

CULLEN FROST BANKERS INC  
Form 10-Q  
April 25, 2007

United States Securities and Exchange Commission  
Washington, D.C. 20549

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Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: March 31, 2007

Or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-7275

Cullen/Frost Bankers, Inc.

(Exact name of registrant as specified in its charter)

Texas  
(State or other jurisdiction of  
incorporation or organization)

74-1751768  
(I.R.S. Employer  
Identification No.)

100 W. Houston Street, San Antonio, Texas  
(Address of principal executive offices)

78205  
(Zip code)

(210) 220-4011

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [  ] No [  ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [  ]

Accelerated filer [  ]

Non-accelerated filer [  ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [  ] No [  ]

As of April 20, 2007, there were 60,009,952 shares of the registrant's Common Stock, \$.01 par value, outstanding.

Cullen/Frost Bankers, Inc.  
Quarterly Report on Form 10-Q  
March 31, 2007

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Part I. Financial Information

Item 1. Financial Statements (Unaudited)

**Cullen/Frost Bankers, Inc.**

**Consolidated Statements of Income**

(Dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	2007	2006
Interest income:		
Loans, including fees	149,761	154,220
Securities:		
Taxable	36,829	33,435
Tax-exempt	3,307	2,744
Interest-bearing deposits	67	57
Federal funds sold and resell agreements	9,618	6,384
Total interest income	192,582	156,840

Interest expense:

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Deposits	49,086	31,108
Federal funds purchased and repurchase agreements	8,221	6,526
Junior subordinated deferrable interest debentures	3,693	4,108
Subordinated notes payable and other borrowings	3,749	2,658
Total interest expense	64,749	44,400
Net interest income	127,833	112,440
Provision for possible loan losses	2,650	3,934
Net interest income after provision for possible loan losses	125,183	108,506
Non-interest income:		
Trust fees	16,907	15,754
Service charges on deposit accounts	18,831	19,107
Insurance commissions and fees	10,628	8,975
Other charges, commissions and fees	6,858	6,187
Net gain (loss) on securities transactions	-	(1)
Other	13,848	11,009
Total non-interest income	67,072	61,031
Non-interest expense:		
Salaries and wages	51,714	46,106
Employee benefits	14,426	13,176
Net occupancy	9,634	8,433
Furniture and equipment	6,928	6,302
Intangible amortization	2,326	1,306
Other	37,059	25,146
Total non-interest expense	122,087	100,469
Income before income taxes	70,168	69,068
Income taxes	22,889	22,391
Net income	47,279	46,677
Earnings per common share:		
Basic	\$ 0.79	\$ 0.86
Diluted	0.78	0.83

See Notes to Consolidated Financial Statements.

Cullen/Frost Bankers, Inc.

Consolidated Balance Sheets

(Dollars in thousands, except per share amounts)

	March 31, 2007	December 31, 2006	March 31, 2006
<b>Assets:</b>			
Cash and due from banks	\$ 608,787	\$ 707,683	\$ 535,112
Interest-bearing deposits	4,227	1,677	2,829
Federal funds sold and resell agreements	803,125	735,225	795,275
Total cash and cash equivalents	1,416,139	1,444,585	1,333,216
Securities held to maturity, at amortized cost	9,607	10,096	11,960
Securities available for sale, at estimated fair value	3,116,212	3,330,953	2,971,686
Trading account securities	12,455	9,406	6,907
Loans, net of unearned discounts	7,459,256	7,373,384	6,511,258
Less: Allowance for possible loan losses	(96,144 )	(96,085 )	(84,142 )
Net loans	7,363,112	7,277,299	6,427,116
Premises and equipment, net	217,315	219,533	196,287
Goodwill	527,947	524,117	245,061
Other intangible assets, net	36,153	38,480	23,769
Cash surrender value of life insurance policies	112,880	111,742	108,549
Accrued interest receivable and other assets	364,569	257,978	254,618
	\$ 13,176,389	\$ 13,224,189	\$ 11,579,169
<b>Total assets</b>			
<b>Liabilities:</b>			
<b>Deposits:</b>			
Non-interest-bearing demand deposits	\$ 3,574,827	\$ 3,699,701	\$ 3,375,512
Interest-bearing deposits	6,705,623	6,688,208	5,916,871
Total deposits	10,280,450	10,387,909	9,292,383

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Federal funds purchased and repurchase agreements	914,833	864,190	742,644
Subordinated notes payable and other borrowings	283,812	186,366	177,054
Junior subordinated deferrable interest debentures	139,177	242,270	229,898
Accrued interest payable and other liabilities	140,287	166,571	126,452
	<u>11,758,559</u>	<u>11,847,306</u>	<u>10,568,431</u>
Total liabilities			
Shareholders' Equity:			
Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized; none issued	-	-	-
Junior participating preferred stock, par value \$0.01 per share; 250,000 shares authorized; none issued	-	-	-
Common stock, par value \$0.01 per share; 210,000,000 shares authorized; 59,972,052 shares, 59,839,144 shares and 55,106,185 shares issued	600	598	551
Additional paid-in capital	555,427	548,117	292,431
Retained earnings	909,950	883,060	793,350
Accumulated other comprehensive income (loss), net of tax	(48,147 )	(54,892 )	(75,594 )
Treasury stock, no shares, no shares and 7 shares, at cost	-	-	-
	<u>1,417,830</u>	<u>1,376,883</u>	<u>1,010,738</u>
Total shareholders' equity			
	<u>\$ 13,176,389</u>	<u>\$ 13,224,189</u>	<u>\$ 11,579,169</u>
Total liabilities and shareholders' equity			

See Notes to Consolidated Financial Statements.

Cullen/Frost Bankers, Inc.

Consolidated Statements of Changes in Shareholders' Equity

(Dollars in thousands, except per share amounts)

Three Months Ended  
March 31,

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	2007	2006
Total shareholders' equity at beginning of period	\$ 1,376,883	\$ 982,236
Comprehensive income:		
Net income	47,279	46,677
Other comprehensive income (loss):		
Change in unrealized gain/loss on securities available for sale of \$9,628 in 2007 and \$(37,472) in 2006, net of reclassification adjustment of \$1 in 2006 and tax effect of \$3,370 in 2007 and \$(13,115) in 2006	6,258	(24,356 )
Change in funded status of defined benefit post-retirement benefit plans related to the amortization of actuarial losses to net periodic benefit cost of \$664 in 2007, net of tax effect of \$233	431	-
Change in accumulated gain/loss on effective cash flow hedging derivatives of \$86 in 2007 and \$(1,224) in 2006, net of tax effect of \$30 in 2007 and \$(428) in 2006	56	(796 )
Total other comprehensive income (loss)	<u>6,745</u>	<u>(25,152 )</u>
Total comprehensive income	54,024	21,525
Stock option exercises (132,949 shares in 2007 and 678,015 shares in 2006)	3,661	17,466
Stock compensation expense recognized in earnings	2,384	2,254
Tax benefits related to stock compensation, includes excess tax benefits of \$1,231 in 2007 and \$6,751 in 2006.	1,268	6,751
Purchase of treasury stock (41 shares in 2007 and 54,572 shares in 2006)	(2 )	(2,970 )
Cash dividends (\$0.34 per share in 2007 and \$0.30 per share in 2006)	<u>(20,388 )</u>	<u>(16,524 )</u>
Total shareholders' equity at end of period	<u>\$ 1,417,830</u>	<u>\$ 1,010,738</u>

See Notes to Consolidated Financial Statements.

Cullen/Frost Bankers, Inc.

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Three Months Ended	
	March 31,	
	2007	2006
Operating Activities:		
Net income	\$ 47,279	\$ 46,677
Adjustments to reconcile net income to net cash from operating activities:		
Provision for possible loan losses	2,650	3,934
Deferred tax expense (benefit)	(740 )	(1,537 )
Accretion of loan discounts	(3,179 )	(1,760 )
Securities premium amortization (discount accretion), net	(62 )	(221 )
Net (gain) loss on securities transactions	-	1
Depreciation and amortization	7,386	6,034
Origination of loans held for sale	(32,461 )	(27,331 )
Proceeds from sales of loans held for sale	16,138	19,186
Net gain on sale of loans held for sale and other assets	(397 )	(723 )
Stock-based compensation expense	2,384	