

CULLEN FROST BANKERS INC
Form S-4
July 06, 2005
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As filed with the Securities and Exchange Commission on July 6, 2005.

File No. 333

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

CULLEN/FROST BANKERS, INC.

(Exact name of registrant as specified in its charter)

Texas (State or other jurisdiction of incorporation or organization)	6021 (Primary Standard Industrial Classification Code Number)	74-1751768 (I.R.S. Employer Identification No.)
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100 West Houston Street

San Antonio, Texas 78205

(210) 220-4011

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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Phillip D. Green

Group Executive Vice President and

Chief Financial Officer

Cullen/Frost Bankers, Inc.

100 West Houston Street

San Antonio, Texas 78205

(210) 220-4011

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies To:

Mark J. Menting

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125 Broad Street

New York, New York 10004

(212) 558-4000

Charles E. Greef

Jenkins & Gilchrist, P.C.

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Suite 3700

Dallas, Texas 75202

(214) 855-4500

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE OF THE SECURITIES TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box: "

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, as amended (the Securities Act), check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: "

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: "

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common stock, par value \$0.01(3)	1,400,000	\$ 17.81	\$ 24,944,134	\$ 2,935.92

-
- (1) Represents the number of shares of Common Stock, par value \$0.01 per share, which are issuable upon consummation of the merger of Horizon Capital Bank (Horizon) with and into a wholly owned subsidiary of Cullen/Frost Bankers, Inc. (Cullen/Frost).
 - (2) Estimated solely for the purpose of calculating the registration fee required by Section 6(b) of the Securities Act, and calculated pursuant to Rule 457(f) under the Securities Act. Pursuant to Rule 457(f)(2) under the Securities Act, based on the aggregate book value of the shares of Horizon common stock, par value \$0.01 per share, as of June 30, 2005, currently expected to be exchanged for Cullen/Frost common stock in connection with the merger as of the date hereof.
 - (3) Includes associated preferred shares purchase rights. Prior to the occurrence of certain events, such rights will not be evidenced or traded separately from the common stock.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this proxy statement-prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement-prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JULY 6, 2005

July , 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 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:

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

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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. **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. For example,

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

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%.

Unanimous Board Approval/Fairness Opinion: The Board of Directors of Horizon has unanimously approved and recommends the Agreement and Plan of Merger 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 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 844,921 shares of Horizon common stock subject to the shareholders agreement representing approximately 89% 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 549,199 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.

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 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.

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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, 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 , 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, 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 , 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 18)

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	Common	Common
Price for	Cullen/Frost	the special	the special	Stock for	Stock Based
Cullen/Frost	Common	dividend)	Horizon Stock	Each Share of	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
48.00	1,400,000	45,000,000.00	118.73	2.4736	67,200,000.00

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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 cannot be determined until completion of the merger. We intend to announce these amounts when known. 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 13)

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.

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

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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%.

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

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.

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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 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.

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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 20)

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

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 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.

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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 84,358 shares subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement that Mr. Thetford is deemed to beneficially own.

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 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

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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 89% 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 549,199 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 42)

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;

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

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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.

Where the law permits, either of us could choose to waive a condition to our obligation to

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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 45)

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 March 31, 2005, Cullen/Frost had consolidated total assets of \$9.8 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 March 31, 2005, Horizon had total assets of \$396.8 million, total deposits of \$307.2 million, a Tier 1 risk-based capital ratio of 11.4%, a total risk-based capital ratio of 12.5% and a leverage ratio of 8.7%.

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 three months ended March 31, 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 Three Months Ended March 31,		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	\$ 76,693	\$ 56,639	\$ 249,612	\$ 233,463	\$ 265,514	\$ 343,928	\$ 394,073
Securities	33,390	33,684	135,035	125,778	120,221	106,933	109,248
Interest-bearing deposits	21	10	63	104	172	200	331
Federal funds sold and resell agreements	2,819	998	8,834	9,601	3,991	9,784	8,488
Total interest income	112,923	91,331	393,544	368,946	389,898	460,845	512,140
Interest expense:							
Deposits	14,888	8,222	39,150	37,406	55,384	118,699	158,858
Federal funds purchased and repurchase agreements	2,780	1,023	5,775	4,059	5,359	12,054	17,889
Junior subordinated deferrable interest debentures	3,505	2,626	12,143	8,735	8,735	8,735	8,735
Subordinated notes payable and other borrowings	1,647	1,128	5,038	4,988	6,647	5,531	4,346
Total interest expense	22,820	12,999	62,106	55,188	76,125	145,019	189,828
Net interest income	90,103	78,332	331,438	313,758	313,773	315,826	322,312
Provision for possible loan losses	2,400	500	2,500	10,544	22,546	40,031	14,103
Net interest income after provision for possible loan losses	87,703	77,832	328,938	303,214	291,227	275,795	308,209
Non interest income:							
Trust fees	14,290	13,107	53,910	47,486	47,463	48,784	49,266
Service charges on deposit accounts	19,367	21,683	87,415	87,805	78,417	70,534	60,627
Insurance commissions and fees	8,610	10,163	30,981	28,660	25,912	18,598	10,698
Other charges, commissions and fees	4,288	4,309	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	11,484	9,866	36,828	32,702			