

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>Per Share</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	Horizon Stock	Common	Common
Price for	Cullen/Frost	the limit on	Horizon Stock	Stock for	Stock Based
Cullen/Frost	Common	the special	Per Share of	Each Share of	on Ten-Day
Common	Stock	dividend)	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