CULLEN FROST BANKERS INC
Form 424B1
February 13, 2007
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Filed Pursuant to Rule 424(b)(1)
Registration No. 333-140601

$100,000,000

Cullen/Frost Bankers, Inc.

5.75% Fixed-to-Floating Rate Subordinated Notes Due February 15, 2017

We will issue an aggregate of $100 million principal amount of our 5.75% Fixed-to-Floating Rate Subordinated Notes Due February 15, 2017, which we refer to as the *notes*.

The notes will bear interest from and including February 15, 2007 to but excluding February 15, 2012 at the rate of 5.75% *per annum*, payable semi-annually on each February 15 and August 15, commencing on August 15, 2007. From and including February 15, 2012, to but excluding the maturity date or date of earlier redemption, the notes will bear interest at a rate *per annum* equal to three-month LIBOR for the related interest period plus 0.53%, payable quarterly on each February 15, May 15, August 15 and November 15, commencing May 15, 2012.

The notes are subordinated in right of payment to all our senior indebtedness and effectively subordinated to all existing and future debt and all other liabilities of our subsidiaries. As of December 31, 2006, we had minimal outstanding indebtedness that would rank senior to the notes, excluding obligations of our subsidiaries. As of that date, the aggregate amount of all debt and other liabilities of our subsidiaries, including deposits, that would effectively rank senior to the notes was approximately $11.86 billion. The indenture pursuant to which we will issue the notes does not limit the amount of additional senior or subordinated indebtedness we may incur.

The notes cannot be accelerated except in the event of bankruptcy or the occurrence of certain other events of bankruptcy, insolvency or reorganization.

The notes mature on February 15, 2017. We may elect to redeem the notes (subject to regulatory approval), in whole or in part, on any interest payment date on or after February 15, 2012 at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest.

You should carefully consider the risk factors beginning on Page 5 of this prospectus and contained in our Annual Report on Form 10-K incorporated by reference herein in determining whether to invest in the notes.

The notes are our unsecured obligations. The notes are not savings accounts, deposits or other obligations of any of our bank or non-bank subsidiaries and are not insured by the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System or any other government agency.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Note	Total
Initial public offering price	99.91%	$99,910,000
Underwriting discount	0.65%	$650,000
Proceeds, before expenses, to us	99.26%	$99,260,000

The initial public offering price set forth above does not include accrued interest, if any. Interest on the notes will accrue from February 15, 2007 and must be paid by the purchasers if the notes are delivered after February 15, 2007. The underwriters expect to deliver the notes through the facilities of The Depository Trust Company against payment in New York, New York on February 15, 2007.

LEHMAN BROTHERS

CITIGROUP

JPMORGAN

KEEFE, BRUYETTE & WOODS

The date of this Prospectus is February 12, 2007

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You should rely only on information contained in this prospectus or information incorporated by reference in this prospectus to which we have referred you. We have not, and the underwriters have not, authorized anyone to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. You should not assume that the information appearing in this prospectus or any document incorporated by reference is accurate as of any date other than the date of the applicable document. Our business, financial condition, results of operations and prospects may have changed since that date.

We are offering to sell, and are seeking offers to buy, the notes only in jurisdictions where offers and sales are permitted. The distribution of this prospectus and the offering of the notes in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this prospectus must inform themselves about and observe any restrictions relating to the offering of the notes and the distribution of this prospectus outside the United States. This prospectus does not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any securities offered by this prospectus by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

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ABOUT THIS PROSPECTUS

This document is called a prospectus and is part of a registration statement that we filed with the Securities and Exchange Commission, or *SEC*. The registration statement containing this prospectus, including exhibits to the registration statement, provides additional information about us and the securities offered under this prospectus. The registration statement can be read at the SEC web site or at the SEC office mentioned under the heading Where You Can Find More Information.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus to *Cullen/Frost*, *we*, *us*, *our* or similar references mean Cullen/Frost Bankers, Inc. and its subsidiaries.

Unless otherwise stated, currency amounts in this prospectus are stated in United States dollars.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains an Internet website that contains reports, proxy statements and other information about issuers, like Cullen/Frost, that file electronically with the SEC. The address of that site is http://www.sec.gov. Cullen/Frost s Internet address is http://www.frostbank.com. The information on these web sites is not a part of this document. You can also inspect reports, proxy statements and other information about Cullen/Frost at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

The SEC allows us to incorporate by reference into this prospectus the information in documents we file with it. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus and should be read with the same care. When we update the information contained in documents that have been incorporated by reference by making future filings with the SEC, the information incorporated by reference in this prospectus is considered to be automatically updated and superseded. In other words, in the case of a conflict or inconsistency between information contained in this prospectus and information incorporated by reference into this prospectus, you should rely on the information contained in the document that was filed later.

We incorporate by reference the documents listed below and any documents we file with the SEC in the future (file No. 001-13221) under Section 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 until our offering is completed:

Annual Report on Form 10-K for the year ended December 31, 2006, filed on February 2, 2007.

Definitive Proxy Statement on Schedule 14A for the 2006 annual shareholders meeting, filed on March 27, 2006.

You can obtain any of the documents incorporated by reference in this document through us or from the SEC through the SEC s Internet website at the address listed above. Documents incorporated by reference are available without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit in this document. You can obtain documents incorporated by reference in this document by requesting them in writing or by telephone at the following address:

Cullen/Frost Bankers, Inc.

Attention: Investor Relations

100 West Houston Street

San Antonio, Texas 78205

(210) 220-4011

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SUMMARY

This summary highlights information contained elsewhere, or incorporated by reference, in this prospectus. As a result, it does not contain all of the information that may be important to you or that you should consider before investing in the notes. You should read this entire prospectus, including the documents incorporated by reference, which are described under Where You Can Find More Information.

Cullen/Frost Bankers, Inc.

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 numerous Texas markets. Cullen/Frost offers 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 December 31, 2006, Cullen/Frost had consolidated total assets of $13.2 billion and was one of the largest independent bank holding companies headquartered in the State of Texas.

Cullen/Frost is a Texas business corporation incorporated in 1977. Our principal office is located at 100 W. Houston Street, San Antonio, Texas 78205, and our telephone number is (210) 220-4011.

The Offering

Issuer	Cullen/Frost Bankers, Inc.
Securities Offered	$100 million aggregate principal amount of 5.75% Fixed-to-Floating Rate Subordinated Notes Due February 15, 2017
Offering Price	99.91% of the principal amount, plus accrued interest, if any, from February 15, 2007
Maturity Date	February 15, 2017
Interest Rate & Payment Dates	We will pay interest on the notes as follows:
	from and including February 15, 2007 to but excluding February 15, 2012, the notes will bear interest at a rate equal to 5.75% *per annum*, payable semi-annually on each February 15 and August 15 (calculated on the basis of a 360 day year having twelve 30-day months); and
	from and including February 15, 2012, to but excluding the maturity date or date of earlier redemption, the notes will bear interest at a rate *per annum* equal to three-month LIBOR for the related interest period plus 0.53%, payable quarterly on each February 15, May 15, August 15 and November 15, commencing May 15, 2012 (calculated on the basis of a 360-day year and the number of days actually elapsed).
	Three-month LIBOR for each applicable interest period will be the offered rate *per annum* for three-month deposits in U.S. dollars as that rate appears on Reuters page LIBOR01 as of 11:00 A.M., London time, on the relevant interest determination date, except as otherwise determined by the calculation agent in the manner described under Description of the Notes Maturity; Interest below.
First Interest Payment Date	August 15, 2007

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Regular Record Dates	The last day of the month immediately preceding a month in which an interest payment date falls.
Interest Reset Date	Each February 15, May 15, August 15 and November 15, commencing on February 15, 2012.
Interest Period	The initial interest period will be the period from and including February 15, 2007 to, but excluding, August 15, 2007 and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date.
Interest Determination Date	Interest on the notes on and after February 15, 2012 will be determined two London business days (as defined below) before the interest reset date that is the first day of each interest period.
Business Day	Any day that is not a Saturday or Sunday, and that is not a day on which banking institutions are generally authorized or obligated by law, regulation or executive order to close in The City of New York.
Ranking	The notes will be our unsecured obligations subordinated in right of payment to all our senior indebtedness and effectively subordinated to all existing and future debt and all other liabilities of our subsidiaries. As of December 31, 2006, we had minimal outstanding indebtedness that would rank senior to the notes, excluding obligations of our subsidiaries. As of that date, the aggregate amount of all debt and other liabilities of our subsidiaries, including deposits, that would effectively rank senior to the notes was approximately $11.86 billion. The indenture does not limit the amount of additional senior or subordinated indebtedness we may incur.
Events of Default; Defaults	The bankruptcy or occurrence of certain other events of bankruptcy, insolvency or reorganization relating to Cullen/Frost Bankers, Inc. or The Frost National Bank (*Frost Bank*). We refer to these events as events of default. Neither the trustee nor the holders may act to accelerate the maturity of the notes if we fail (1) to pay principal of or any premium on the notes when due, (2) to pay any interest on the notes when due (subject to a 30 day cure period) or (3) to perform any covenant in the indenture. We refer to these events as defaults.
Redemption	We may elect to redeem the notes (subject to regulatory approval), in whole or in part, on an interest payment date on or after February 15, 2012 at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest.
Sinking Fund	There is no sinking fund.
Defeasance	The notes are subject to our ability to choose Full Defeasance and Covenant Defeasance as described under Description of the Notes Defeasance and Covenant Defeasance.
Repayment at Option of Holder	None.
Global Note; Book-Entry System	The notes will be issued only in fully registered form without interest coupons and only in denominations of $1,000 and integral multiples of $1,000. The notes will be evidenced by a global note deposited with the trustee for the notes, as custodian for The Depository Trust Company,

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	or DTC. Beneficial interests in the global note will be shown on, and transfers of those beneficial interests can only be made through, records maintained by DTC and its participants. See Book-Entry System.
Use of Proceeds	We will use the net proceeds from this offering to finance, in part, the redemption of our outstanding $100,000,000 principal amount 8.42% Junior Subordinated Deferrable Interest Debentures, Series A due 2027, held of record by Cullen/Frost Capital Trust I. See Use of Proceeds.
Indenture and Indenture Trustee	The notes will be issued under an indenture, to be dated as of February 15, 2007, with The Bank of New York, as trustee.
Calculation Agent	The Bank of New York
No Listing	The notes will not be listed on any national securities exchange.

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CULLEN FROST BANKERS, INC.

Cullen/Frost, a Texas business corporation incorporated in 1977, 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 numerous Texas markets. Cullen/Frost offers 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 December 31, 2006, Cullen/Frost had consolidated total assets of $13.2 billion and was one of the largest independent bank holding companies headquartered in the State of Texas.

Cullen/Frost s philosophy is to grow and prosper, building long-term relationships based on top quality service, high ethical standards, and safe, sound assets. Cullen/Frost operates as a locally-oriented, community-based financial services organization, augmented by experienced, centralized support in select critical areas. Cullen/Frost s local market orientation is reflected in its regional management and regional advisory boards, which are comprised of local business persons, professionals and other community representatives, that assist Cullen/Frost s regional management in responding to local banking needs. Despite this local market, community-based focus, Cullen/Frost offers many of the products available at much larger money-center financial institutions.

Cullen/Frost serves a wide variety of industries including, among others, energy, manufacturing, services, construction, retail, telecommunications, healthcare, military and transportation. Cullen/Frost s customer base is similarly diverse. Cullen/Frost is not dependent upon any single industry or customer.

Cullen/Frost s operating objectives include expansion, diversification within its markets, growth of its fee-based income, and growth internally and through acquisitions of financial institutions, branches and financial services businesses. Cullen/Frost seeks merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale and expanded services. Cullen/Frost regularly evaluates merger and acquisition opportunities and conducts due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of Cullen/Frost s tangible book value and net income per common share may occur in connection with any future transaction.

Cullen/Frost s executive offices are located at 100 West Houston Street, San Antonio, Texas 78205, and its telephone number is (210) 220-4011.

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RISK FACTORS AND FORWARD-LOOKING STATEMENTS

This prospectus may contain or incorporate statements that are forward-looking statements. These statements can be identified by the use of forward-looking language such as will likely result, may, are expected to, is anticipated, estimate, projected, intends to or other similar Our actual results, performance or achievements could be significantly different from the results expressed in or implied by these forward-looking statements. These statements are subject to certain risks and uncertainties, including but not limited to, the items listed under the heading Forward-Looking Statements and Factors that Could Affect Future Results in Item 7 in the Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on February 2, 2007. We specifically incorporate by reference into this prospectus the information under that heading. See Where You Can Find More Information for more information on other documents that we incorporate by reference into this prospectus.

When considering these forward-looking statements, you should keep in mind these risks, uncertainties and other cautionary statements made or incorporated by reference in this prospectus. You should not place undue reliance on any forward-looking statement, which speaks only as of the date made. You should refer to Cullen/Frost s periodic and current reports filed with the SEC for specific risks that could cause actual results to be significantly different from those expressed or implied by these forward-looking statements.

In addition to the risk factors set forth below, we also specifically incorporate by reference into this prospectus the section captioned Risk Factors in the Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on February 2, 2007.

Holders of our senior indebtedness will get paid before you will get paid

Our obligations to you under the notes are unsecured and will be junior in right of payment to all of our future senior debt. This means that we cannot make any payments on notes if we are in default on any of our senior indebtedness then outstanding. Therefore, in the event of our bankruptcy, liquidation or dissolution, our assets must be used to pay off our senior obligations in full before any payments may be made on the notes.

As of December 31, 2006, we had minimal outstanding indebtedness that ranked senior to the notes, excluding obligations of our subsidiaries. The indenture pursuant to which the notes will be issued does not limit our ability to incur additional indebtedness, including secured debt and other debt that ranks senior in priority of payment to the notes. At December 31, 2006, Cullen/Frost Bankers, Inc. had no subordinated debt outstanding, other than debt issued by us to financing trust subsidiaries that have issued trust preferred securities and our subordinated guarantee of a subsidiary s debt (each of which will rank junior to the notes).

For more information, see Description of the Notes Subordination.

The notes are our obligations and not obligations of our subsidiaries and will be effectively subordinated to the claims of our subsidiaries creditors

The notes are exclusively our obligations and not those of our subsidiaries. We are a holding company that conducts substantially all of our operations through our bank and non-bank subsidiaries. As a result, our ability to make payments on the notes will depend primarily upon the receipt of dividends and other distributions from our subsidiaries. If we do not receive sufficient cash dividends and other distributions from our subsidiaries, it is unlikely that we will have sufficient funds to make payments on the notes.

Our subsidiaries are separate and distinct legal entities. Our subsidiaries have no obligation to pay any amounts due on the notes or to provide us with funds to pay our obligations, whether by dividends, distributions, loans or other payments. In addition, any dividend payments, distributions, loans or advances to us by our subsidiaries in the future will require the generation of future earnings by our subsidiaries and may require

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regulatory approval. There are various regulatory restrictions on the ability of our bank subsidiary, Frost Bank, to pay dividends or make other payments to us. At December 31, 2006, Frost Bank could pay a total of approximately $180.6 million in dividends to us and maintain its status as well-capitalized without prior regulatory approval.

In addition, our right to participate in any distribution of assets of any of our subsidiaries upon the subsidiary s liquidation or otherwise will generally be subject to the prior claims of creditors of that subsidiary. Your ability as a holder of the notes to benefit indirectly from that distribution also will be subject to these prior claims. The notes are not guaranteed by any of our subsidiaries. As a result, the notes will be effectively subordinated to all existing and future liabilities and obligations of our subsidiaries. Therefore, you should look only to our assets for payments on the notes. At December 31, 2006, our subsidiaries had, in the aggregate, outstanding debt and other liabilities, including deposits, of approximately $11.86 billion that would effectively rank senior to the notes in case of liquidation or otherwise.

The notes are subject to limited rights of acceleration

Payment of principal on the notes may be accelerated only in the case of certain events of bankruptcy or insolvency, whether voluntary or involuntary, of us or Frost Bank. Thus, you have no right to accelerate the payment of principal on the notes if we fail to pay interest on the notes or if we fail in the performance of any of our other obligations under the notes.

The notes are not insured

The notes are our unsecured obligations. The notes are not savings accounts, deposits or other obligations of any of our bank or non-bank subsidiaries and are not insured by the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System or any other governmental agency.

You may be unable to sell the notes because there is no public trading market for the notes

The notes are a new issue of securities with no established trading market. The notes will not be listed on any securities exchange or included in any automated quotation system. Consequently, the notes will be relatively illiquid and you may be unable to sell your notes. Although the representative of the underwriters has advised us that, following completion of the offering of the notes, the underwriters currently intend to make a market in the notes, they are not obligated to do so and may discontinue any market-making activities at any time without notice. Accordingly, we cannot assure you as to the development or liquidity of any market for the notes.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our consolidated ratios of earnings to fixed charges for each of the five years in the five-year period ended December 31, 2006. For purposes of computing these ratios, earnings represent net income, plus total taxes based on income, plus fixed charges. Fixed charges include interest expense (ratios are presented both excluding and including interest on deposits), the estimated interest component of net rental expense and amortization of debt expense.

	Year Ended December 31,				
	2006	2005	2004	2003	2002
Consolidated Ratios of Earnings to Fixed Charges					
Excluding interest on deposits	5.32	6.59	8.82	9.91	8.21
Including interest on deposits	2.29	2.99	4.17	4.26	3.24

USE OF PROCEEDS

The net cash proceeds to us from the sale of the notes will be approximately $98.7 million (after deducting estimated discounts and commissions and estimated offering expenses). We will use the net cash proceeds from this offering to finance, in part, the redemption of our outstanding $103.1 million principal amount 8.42% Junior Subordinated Deferrable Interest Debentures, Series A due February 1, 2027, held of record by Cullen/Frost Capital Trust I, with the remaining amount needed for the redemption to come from available working capital. Certain of the underwriters and their affiliates may hold a portion of the trust preferred securities relating to the Junior Subordinated Deferrable Interest Debentures and, accordingly, may receive a portion of the proceeds of this offering.

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SELECTED FINANCIAL DATA

The following consolidated selected financial data is derived from our and our subsidiaries audited financial statements as of and for the five years ended December 31, 2006. 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 prospectus. See Where You Can Find More Information. All of our acquisitions during the periods presented were accounted for using the purchase method. Accordingly, the operating results of the acquired companies are included with our results of operations since their respective dates of acquisition. Certain items in prior years have been reclassified to conform to the current presentation. Dollar amounts, except per share data, and common shares outstanding are in thousands.

	As of or for the Year Ended December 31,				
	2006	2005	2004	2003	2002
Consolidated Statements of Income					
Interest income:					
Loans, including fees	$ 502,657	$ 359,587	$ 249,612	$ 233,463	$ 265,514
Securities	144,501	131,943	135,035	125,778	120,221
Interest-bearing deposits	251	150	63	104	172
Federal funds sold and resell agreements	36,550	18,147	8,834	9,601	3,991
Total interest income	683,959	509,827	393,544	368,946	389,898
Interest expense:					
Deposits	155,090	78,934	39,150	37,406	55,384
Federal funds purchased and repurchase agreements	31,167	16,632	5,775	4,059	5,359
Junior subordinated deferrable interest debentures	17,402	14,908	12,143	8,735	8,735
Subordinated notes payable and other borrowings	11,137	8,087	5,038	4,988	6,647
Total interest expense	214,796	118,561	62,106	55,188	76,125
Net interest income	469,163	391,266	331,438	313,758	313,773
Provision for possible loan losses	14,150	10,250	2,500	10,544	22,546
Net interest income after provision for possible loan losses	455,013	381,016	328,938	303,214	291,227
Non-interest income:					
Trust fees	63,469	58,353	53,910	47,486	47,463
Service charges on deposit accounts	77,116	78,751	87,415	87,805	78,417
Insurance commissions and fees	28,230	27,731	30,981	28,660	25,912
Other charges, commissions and fees	28,105	23,125	22,877	22,522	21,446
Net gain (loss) on securities transactions	(1)	19	(3,377)	40	88
Other	43,828	42,400	33,304	28,848	27,643
Total non-interest income	240,747	230,379	225,110	215,361	200,969
Non-interest expense:					
Salaries and wages	190,784	166,059	158,039	146,622	139,227
Employee benefits	46,231	41,577	40,176	38,316	34,614
Net occupancy	34,695	31,107	29,375	29,286	28,883
Furniture and equipment	26,293	23,912	22,771	21,768	22,597
Intangible amortization	5,628	4,859	5,346	5,886	7,083
Other	106,722	99,493	89,323	84,157	79,738
Total non-interest expense	410,353	367,007	345,030	326,035	312,142
Income from continuing operations before income taxes:	285,407	244,388	209,018	192,540	180,054
Income taxes	91,816	78,965	67,693	62,039	57,821
Income from continuing operations	193,591	165,423	141,325	130,501	122,233
Loss from discontinued operations, net of tax					(5,247)

Net income	$ 193,591	$ 165,423	$ 141,325	$ 130,501	$ 116,986

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	As of or for the Year Ended December 31,			
	2006	2005	2004	2003