

CULLEN FROST BANKERS INC
Form 11-K
June 27, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: **December 31, 2002**

Or

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-7275

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

THE 401(k) STOCK PURCHASE PLAN
FOR EMPLOYEES OF CULLEN/FROST
BANKERS, INC. AND ITS AFFILIATES

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

CULLEN/FROST BANKERS, INC.
100 W. Houston Street
San Antonio, TX 78205

Telephone Number: (210) 220-4011

The 401(k) Stock Purchase Plan for Employees of
Cullen/Frost Bankers, Inc. and Its Affiliates

Financial Statements
and Supplemental Schedule

Years Ended December 31, 2002 and 2001

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Report of Independent Auditors

Compensation and Benefits Committee of the
The 401(k) Stock Purchase Plan for Employees of
Cullen/Frost Bankers, Inc. and Its Affiliates
San Antonio, Texas

We have audited the accompanying statements of net assets available for benefits of The 401(k) Stock Purchase Plan for Employees of Cullen/Frost Bankers, Inc. and Its Affiliates as of December 31, 2002 and 2001, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2002 and 2001, and the changes in its net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2002 is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young, LLP

San Antonio, Texas
June 24, 2003

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The 401(k) Stock Purchase Plan for Employees of
Cullen/Frost Bankers, Inc. and Its Affiliates

Statements of Net Assets Available for Benefits

	December 31	
	2002	2001
Assets		
Participant-directed investments, at fair value	\$ 156,381,865	\$ 157,746,380
Receivables:		
Employer contributions	195,525	268,394
Participants' contributions	250,087	337,745
Net assets available for benefits	\$ 156,827,477	\$ 158,352,519

See accompanying notes.

The 401(k) Stock Purchase Plan for Employees of
Cullen/Frost Bankers, Inc. and Its Affiliates

Statements of Changes in Net Assets Available for Benefits

	Year Ended December 31	
	2002	2001
Additions to net assets attributed to:		
Investment income:		
Interest	\$ 610,937	\$ 1,007,707
Dividends	2,744,231	1,520,055

	3,355,168	2,527,762
Contributions:		
Employer	5,908,639	6,244,537
Participants	8,033,848	8,857,529
	<u>13,942,487</u>	<u>15,102,066</u>
Total additions	17,297,655	17,629,828
Deductions from net assets attributed to:		
	1,008,781	35,954,506
Net depreciation in fair value of investments		
Benefits paid to participants	17,726,082	8,185,119
Administrative fees	87,834	53,299
	<u>18,822,697</u>	<u>44,192,924</u>
Total deductions		
Net decrease	(1,525,042)	(26,563,096)
Net assets available for benefits:		
Beginning of year	<u>158,352,519</u>	<u>184,915,615</u>
End of year	<u>\$ 156,827,477</u>	<u>\$ 158,352,519</u>

See accompanying notes.

The 401(k) Stock Purchase Plan for Employees of
Cullen/Frost Bankers, Inc. and Its Affiliates

Notes to Financial Statements

December 31, 2002 and 2001

1. Significant Accounting Policies

The accounting records of The 401(k) Stock Purchase Plan for Employees of Cullen/Frost Bankers, Inc. and Its Affiliates (the Plan) are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

The Plan's investments are composed of common stock of Cullen/Frost Bankers, Inc. (CFBI) and various mutual funds, which are stated at fair value based on quoted market prices on the valuation date. Investments in common collective trusts are stated at fair value as determined by the issuer. Changes in fair market value and gains and losses on the sale of investment securities are reflected in the statements of changes in net assets available for benefits as net appreciation (depreciation) in fair value of investments. Money market investments and loans to participants are valued at cost, which approximates fair value.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest is recorded on the accrual basis.

Certain administrative expenses of the Plan are paid by CFBI.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Description of the Plan

The following is a general description of the Plan. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

The 401(k) Stock Purchase Plan for Employees of Cullen/Frost Bankers, Inc. and Its Affiliates

Notes to Financial Statements (continued)

December 31, 2002 and 2001

2. Description of the Plan (continued)

General

The Plan is a defined contribution plan qualified under Section 401(a) of the Internal Revenue Code (IRC) and covers full-time employees who complete 90 consecutive days of service and part-time employees who complete 90 consecutive days of service and are scheduled to work more than 1,000 hours in a year. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions and Investment Options

Participants may contribute an amount not less than 2% and not exceeding 20% of their compensation, limited by 401(k) regulations, and may direct investments of their accounts into various investment options offered by the Plan. Participants are able to invest their contributions in these funds in 1% increments. CFBI matches 100% of the participants' contributions up to 6% of the participants' compensation. The match is initially invested in the common stock of CFBI. Each participant may elect to direct the investment of the matching contributions into other allowed investment options by electing to make investment transfers after such contributions are allocated to his (her) account.

Participant Accounts

Each participant's account is credited with the participant's contributions and allocations of (a) CFBI's contributions and (b) plan earnings. Forfeited balances of terminated participants' nonvested accounts are used to restore forfeitures of reemployed participants, pay administrative expenses to the extent not paid by CFBI, or reduce future company contributions. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

Vesting

Participants are immediately vested in their voluntary contributions plus actual earnings thereon. Effective January 1, 1999, participants are fully vested in all contributions in their participant accounts. Participants who terminated employment prior to January 1, 1999 are subject to a five-years-of-service requirement for 100% vesting.

The 401(k) Stock Purchase Plan for Employees of Cullen/Frost Bankers, Inc. and Its Affiliates

Notes to Financial Statements (continued)

December 31, 2002 and 2001

2. Description of the Plan (continued)

Participant Loans and Withdrawals

Participants may borrow from their fund accounts a minimum of \$500 up to a maximum of \$50,000, reduced by the highest amount of any loan outstanding within the previous twelve months, or 50% of their vested account balance. Loan terms range from 1 to 5 years or up to 30 years for the purchase of a primary residence. The loans are secured

by the balance in the participant's account and bear interest at a rate commensurate with local prevailing rates. Principal and interest are paid ratably through semimonthly payroll deductions. Subject to Internal Revenue Service (IRS) limitations, participants may make hardship withdrawals from a portion of their 401(k) contributions to pay for an immediate and heavy financial need.

Payment of Benefits

In the event of death, disability, or retirement, a participant will receive a lump-sum payment equal to the amount of his (her) account in the Plan and all amounts that have been allocated to his (her) plan account. In the event of termination of employment for any other reason, the participant is entitled to the vested portion of his (her) account in the Plan and all vested amounts that have been allocated to his (her) plan account. Terminated participants are required to take a distribution upon reaching normal retirement age (currently 65). Active participants have the option at age 70 1/2 as to whether or not they wish to begin minimum required distributions.

Plan Termination

Although it has not expressed any present intent to do so, CFBI has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of the Plan's termination, participants will become 100% vested in their accounts.

The 401(k) Stock Purchase Plan for Employees of Cullen/Frost Bankers, Inc. and Its Affiliates

Notes to Financial Statements (continued)

December 31, 2002 and 2001

3. Form 5500

The following is a reconciliation of the Plan's net assets available for benefits per the financial statements to the amount reported in the Form 5500:

	December 31	
	2002	2001
Net assets available for benefits per the financial statements	\$ 156,827,477	\$ 158,352,519
Amounts allocated to withdrawing participants	(6,689)	(34,781)
Net assets available for benefits per the Form 5500	<u>\$ 156,820,788</u>	<u>\$ 158,317,738</u>

The following is a reconciliation of benefits paid to participants per the financial statements to the amount reported in the Form 5500:

	Year Ended December 31	
	2002	2001
Benefits paid to participants per the financial statements	\$ 17,726,082	\$ 8,185,119
Add: Amounts allocated to withdrawing participants at the end of the year	6,689	34,781
Less: Amounts allocated to withdrawing participants at the end of the prior year	(34,781))
		(5,021
Benefits paid to participants per the Form 5500	<u>\$ 17,697,990</u>	<u>\$ 8,214,879</u>

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to December 31 but not yet paid as of that date.

The 401(k) Stock Purchase Plan for Employees of
Cullen/Frost Bankers, Inc. and Its Affiliates

Notes to Financial Statements (continued)

December 31, 2002 and 2001

4. Income Tax Status

The Plan has received a determination letter from the IRS dated October 26, 1996, stating that the Plan is qualified under Section 401(a) of the IRC and, therefore, the related trust is exempt from taxation. Subsequent to the issuance of this determination letter, the Plan was amended. Once qualified, the Plan is required to operate in conformity with the IRC to maintain its qualification. The Plan administrator believes the Plan is being operated in compliance with the applicable requirements of the IRC and, therefore, believes the Plan, as amended, is qualified and the related trust is tax-exempt.

5. Investments

The following presents individual investments that represent 5% or more of the Plan's net assets:

	December 31	
	2002	2001
Cullen/Frost Bankers, Inc. common stock, 2,975,203 shares and 3,105,713 shares, respectively	\$ 97,325,896	\$ 95,904,490
AIM Liquid Assets Fund (Money Market)	11,944,602	-
Cash Reserves Fund	-	12,762,182
Frost EB Large Cap Core Fund	8,385,282	10,569,267

The Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) depreciated in value, as follows:

	Year Ended December 31	
	2002	2001
Common collective trusts	\$ (6,053,335)	\$ (1,333,858)
Mutual funds	(1,186,642)	(2,180,783)
Common stock	6,231,196	(32,439,865)
	<u>\$ (1,008,781)</u>	<u>\$ (35,954,506)</u>

The 401(k) Stock Purchase Plan for Employees of
Cullen/Frost Bankers, Inc. and Its Affiliates

Notes to Financial Statements (continued)

December 31, 2002 and 2001

6. Party-In-Interest Transactions

Parties-in-interest are defined under Department of Labor regulations as any fiduciary of the Plan, any party rendering services to the Plan, the employer, and certain others. Accordingly, transactions conducted by the Trustee, Frost National Bank, and the Plan administrator, AMVESCAP National Trust Company's retirement services division, and CFBI and its Affiliates, qualify as party-in-interest transactions.

Plan assets are held and managed by the Trustee. The Trustee invests cash received, interest and dividend income as directed by the participants of the Plan. The Trustee also makes distributions to participants.

Certain administrative functions are performed by employees of CFBI or its Affiliates; however, no such employees receive compensation from the Plan. Certain other administrative expenses are paid directly by CFBI.

7. Risk and Uncertainties

The Plan provides for various investments in common stock, mutual funds, common collective trusts, and short-term investments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits and participant account balances.

Supplemental Schedule

The 401(k) Stock Purchase Plan for Employees of
Cullen/Frost Bankers, Inc. and Its Affiliates
EIN: 74-1751768 Plan No.: 003

Schedule H, Line 4i - Schedule of Assets (Held at End of Year)

December 31, 2002

Identity of Issue, Borrower, Lessor,	Description of Investment, Including Maturity Date, Rate of Interest, Collateral,	Current
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or Similar Party	Par, or Maturity Date	Value
Common Stock		
*Cullen/Frost Bankers, Inc.	2,975,203 shares	\$ 97,325,896
*Participant Loans	Interest rates ranging from 4.25% - 9.50%; varying maturity dates	9,711,110
Common/Collective Trusts		
Inveco Conservative Asset Allocation Trust1	5,712 shares	110,406
Invesco Moderate Asset Allocation Trust	221,561 shares	4,098,887
Invesco Aggressive Asset Allocation Trust	123,987 shares	2,082,980
Invesco 500 Index Trust	226,960 shares	4,934,117
*Frost EB Low Duration Fund	26,316 shares	530,001
*Frost EB Kempner Deep Value Fund	109,821 shares	1,464,425
*Frost EB Fixed Income Fund	378,299 shares	4,771,341
*Frost EB Large Cap Core Stock Fund	253,151 shares	8,385,282
*Frost EB Small Cap Value Fund	103,437 shares	1,228,567
*Frost EB International Stock Fund	543,820 shares	3,751,608
		<u>31,357,614</u>

The 401(k) Stock Purchase Plan for Employees of
Cullen/Frost Bankers, Inc. and Its Affiliates
EIN: 74-1751768 Plan No.: 003

Schedule H, Line 4i - Schedule of Assets (Held at End of Year) (continued)

December 31, 2002

Identity of Issue, Description of Investment, Including Maturity Date,

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Borrower, Lessor, or Similar Party	Rate of Interest, Collateral, Par, or Maturity Date	Current Value
Mutual Funds		
Invesco Dynamics Fund	27,564 shares	\$ 293,837
AIM Liquid Assets Fund (Money Market)	11,944,602 shares	11,944,602
American Balanced Fund	53,098 shares	765,668
AIM Basic Value Fund	119,265 shares	2,607,141
AIM Mid-Cap Core Equity Fund	99,476 shares	2,106,906
American AMCAP Fund	20,699 shares	269,091
		<u>17,987,245</u>
		<u>\$ 156,381,865</u>

* Denotes party-in-interest.

Signatures

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned, hereunto duly authorized.

The 401(k) Stock Purchase Plan for Employees of
Cullen/Frost Bankers, Inc. and Its Affiliates

Date: June 24, 2003

By: /s/ James A. Eckel
Plan Administrator, Plan Chief Executive
Officer and Plan Chief Financial Officer
(Duly Authorized Officer)

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
23.1	Consent of Independent Auditors
99.1	Section 1350 Certifications