solely for Cullen/Frost Common Stock. If, pursuant to the merger, a holder exchanges all of the shares of Horizon common stock actually owned by it solely for shares of Cullen/Frost common stock, that holder will not recognize any gain or loss except in respect of cash received instead of a fractional share of Cullen/Frost common stock (as discussed below). The aggregate adjusted tax basis of the shares of

Cullen/Frost

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common stock received in the merger (including fractional shares deemed received and redeemed as described below) will be equal to the aggregate adjusted tax basis of the shares of Horizon common stock surrendered for the Cullen/Frost common stock, and a holder's holding period of the Cullen/Frost common stock (including fractional shares deemed received and redeemed as described below) will include the period during which the shares of Horizon common stock were held.

Exchange for Cullen/Frost Common Stock and Cash. If, pursuant to the merger, a holder exchanges all of the shares of Horizon common stock actually owned by it for a combination of Cullen/Frost common stock and cash, the holder will generally recognize gain (but not loss) in an amount equal to the lesser of (1) the amount of gain realized (i.e., the excess of the sum of the amount of cash and the fair market value of the Cullen/Frost common stock received pursuant to the merger over that holder's adjusted tax basis in its shares of Horizon common stock surrendered) and (2) the amount of cash received pursuant to the merger. For this purpose, gain or loss must be calculated separately for each identifiable block of shares surrendered in the exchange. Holders should consult their tax advisors regarding the manner in which cash and Cullen/Frost common stock should be allocated among different blocks of Horizon common stock. Any recognized gain will generally be long-term capital gain if the holder's holding period with respect to the Horizon common stock surrendered is more than one year at the effective time of the merger. If, however, the cash received has the effect of the distribution of a dividend, the gain will be treated as a dividend to the extent of the holder's ratable share of accumulated earnings and profits as calculated for United States federal income tax purposes. See Possible Treatment of Cash as a Dividend below.

The aggregate tax basis of Cullen/Frost common stock received (including fractional shares deemed received and redeemed as described below) by a holder that exchanges its shares of Horizon common stock for a combination of Cullen/Frost common stock and cash pursuant to the merger will be equal to the aggregate adjusted tax basis of the shares of Horizon common stock surrendered for Cullen/Frost common stock and cash, reduced by the amount of cash received by the holder pursuant to the merger (excluding any cash received instead of a fractional share of Cullen/Frost common stock) and increased by the amount of gain (including any portion of the gain that is treated as a dividend as described below but excluding any gain or loss resulting from the deemed receipt and redemption of fractional shares described below), if any, recognized by the holder on the exchange. A holder's holding period of the Cullen/Frost common stock (including fractional shares deemed received and redeemed as described below) will include such holder's holding period of the shares of Horizon common stock surrendered.

Possible Treatment of Cash as a Dividend. In general, the determination of whether the gain recognized in the exchange will be treated as capital gain or has the effect of a distribution of a dividend depends upon whether and to what extent the exchange reduces the holder's deemed percentage stock ownership of Cullen/Frost. For purposes of this determination, the holder is treated as if it first exchanged all of its shares of Horizon common stock solely for Cullen/Frost common stock and then Cullen/Frost immediately redeemed, which we refer to in this document as the Deemed Redemption, a portion of the Cullen/Frost common stock in exchange for the cash the holder actually received. The gain recognized in the deemed redemption will be treated as capital gain if the deemed redemption is (1) substantially disproportionate with respect to the holder or (2) not essentially equivalent to a dividend.

The deemed redemption will generally be substantially disproportionate with respect to a holder if the percentage described in (2) below is less than 80% of the percentage described in (1) below. Whether the deemed redemption is not essentially equivalent to a dividend with respect to a holder will depend upon the holder's particular circumstances. At a minimum, however, in order for the deemed redemption to be not essentially equivalent to a dividend, the deemed redemption must result in a meaningful reduction in the holder's deemed percentage stock ownership of Cullen/Frost. In general, that determination requires a comparison of (1) the percentage of the outstanding stock of Cullen/Frost that the holder is deemed actually and constructively to have owned immediately before the deemed redemption and (2) the percentage of the outstanding stock of Cullen/Frost that is actually and constructively owned by the holder immediately after the deemed redemption. In

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applying the above tests, a holder may, under the constructive ownership rules, be deemed to own stock that is owned by other persons or stock underlying a holder's option to purchase such stock in addition to the stock actually owned by the holder.

The Internal Revenue Service has ruled that a stockholder in a publicly held corporation whose relative stock interest is minimal and who exercises no control with respect to corporate affairs is generally considered to have a meaningful reduction if that stockholder has a relatively minor reduction in its percentage stock ownership under the above analysis; accordingly, the gain recognized in the exchange by such a stockholder would be treated as capital gain.

These rules are complex and dependent upon the specific factual circumstances particular to each holder. Consequently, each holder that may be subject to these rules should consult its tax advisor as to the application of these rules to the particular facts relevant to such holder.

Cash Received Instead of a Fractional Share. A holder who receives cash instead of a fractional share of Cullen/Frost common stock will generally be treated as having received such fractional share and then as having received such cash in redemption of the fractional share. Gain or loss generally will be recognized based on the difference between the amount of cash received instead of the fractional share and the portion of the holder's aggregate adjusted tax basis of the shares of Horizon common stock exchanged in the merger which is allocable to the fractional share. Such gain or loss generally will be long-term capital gain or loss if the holding period for such shares of Horizon common stock is more than one year at the effective time of the merger.

Reporting Requirements. A holder of Horizon common stock receiving Cullen/Frost common stock as a result of the merger is required to retain records related to such holder's Horizon common stock and file with its United States federal income tax return a statement setting forth facts relating to the merger.

Backup Withholding and Information Reporting. Payments of cash to a holder of Horizon common stock may, under certain circumstances, be subject to information reporting and backup withholding at a rate of 28% of the cash payable to the holder, unless the holder provides proof of an applicable exemption satisfactory to Cullen/Frost and the exchange agent or furnishes its taxpayer identification number, and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld from payments to a holder under the backup withholding rules are not additional tax and will be allowed as a refund or credit against the holder's United States federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

Accounting Treatment

Cullen/Frost will account for the merger as a purchase by Cullen/Frost of Horizon under GAAP. Under the purchase method of accounting, the total consideration paid in connection with the merger is allocated among Horizon's assets, liabilities and identified intangibles based on the fair values of the assets acquired, the liabilities assumed and the identified intangibles. The difference between the total consideration paid in connection with the merger and the fair values of the assets acquired, the liabilities assumed and the identified intangibles, if any, is allocated to goodwill. The results of operations of Horizon will be included in Cullen/Frost's results of operations from the date of acquisition.

Interests of Certain Persons in the Merger

Stock Incentive Programs

During 1996, Horizon's board of directors approved a stock option plan, referred to as the plan, for officers and key employees to purchase common stock of Horizon. The aggregate number of shares of common stock reserved for issuance under the plan was 75,000. Both incentive stock options and non-qualified stock options could be granted under the Plan. During 2002, the plan was amended to allow an additional 120,000 stock options to be issued, increasing the aggregate number of shares to 195,000.

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Under the merger agreement, Horizon agreed to take all action necessary to ensure that each stock option granted under the plan, whether or not exercisable before the record date of Horizon's special meeting, will be exercisable before that date. Each option not exercised or forfeited before Horizon's special meeting would otherwise be cancelled for no consideration. Pursuant to the merger agreement, Horizon has taken such action and each option was exercised before the record date. As a result, options to purchase 117,600 shares were exercised.

As of April 19, 2005, the officers and directors as a group held options on 117,600 shares with an average exercise price of \$45.23. Under the merger agreement, an officer or director exercises his or her stock options, has a priority to receive, as consideration for his or her shares of Horizon common stock received upon the exercise of such stock options, Cullen/Frost common stock under the proration procedures described below in the event that the stock election is oversubscribed. See "The Merger Agreement - Merger Consideration".

Cullen/Frost Stock Options

Under the merger agreement, Cullen/Frost has agreed to grant, as of the effective time of the merger, 70,000 options to purchase Cullen/Frost common stock to Horizon employees selected by Cullen/Frost in its sole discretion. These options will be granted under an employee stock option plan of Cullen/Frost in effect at the time of the grant. The number of options to be granted to an individual Horizon employee and the terms of the options will be determined by Cullen/Frost in its sole discretion. However, the options will vest on the fourth anniversary of the effective time of the merger and will terminate on the sixth anniversary of the effective time of the merger.

Indemnification and Insurance

The merger agreement provides that, upon completion of the merger, Cullen/Frost will indemnify, defend and hold harmless the directors and officers of Horizon (when acting in such capacity) against all costs and liabilities arising out of actions or omissions occurring at or before the completion of the merger, in accordance with Horizon's articles of association to the extent permitted by law.

The merger agreement also provides that for a period of three years after the merger is completed, Cullen/Frost will maintain Horizon's existing director's and officer's liability insurance if the annual premium therefore is not in excess of the last annual premium paid prior to the date of the merger agreement. However, if Horizon's existing director's and officer's insurance expires, is terminated or is cancelled during this three-year period, Cullen/Frost will use its reasonable best efforts to obtain as much comparable insurance as can be obtained for the remainder of the period for a premium not in excess of the last annual premium paid prior to the date of the merger agreement.

Loans to Certain Horizon Officers and Employees

In connection with the exercise of options to purchase or receive Horizon common stock, Cullen/Frost offered to make loans on fair market terms to certain officers and employees holding options to fund the exercise or purchase price of the common stock subject to these options. No such loans were made to executive officers.

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THE MERGER AGREEMENT

The following discussion describes the material provisions of the merger agreement, as amended. We urge you to read the merger agreement, including the amendment to the merger agreement, which is attached as Appendix A and incorporated by reference in this document, carefully and in its entirety. The description of the merger agreement, as amended, in this proxy statement-prospectus has been included to provide you with information regarding its terms. The merger agreement contains representations and warranties made by and to the parties thereto as of specific dates. The statements embodied in those representations and warranties were made for purposes of that contract between the parties and are subject to qualifications and limitations agreed by the parties in connection with negotiating the terms of that contract. In addition, certain representations and warranties were made as of a specified date, may be subject to a contractual standard of materiality different from those generally applicable to shareholders, or may have been used for the purpose of allocating risk between the parties rather than establishing matters as facts.

Structure

Subject to the terms and conditions of the merger agreement, at the completion of the merger, Horizon will merge with and into a newly formed, wholly owned bank subsidiary of Cullen/Frost, which we refer to as interim bank sub , and interim bank sub will be the surviving corporation. The separate existence of Horizon will terminate. Immediately following the merger, the capital stock of interim bank sub will be contributed to The New Galveston Company, a wholly owned bank holding company subsidiary of Cullen/Frost. Immediately following the contribution, The New Galveston Company will cause interim bank sub to merge with and into The Frost National Bank, a wholly owned bank subsidiary of The New Galveston Company. The Frost National Bank will be the surviving corporation of the second merger and will continue its corporate existence under the laws of the United States.

Merger Consideration

The total consideration to be paid to Horizon shareholders in the merger consists of 1,400,000 shares of Cullen/Frost common stock and \$45,000,000 in cash. If the average trading price of the Cullen/Frost stock over the ten-trading-day period ending on the trading day immediately prior to the merger's closing date is greater than \$53.46, the amount of cash will be reduced. If such average trading price is less than \$43.74, the amount of cash will be increased but not above \$50,236,000. Under certain circumstances, the aggregate amount of cash consideration may also be increased, to the extent that the amount of pre-closing shareholders equity minus \$38,000,000 exceeds 5% of the amount of pre-closing shareholders equity, by the amount of the excess over 5%. Pre-closing shareholders equity means the total shareholders equity of Horizon as of the month-end immediately preceding the merger's closing date, adjusted to take into account certain transaction expenses. Each Horizon shareholder will be entitled to elect to receive for each share of Horizon common stock either shares of Cullen/Frost common stock or cash, subject to the amount of shares and cash available and the election and allocation procedures in the merger agreement. Generally, to the extent that you receive Cullen/Frost common stock, the merger will be tax-free to you, other than with respect to any cash consideration or cash you receive for fractional shares.

The number of shares of Cullen/Frost common stock and the amount of cash to be received for each share of Horizon common stock will be based on a formula. This formula first values the aggregate consideration to be received by all Horizon shareholders in the merger using the average trading price of Cullen/Frost common stock described above and the amount of cash to be paid. It then divides that value by the number of shares of Horizon common stock outstanding at the time of the merger, which is expected to be 944,966. The result would be the amount of cash per share to be paid to Horizon shareholders. The number of shares of Cullen/Frost common stock to be exchanged for each share of Horizon stock would be equal to that per share cash amount divided by the average trading price of the Cullen/Frost common stock described above.

The total amount of Cullen/Frost common stock available in the merger is fixed. As described above, the total amount of cash consideration available in the merger may be adjusted prior to the closing but it will be fixed

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at the closing. Notwithstanding the foregoing, the value of the stock to be received by Horizon shareholders will change depending on changes in the market price of Cullen/Frost common stock. Set forth below is a table showing a hypothetical range of prices for shares of Cullen/Frost common stock and the corresponding consideration that a Horizon shareholder would receive in a cash election and a stock election under the merger consideration formula based on the number of fully diluted shares of Horizon common stock currently outstanding, after exercise of stock options. The table does not reflect the fact that cash will be paid instead of fractional shares and the additional amount of cash that may be payable because of the limit on the special dividend, if any.

Total Merger Consideration					
Aggregate					
Amount of					
Cash					
Hypothetical	(excluding any			Number of	Value of
Ten-Day	Aggregate	additional		Shares of	Shares of
Average Closing	Number of	amount		Cullen/Frost	Cullen/Frost
Sales Price	Shares of	resulting from		Common	Common
for	Cullen/Frost	the limit on	Cash Amount	Stock for	Stock Based
Cullen/Frost	Common	the special	Per Share of	Each Share of	on Ten-Day
Common Stock	Stock	dividend)	Horizon Stock	Horizon Stock	Average
\$35.00	1,400,000	\$50,236,000.00	\$105.02	3.0004	\$49,000,000.00
36.00	1,400,000	50,236,000.00	106.50	2.9582	50,400,000.00
37.00	1,400,000	50,236,000.00	107.98	2.9183	51,800,000.00
38.00	1,400,000	50,236,000.00	109.46	2.8805	53,200,000.00
39.00	1,400,000	50,236,000.00	110.94	2.8447	54,600,000.00
40.00	1,400,000	50,236,000.00	112.42	2.8106	56,000,000.00
41.00	1,400,000	48,836,000.00	112.42	2.7420	57,400,000.00
42.00	1,400,000	47,436,000.00	112.42	2.6767	58,800,000.00
43.00	1,400,000	46,036,000.00	112.42	2.6145	60,200,000.00
44.00	1,400,000	45,000,000.00	112.81	2.5638	61,600,000.00
45.00	1,400,000	45,000,000.00	114.29	2.5398	63,000,000.00
46.00	1,400,000	45,000,000.00	115.77	2.5168	64,400,000.00
47.00	1,400,000	45,000,000.00	117.25	2.4947	65,800,000.00
48.00	1,400,000	45,000,000.00	118.73	2.4736	67,200,000.00
49.00	1,400,000	45,000,000.00	120.22	2.4534	68,600,000.00
50.00	1,400,000	45,000,000.00	121.70	2.4340	70,000,000.00
51.00	1,400,000	45,000,000.00	123.18	2.4153	71,400,000.00
52.00	1,400,000	45,000,000.00	124.66	2.3973	72,800,000.00
53.00	1,400,000	45,000,000.00	126.14	2.3800	74,200,000.00
54.00	1,400,000	44,244,000.00	126.82	2.3486	75,600,000.00
55.00	1,400,000	42,844,000.00	126.82	2.3059	77,000,000.00

The examples above are illustrative only. The value of the merger consideration that you actually receive will be based on the average trading price of Cullen/Frost common stock prior to completion of the merger, as described above. If that average price is not included in the table above, including because the price is outside the range of the amounts set forth above, we do not intend to re-solicit proxies from Horizon shareholders in connection with the merger.

Based on the closing price of Cullen/Frost common stock on July 26, 2005, for each of your shares of Horizon common stock you would receive either approximately \$120.87 in cash or approximately 2.4447 shares of Cullen/Frost common stock, subject to possible proration and adjustment, including as a result of the limit on the special dividend. However, we will compute the actual amount of cash and number of shares of Cullen/Frost common stock you will receive in the merger using the formula contained in the merger agreement.

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As explained in more detail in this proxy statement-prospectus, whether you make a cash election or a stock election, the value of the consideration that you will receive as of the completion of the merger will be the same based on the Cullen/Frost stock price used to calculate the merger consideration. Any Horizon shareholder who does not make a valid election in the shareholder's form of election will receive cash, shares of Cullen/Frost common stock or a mixture of cash and shares of Cullen/Frost common stock, based on what is available after giving effect to the valid elections made by other shareholders and the impact of the proration provisions described below. In addition, Horizon shareholders may specify different elections with respect to different shares held by them (for example, a shareholder with 100 shares could make a cash election with respect to 50 shares and a stock election with respect to the other 50 shares).

Cash Election. The merger agreement provides that each Horizon shareholder who makes a valid cash election will have the right to receive, in exchange for each share of Horizon common stock, an amount in cash equal to the cash amount per share calculated as described above, subject to possible proration and adjustment.

Stock Election. The merger agreement provides that each Horizon shareholder who makes a valid stock election will have the right to receive, in exchange for each share of Horizon common stock, a number of shares of Cullen/Frost common stock and rights issued and attached to such stock calculated as described above, subject to possible proration and adjustment.

Non-Electing Shares. Horizon shareholders who make no election to receive cash or Cullen/Frost common stock in the merger, and Horizon shareholders who do not make valid elections, will be deemed not to have made an election. Horizon shareholders not making an election may be paid in cash, Cullen/Frost common stock or a mix of cash and shares of Cullen/Frost common stock depending on, and after giving effect to, the number of valid cash elections and stock elections that have been made by other Horizon shareholders and application of the proration adjustments described below.

Proration. The total number of shares of Cullen/Frost common stock that will be issued and cash that will be paid in the merger is fixed at 1,400,000 shares and \$45,000,000, respectively, subject to an adjustment of the cash amount described above. Therefore, the cash and stock elections are subject to proration to preserve this limitation on the number of shares of Cullen/Frost common stock to be issued and cash to be paid in the merger. As a result, even if you make the cash election or stock election, you may nevertheless receive a mix of cash and stock.

Effect of Horizon Shareholders Electing to Receive More than 1,400,000 Shares of Cullen/Frost Stock. Cash may be paid to shareholders who make stock elections if the stock election is oversubscribed. The shares of Horizon common stock for which valid stock elections are made are known as the stock election shares. The number of shares of Horizon common stock that will be converted into shares of Cullen/Frost common stock in the merger is equal to the stock conversion number, which is equal to (1) 1,400,000 divided by (2) the number of shares of Cullen/Frost common stock to be exchanged for each Horizon share.

If the stock election shares are greater than the stock conversion number, the stock election is oversubscribed. If the stock election is oversubscribed, then:

Horizon shareholders making a cash election, and those shareholders who failed to make valid elections, will receive merger consideration consisting only of cash for each share of Horizon common stock;

the exchange agent will allocate from among the stock election shares (other than stock election shares that relate to shares of Horizon common stock that were received upon the exercise of an option to purchase such stock after the date of the merger agreement,

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collectively referred to as BSO stock election shares) pro rata to the holders of those shares in accordance with their respective numbers of stock election shares, a sufficient number of stock election shares, referred to as converted stock election shares , so that the difference between (1) the number of stock election shares (including BSO stock election shares) less (2) the number