CULLEN/FROST BANKERS, INC.
Form 424B2
February 14, 2013
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Filed pursuant to Rule 424(b)(2)
SEC File No. 333-186335

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	Maximum aggregate offering price	Amount of registration Fee (1)
5.375% Non-Cumulative Perpetual Preferred Stock, Series A	$150,000,000	$20,460

(1) Calculated in accordance with Rule 457(r) of the Securities Act of 1933.

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PROSPECTUS SUPPLEMENT

(To Prospectus dated January 31, 2013)

Cullen/Frost Bankers, Inc.

6,000,000 Shares

5.375% Non-Cumulative Perpetual Preferred Stock, Series A

We are offering 6,000,000 shares of our 5.375% non-cumulative perpetual preferred stock, Series A, par value $0.01, with a liquidation preference of $25 per share (the Preferred Stock).

We will pay dividends on the Preferred Stock, when, as, and if declared by our board of directors or a duly authorized committee of the board and to the extent that we have lawfully available funds to pay dividends. If declared, dividends will accrue and be payable on the liquidation preference amount, on a non-cumulative basis, at a rate of 5.375% per annum, quarterly, in arrears, on March 15, June 15, September 15, and December 15 of each year, beginning on June 15, 2013, from and including the date of original issuance. The first dividend payment, if declared, will be made on June 15, 2013, in the expected amount of $0.45 per share of the Preferred Stock, which reflects the time period from the expected date of original issuance to but excluding June 15, 2013.

Dividends on the Preferred Stock will not be cumulative. If for any reason our board of directors or a duly authorized committee of the board does not declare a dividend on the Preferred Stock for any dividend period, such dividend will not accrue or be payable, and we will have no obligation to pay dividends for such dividend period, whether or not dividends on the Preferred Stock are declared for any future dividend period. Dividends on the Preferred Stock will not be declared, paid or set aside for payment to the extent such act would cause us to fail to comply with applicable laws and regulations, including applicable capital adequacy guidelines.

We may redeem the Preferred Stock (i) in whole or in part, from time to time, on any dividend payment date on or after March 15, 2018, or (ii) in whole but not in part, at any time within 90 days following a regulatory capital treatment event (as defined herein), in either case, at a redemption price of $25 per share, plus any declared and unpaid dividends for prior dividend periods and accrued but unpaid dividends (whether or not declared) for the then-current dividend period prior to but excluding the redemption date. Under current regulatory rules and regulations, we would need regulatory approval to redeem the Preferred Stock.

We have applied to list the Preferred Stock on the New York Stock Exchange (the *NYSE* ***) under the symbol CFR PrA . If the application is approved, trading of the Preferred Stock on the NYSE is expected to commence within 30 days after the original issuance date of the Preferred Stock. Our common stock is listed on the NYSE under the symbol CFR.***

The shares of Preferred Stock will not be savings accounts, deposits or other obligations of any of our bank or non-bank subsidiaries, will not be insured or guaranteed by the Federal Deposit Insurance Corporation (*FDIC* ***) or any other governmental agency or instrumentality and are subject to investment risks.***

Investing in the Preferred Stock involves risks. See Risk Factors beginning on page 21 of our Annual Report on Form 10-K for the year ended December 31, 2012, which is incorporated herein by reference, as well as the additional risk factors included in this prospectus supplement beginning on page S-11, to read about factors you should consider before buying the Preferred Stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price(1)	*$25.0000*	*$150,000,000.00*
Underwriting discount and commissions(2)	*$0.7697*	*$4,618,222.50*
Proceeds, before offering expenses, to us	*$24.2303*	*$145,381,777.50*

(1) Plus accrued dividends, if any, from the date of original issuance, which we expect to be February 15, 2013.

(2) Reflects 371,400 shares of Preferred Stock to be sold to institutional investors, for which the underwriters will receive an underwriting discount of $0.5000 per share and 5,628,600 shares of Preferred Stock to be sold to retail investors for which the underwriters will receive an underwriting discount of $0.7875 per share.

The underwriters expect to deliver the Preferred Stock in book-entry form only through the facilities of The Depository Trust Company (the DTC) for the accounts of its participants, including Clearstream Banking, a société anonyme, and Euroclear Bank S.A./N.V., as operator of the Euroclear system, against payment in New York, New York on or about February 15, 2013.

Joint Book-Running Managers

Morgan Stanley *Goldman, Sachs & Co.* *UBS Investment Bank*

Prospectus Supplement dated February 12, 2013.

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement or the accompanying prospectus. You must not rely on any unauthorized information or representations. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since such dates. Neither this prospectus supplement nor the accompanying prospectus constitutes an offer, or an invitation on our behalf or on behalf of the underwriters, to subscribe for and purchase, any shares of our Preferred Stock and may not be used for or in connection with an offer or solicitation by anyone, in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part is the accompanying prospectus, which describes more general information, some of which may not apply to this offering. You should read both this prospectus supplement and the accompanying prospectus, together with additional information described below under the heading Where You Can Find More Information. If there is any inconsistency between the information in this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any person to provide you with different or inconsistent information. If anyone provides you with different or inconsistent information, you should not rely on it.

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

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (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 or that can be accessible through these web sites is not a part of this document.

In this prospectus supplement, as permitted by law, we incorporate by reference information from other documents that we file with the SEC. 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 supplement 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 supplement is considered to be automatically updated and superseded. In other words, in case of a conflict or inconsistency between information contained in this prospectus supplement and information incorporated by reference into this prospectus supplement, 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 under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the *Exchange Act*), between the date of this document and the date of the termination of the offer being made pursuant to this prospectus supplement (other than information that, under the Exchange Act and SEC rules, is deemed to be furnished and not filed with the SEC):

Annual Report on Form 10-K for the year ended December 31, 2012; and

Current Reports on Form 8-K, filed on January 31, 2013 and February 12, 2013.

Unless stated otherwise in the applicable report, information that is furnished rather than filed with the SEC is not incorporated herein by reference.

You may request a copy of any of these filings, other than an exhibit to a filing unless that exhibit is specifically incorporated by reference into that filing, at no cost, by writing to or telephoning us at the following address:

Cullen/Frost Bankers, Inc.

100 W. Houston Street

San Antonio, Texas 78205

(210) 220-4011

Other than any documents expressly incorporated by reference, the information on our website and any other website that is referred to in this prospectus supplement is not part of this prospectus supplement.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in this prospectus supplement that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the *Act*), notwithstanding that such statements are not specifically identified as such. In addition, certain statements may be contained in the Corporation s future filings with the SEC, in press releases, and in oral and written statements made by or with the approval of the Corporation that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans, objectives and expectations of Cullen/Frost or its management or board of directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as believes , anticipates , expects , intends , targeted , continue , remain , will , should , may and other similar expressions are intended forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- Local, regional, national and international economic conditions and the impact they may have on the Corporation and its customers and the Corporation s assessment of that impact.
- Volatility and disruption in national and international financial markets.
- Government intervention in the U.S. financial system.
- Changes in the mix of loan geographies, sectors and types or the level of non-performing assets and charge-offs.
- Changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements.
- The effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Board of Governors of the Federal Reserve System.
- Inflation, interest rate, securities market and monetary fluctuations.
- The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Corporation and its subsidiaries must comply.
- The soundness of other financial institutions.
- Political instability.

Impairment of the Corporation s goodwill or other intangible assets.

Acts of God or of war or terrorism.

The timely development and acceptance of new products and services and perceived overall value of these products and services by users.

Changes in consumer spending, borrowings and savings habits.

Changes in the financial performance and/or condition of the Corporation s borrowers.

Technological changes.

Acquisitions and integration of acquired businesses.

The Corporation s ability to increase market share and control expenses.

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The Corporation s ability to attract and retain qualified employees.

Changes in the competitive environment in the Corporation s markets and among banking organizations and other financial service providers.

The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.

Changes in the reliability of the Corporation s vendors, internal control systems or information systems.

Changes in the Corporation s liquidity position.

Changes in the Corporation s organization, compensation and benefit plans.

The costs and effects of legal and regulatory developments including the resolution of legal proceedings or regulatory or other governmental inquiries and the results of regulatory examinations or reviews.

Greater than expected costs or difficulties related to the integration of new products and lines of business.

The Corporation s success at managing the risks involved in the foregoing items.

Forward-looking statements speak only as of the date on which such statements are made. The Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events.

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SUMMARY

This summary highlights selected information contained elsewhere or incorporated by reference in this prospectus supplement and does not contain all the information that you need to consider in making your investment decision. You should carefully read this entire prospectus supplement and the accompanying prospectus, as well as the information to which we refer you and the information incorporated by reference herein, before deciding whether to invest in the Preferred Stock.

CULLEN/FROST BANKERS, INC.

Cullen/Frost Bankers, Inc., 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, through its subsidiaries, offers commercial and consumer banking services, as well as trust and investment management, mutual funds, investment banking, insurance, brokerage, leasing, asset-based lending, treasury management and item processing services. At December 31, 2012, Cullen/Frost had consolidated total assets of $23.1 billion and was one of the largest independent bank holding companies headquartered in the State of Texas.

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

Our principal executive offices are located at 100 W. Houston Street, San Antonio, Texas 78205, and our telephone number is (210) 220-4011.

FROST BANK

Frost Bank, the principal operating subsidiary and sole banking subsidiary of Cullen/Frost, is primarily engaged in the business of commercial and consumer banking through more than 110 financial centers across Texas in the Austin, Corpus Christi, Dallas, Fort Worth, Houston, Rio Grande Valley and San Antonio regions. Frost Bank was chartered as a national banking association in 1899, but its origin can be traced to a mercantile partnership organized in 1868. At December 31, 2012, Frost Bank had consolidated total assets of $23.1 billion and total deposits of $19.5 billion and was one of the largest commercial banks headquartered in the State of Texas.

On June 22, 2012, Frost Bank became a Texas state chartered bank and a member of the Federal Reserve System. Accordingly, the Texas Department of Banking and the Board of Governors of the Federal Reserve System (including any successor bank regulatory authority that may become our appropriate federal banking agency, the *Federal Reserve*) are now the primary regulators of Frost Bank, and Frost Bank is no longer regulated by the Office of the Comptroller of the Currency (*OCC*). Deposits at Frost Bank continue to be insured by the FDIC up to applicable limits.

Significant services offered by Frost Bank include:

Commercial Banking. Frost Bank provides commercial banking services to corporations and other business clients. Loans are made for a wide variety of general corporate purposes, including financing for industrial and commercial properties and to a lesser extent, financing for interim construction related to industrial and commercial properties, financing for equipment, inventories and accounts receivable, and acquisition financing, as well as commercial leasing and treasury management services.

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Consumer Services. Frost Bank provides a full range of consumer banking services, including checking accounts, savings programs, automated teller machines, overdraft facilities, installment and real estate loans, home equity loans and lines of credit, drive-in and night deposit services, safe deposit facilities, and brokerage services.

International Banking. Frost Bank provides international banking services to customers residing in or dealing with businesses located in Mexico. These services consist of accepting deposits (generally only in U.S. dollars), making loans (in U.S. dollars only), issuing letters of credit, handling foreign collections, transmitting funds, and to a limited extent, dealing in foreign exchange.

Correspondent Banking. Frost Bank acts as correspondent for approximately 332 financial institutions as of December 31, 2012, which are primarily banks in Texas. These banks maintain deposits with Frost Bank, which offers them a full range of services including check clearing, transfer of funds, fixed income security services, and securities custody and clearance services.

Trust Services. Frost Bank provides a wide range of trust, investment, agency and custodial services for individual and corporate clients. These services include the administration of estates and personal trusts, as well as the management of investment accounts for individuals, employee benefit plans and charitable foundations. At December 31, 2012, the estimated fair value of these trust assets was $26.2 billion, including managed assets of $10.9 billion and custody assets of $15.3 billion.

Capital Markets Fixed-Income Services. Frost Bank s Capital Markets Division was formed to meet the transaction needs of fixed-income institutional investors. Services include sales and trading, new issue underwriting, money market trading, and securities safekeeping and clearance.

RISK FACTORS

An investment in our preferred stock involves certain risks. You should carefully consider the risks described under Risk Factors beginning on page S-11 of this prospectus supplement and in the Risk Factors section included in our Annual Report on Form 10-K for the year ended December 31, 2012, as well as other information included or incorporated by reference into this prospectus supplement and the accompanying prospectus, including our financial statements and the notes thereto, before making an investment decision.

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SUMMARY OF THE OFFERING

The following summary contains basic information about the Preferred Stock offered hereby and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the Preferred Stock, you should read the section of this prospectus supplement entitled Description of the Preferred Stock beginning on page S-19.

Securities offered	6,000,000 shares of our 5.375% Non-Cumulative Perpetual Preferred Stock, Series A, par value $0.01, with a liquidation preference of $25 per share.
Further issuances	We reserve the right to re-open this series of Preferred Stock and issue additional shares of the Preferred Stock either through public or private sales at any time and from time to time without notice to or consent of holders of the Preferred Stock; provided that any such additional shares of Preferred Stock are not treated as disqualified preferred stock within the meaning of Section 1059(f)(2) of the Internal Revenue Code and such additional shares of Preferred Stock are otherwise treated as fungible with the Preferred Stock offered hereby for U.S. federal income tax purposes. The additional shares would form a single series with the Preferred Stock offered by this prospectus supplement.
Dividends	Dividends on the Preferred Stock will be payable quarterly in arrears on the dividend payment dates specified below, when, as and if declared by our board of directors or a duly authorized committee of the board and to the extent that we have lawfully available funds to pay dividends, from and including the date of original issuance, at a rate of 5.375% per annum. Dividends on the Preferred Stock will not be cumulative. If for any reason our board of directors or a duly authorized committee of the board does not declare a dividend on the Preferred Stock for any dividend period, such dividend will not accumulate or be payable and will cease to accrue, and we will have no obligation to pay dividends for such dividend period, whether or not dividends on the Preferred Stock are declared for any future dividend period. A *dividend period* is the period from, and including, a dividend payment date to, but excluding, the next dividend payment date, except that the initial dividend period will begin on and include the original issuance date of the Preferred Stock.

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	Dividends on the Preferred Stock will not be declared, paid or set aside for payment to the extent such act would cause us to fail to comply with applicable laws and regulations, including applicable capital adequacy guidelines.
Dividend payment dates	Dividends on the Preferred Stock will be payable on March 15, June 15, September 15, and December 15 of each year, beginning on June 15, 2013 (each, a *dividend payment date*) when, as and if declared by our board of directors or a duly authorized committee of the board.
	In the event any dividend payment date is not a business day (as defined below under Description of the Preferred Stock Dividends), the appropriate dividend will be paid on the first business day following that day without adjustment.
No maturity	The Preferred Stock will be perpetual and will have no maturity date.
Redemption	We may redeem the Preferred Stock (i) in whole or in part, from time to time, on any dividend payment date on or after March 15, 2018 or (ii) in whole but not in part, at any time within 90 days following a regulatory capital treatment event (as defined herein), in either case, at a redemption price equal to $25 per share, plus any declared and unpaid dividends for prior dividend periods and accrued but unpaid dividends (whether or not declared) for the then-current dividend period prior to but excluding the redemption date.
	Any redemption of the Preferred Stock is subject to our receipt of any required prior approval by the Federal Reserve and to the satisfaction of any conditions set forth in the capital guidelines or regulations of the Federal Reserve applicable to redemption of the Preferred Stock.
	The holders of the Preferred Stock will not have the right to require redemption.
Liquidation rights	In the event we liquidate, dissolve or wind-up our business and affairs, either voluntarily or involuntarily, holders of the Preferred Stock will be entitled to receive liquidating distributions of $25 per share, plus any declared and unpaid dividends, before we make any distribution of assets to the holders of our common stock or any other class or series of shares ranking junior to the Preferred Stock with respect to the distribution of assets. If we fail to pay in full all amounts payable, including declared but

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	unpaid dividends, with respect to the Preferred Stock and any stock having the same rank as the Preferred Stock with respect to the distribution of assets, the holders of the Preferred Stock and that other stock will share in any distribution of assets in proportion to the respective aggregate liquidation preferences to which they are entitled including an amount equal to any declared but unpaid dividends (and, in the case of any holder of stock on which dividends accrue on a cumulative basis, an amount equal to any unpaid, accrued, cumulative dividends, whether or not declared, as applicable). After the holders of the Preferred Stock and any stock having the same rank as the Preferred Stock are paid in full, they will have no right or claim to any of our remaining assets.
	Neither the sale, lease, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or any part of our property or business nor a merger or consolidation by us with or into any other entity will be considered a dissolution, liquidation or winding-up of our business or affairs.
Voting rights	Holders of Preferred Stock will not have voting rights, except with respect to authorizing or increasing the authorized amount of senior stock, certain changes in the terms of the Preferred Stock, certain dividend non-payments and as otherwise required by applicable law.
Ranking	The Preferred Stock will rank, as to the payment of dividends and distribution of assets upon our liquidation, dissolution or winding-up:
	senior to our common stock and any other class or series we may issue in the future ranking junior to the Preferred Stock as to payment of dividends and/or distribution of assets upon our liquidation, dissolution or winding-up;
	equally with any series of preferred stock we may issue in the future ranking equal to the Preferred Stock as to payment of dividends and/or distribution of assets upon our liquidation, dissolution or winding-up; and
	junior to any series of preferred stock we may issue in the future ranking senior to the Preferred Stock as to payment of dividends and/or distribution of assets upon our liquidation, dissolution or winding-up, and to all of our existing and future debt obligations.
Preemptive and conversion rights	Holders of the Preferred Stock will not have any preemptive or conversion rights.

Listing	We have applied to list the Preferred Stock on the NYSE under the symbol CFR PrA . If the application is approved, trading of the Preferred Stock on the NYSE is expected to commence within 30 days after the original issuance date of the Preferred Stock.
Tax consequences	The material U.S. federal income tax consequences of purchasing, owning and disposing of the Preferred Stock are described in Material U.S. Federal Income Tax Considerations. You should consult your tax advisor with respect to the U.S. federal income tax consequences of owning our Preferred Stock in light of your own particular situation and with respect to any tax consequences arising under the laws of any state, local, foreign or other taxing jurisdiction.
Use of proceeds	We expect to receive net proceeds from this offering of approximately $144.5 million after deducting underwriting discount and commissions and estimated offering expenses payable by us. We intend to use the net proceeds from this offering to repurchase $144.0 million of shares of our common stock pursuant to an accelerated share repurchase agreement we have entered into on the date of this prospectus supplement with Goldman, Sachs & Co. Under the terms of the agreement, we will pay $144.0 million to Goldman, Sachs & Co. on February 15, 2013 and in exchange will receive shares of our common stock, with the substantial majority of shares expected to be delivered on February 15, 2013 and any additional shares expected to be delivered upon completion of the program. The total number of shares that we will receive and the consideration paid ultimately will be determined based on the volume-weighted daily average price of our common stock during the repurchase program.
Conflicts of Interest	Goldman, Sachs & Co., one of the joint book-running managers of this offering, will receive 5% or more of the net proceeds of this offering by reason of our use of the proceeds of this offering as described under Use of Proceeds on page S-16, and is deemed to have a conflict of interest under Rule 5121 (Rule 5121) of the Financial Industry Regulatory Authority, Inc. Accordingly, this offering is being made in compliance with the requirements of Rule 5121. Goldman, Sachs & Co. will not confirm sales of the Preferred Stock to any account over which it exercises discretionary authority without the prior written approval of the customer.
Transfer agent, paying agent and registrar	Computershare Shareowner Services LLC

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SUMMARY SELECTED CONSOLIDATED HISTORICAL FINANCIAL INFORMATION

The following selected consolidated condensed financial information for the Corporation:

- as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010, is derived from our audited consolidated financial statements and related notes incorporated by reference herein; and

- as of December 31, 2010, 2009 and 2008 and for the years ended December 31, 2009 and 2008, is derived from our audited consolidated financial statements and related notes, none of which are incorporated by reference herein.

Certain items in prior financial statements have been reclassified to conform to the current presentation. Mutual fund and investment management fees previously reported as a component of other charges, commissions and fees are now included with trust fees and reported as trust and investment management fees in the consolidated statements of income. In addition, interchange and debit card transaction fees (including automated teller machine fees) previously reported as components of service charges on deposit accounts; other charges, commissions and fees; or other non-interest income are now reported as interchange and debit card transaction fees in the consolidated statements of income.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the unaudited periods have been made. This information should be read in conjunction with our consolidated financial statements and the related notes thereto and other detailed information in our Annual Report on Form 10-K for the year ended December 31, 2012. Dollar amounts, except per share data, and common shares outstanding are in thousands.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Consolidated Statements of Income					
Interest income:					
Loans, including fees	$ 401,364	$ 397,855	$ 409,651	$ 432,222	$ 504,680
Securities	225,844	218,744	202,713	188,446	167,044
Interest-bearing deposits	4,300	6,357	4,901	2,161	429
Federal funds sold and resell agreements	104	61	74	207	3,498
Total interest income	631,612	623,017	617,339	623,036	675,651
Interest expense:					
Deposits	18,099	22,179	29,973	56,015	104,871
Federal funds purchased and repurchase agreements	140	312	437	1,052	12,954
Junior subordinated deferrable interest debentures	6,806	6,783	6,982	7,231	6,972
Subordinated notes payable and other borrowings	1,706	11,967	16,488	22,059	16,829
Total interest expense	26,751	41,241	53,880	86,357	141,626
Net interest income	604,861	581,776	563,459	536,679	534,025
Provision for loan losses	10,080	27,445	43,611	65,392	37,823
Net interest income after provision for loan losses	594,781	554,331	519,848	471,287	496,202
Non-interest income:					
Trust and investment management fees	83,317	78,297	72,321	69,933	76,424
Service charges on deposit accounts	83,392	86,125	91,025	96,525	82,526
Insurance commissions and fees	39,948	35,421	34,015	33,096	32,904
Interchange and debit card transaction fees	16,933	29,625	30,542	26,248	23,959

Other charges, commissions and fees	30,180	27,750	25,380	23,826	32,726
Net gain (loss) on securities transactions	4,314	6,414	6	(1,260)	(159)
Other	30,703	26,370	28,744	45,338	38,942
Total non-interest income	288,787	290,002	282,033	293,706	287,322

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	Year Ended December 31,				
	2012	2011	2010	2009	2008
Non-interest expense:					
Salaries and wages	258,752	252,028	239,589	230,643	225,943
Employee benefits	57,635	52,939	52,352	55,224	47,219
Net occupancy	48,975	46,968	46,166	44,188	40,464
Furniture and equipment	55,279	51,469	47,651	44,223	37,799
Deposit insurance	11,087	12,714	20,451	25,812	4,597
Intangible amortization	3,896	4,387	5,125	6,537	7,906
Other	139,469	137,593	124,207	125,611	122,717
Total non-interest expense	575,093	558,098	535,541	532,238	486,645
Income before income taxes	308,475	286,235	266,340	232,755	296,879
Income taxes	70,523	68,700	57,576	53,721	89,624
Net income	$ 237,952	$ 217,535	$ 208,764	$ 179,034	$ 207,255

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Per Common Share Data					
Net income basic	$ 3.87	$ 3.55	$ 3.44	$ 3.00	$ 3.51
Net income diluted	3.86	3.54	3.44	3.00	3.50
Cash dividends declared and paid	1.90	1.83	1.78	1.71	1.66
Book value	39.32	37.27	33.74	31.55	29.68
Common Shares Outstanding					
Period-end	61,479	61,264	61,108	60,038	59,416
Weighted-average shares basic	61,298	61,101	60,411	59,456	58,846
Dilutive effect of stock compensation	345	177	175	58	324
Weighted-average shares diluted	61,643	61,278	60,586	59,514	59,170
Performance Ratios					
Return on average assets	1.14%	1.17%	1.21%	1.14%	1.51%
Return on average equity	10.03	10.01	10.30	9.78	13.11
Net interest income to average earning assets	3.59	3.88	4.08	4.23	4.67
Dividend pay-out ratio	49.11	51.58	51.75	57.05	47.36
Balance Sheet Data					
Period-end:					
Loans	$ 9,223,848	$ 7,995,129	$ 8,117,020	$ 8,367,780	$ 8,844,082
Earning assets	21,148,475	18,497,987	15,806,350	14,437,267	13,001,103
Total assets	23,124,069	20,317,245	17,617,092	16,288,038	15,034,142
Non-interest-bearing demand deposits	8,096,937	6,672,555	5,360,436	4,645,802	4,152,348
Interest-bearing deposits	11,400,429	10,084,193	9,118,906	8,667,508	7,356,589
Total deposits	19,497,366	16,756,748	14,479,342	13,313,310	11,508,937
Long-term debt and other borrowings	223,719	223,738	373,757	392,646	392,661
Shareholders equity	2,417,482	2,283,537	2,061,680	1,894,424	1,763,527
Average:					
Loans	$ 8,456,818	$ 8,042,968	$ 8,125,150	$ 8,652,563	$ 8,314,265
Earning assets	19,015,707	16,769,028	15,333,348	13,803,919	11,868,262
Total assets	20,826,885	18,568,967	17,186,572	15,701,960	13,684,531
Non-interest-bearing demand deposits	7,021,927	5,738,982	5,023,780	4,258,484	3,614,747
Interest-bearing deposits	10,270,173	9,483,633	9,023,839	8,161,143	6,916,372
Total deposits	17,292,100	15,222,615	14,047,619	12,419,627	10,531,119
Long-term debt and other borrowings	223,728	310,870	382,651	576,161	394,763
Shareholders equity	2,372,745	2,172,096	2,027,699	1,831,133	1,580,311
Asset Quality					
Allowance for loan losses	$ 104,453	$ 110,147	$ 126,316	$ 125,309	$ 110,244
Allowance for loan losses to period-end loans	1.13%	1.38%	1.56%	1.5%	1.25%
Net loan charge-offs	$ 15,774	$ 43,614	$ 42,604	$ 50,327	$ 19,918
Net loan charge-offs to average loans	0.19%	0.54%	0.52%	0.58%	0.24%

Non-performing assets	$ 105,246	$ 120,946	$ 164,950	$ 180,179	$ 78,040
Non-performing assets to:					
Total loans plus foreclosed assets	1.14%	1.51%	2.03%	2.14%	0.88%
Total assets	0.46	0.60	0.94	1.11	0.52

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	Year Ended December 31,				
	2012	2011	2010	2009	2008
Consolidated Capital Ratios					
Tier 1 risk-based capital ratio	13.68%	14.38%	13.82%	11.91%	10.30%
Total risk-based capital ratio	15.11	16.24	15.91	14.19	12.58
Leverage ratio	8.28	8.66	8.68	8.50	8.80
Average shareholders equity to average total assets	11.39	11.70	11.80	11.66	11.55

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CONSOLIDATED EARNINGS RATIOS

Our consolidated ratio of earnings to fixed charges for each of the periods indicated is as follows:

	Years Ended December 31,				
	2012	2011	2010	2009	2008
Ratio of Earnings to Fixed Charges*					
Excluding interest on deposits	20.77	12.77	9.96	7.56	7.96
Including interest on deposits	10.15	7.16	5.46	3.54	3.01

* During these periods, Cullen/Frost had no outstanding shares of preferred stock. Therefore, the ratio of earnings to combined fixed charges and preferred stock dividends for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 is not different from the ratio of earnings to fixed charges for those periods.

The ratio of earnings to fixed charges is calculated in accordance with SEC requirements and computed by dividing earnings by the aggregate of fixed charges. For purposes of computing these ratios, earnings consist of net income before extraordinary items plus applicable income taxes and fixed charges. Fixed charges, excluding interest on deposits, consist of interest expense on borrowings and securities sold under repurchase agreements.

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RISK FACTORS

An investment in the Preferred Stock involves certain risks. You should carefully consider the risks described below and the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2012, as well as the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment decision. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of our Preferred Stock could decline due to any of these risks, and you may lose all or part of your investment. This prospectus supplement also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere included or incorporated by reference in this prospectus supplement and the accompanying prospectus.

Risks Relating to the Preferred Stock

The Preferred Stock will be an equity security and will be subordinate to our existing and future indebtedness.

The shares of Preferred Stock will be equity interests in Cullen/Frost and will not constitute indebtedness. This means that the Preferred Stock will rank junior to all existing and future indebtedness and other non-equity claims on Cullen/Frost with respect to assets available to satisfy claims on Cullen/Frost, including claims in the event of our liquidation. As of December 31, 2012, Cullen/Frost s indebtedness was approximately $223.7 million, and Cullen/Frost may incur additional indebtedness in the future. Cullen/Frost s existing and future indebtedness may restrict payment of dividends on the Preferred Stock. Further, the Preferred Stock will place no restrictions on our business or operations or on our ability to incur indebtedness or engage in any transactions, subject only to the limited voting rights referred to below under Risk Factors Holders of the Preferred Stock will have limited voting rights.

Our results of operations and our ability to fund dividend payments on the Preferred Stock and all payments on our other obligations depend upon the results of operations of our subsidiaries.

We are a holding company that conducts substantially all of our operations through Frost Bank and its subsidiaries. As a result, our ability to make dividend payments on the Preferred Stock will depend primarily upon the receipt of dividends and other distributions from Frost Bank.

Various federal and/or state laws and regulations limit the amount of dividends that Frost Bank and certain non-bank subsidiaries may pay to Cullen/Frost. Under the foregoing dividend restrictions, and while maintaining its well-capitalized status, at December 31, 2012, Frost Bank could pay aggregate dividends of up to $306.5 million to Cullen/Frost without obtaining prior regulatory approval. This amount is not necessarily indicative of amounts that may be paid or available to be paid in future periods. In the event Frost Bank is unable to pay dividends to Cullen/Frost, Cullen/Frost may not be able to service debt, pay obligations or pay dividends on the Preferred Stock and the Corporation s common stock. The inability to receive dividends from Frost Bank could have a material adverse effect on the Corporation s business, financial condition and results of operations.

In addition, our right to participate in any distribution of assets of our subsidiaries upon its liquidation or otherwise, and thus your ability as a holder of Preferred Stock to benefit indirectly from such distribution, will be subject to the prior claims of depositors and other creditors of our subsidiaries, except to the extent that any of our claims as a creditor of our subsidiaries may be recognized. As a result, the Preferred Stock will effectively be subordinated to all existing and future liabilities and obligations of our subsidiaries.

As of December 31, 2012, Frost Bank s total deposits and borrowings were approximately $19.5 billion and $561.1 million, respectively.

Our ability to declare and pay dividends is subject to statutory and regulatory restrictions.

We are subject to statutory and regulatory limitations on our ability to declare and pay dividends on the Preferred Stock. In particular, while the impact of many of its provisions are not yet known, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the *Dodd-Frank Act*) requires federal banking agencies to establish more stringent risk-based capital guidelines and leverage limits applicable to banks and bank holding companies, and especially those institutions with consolidated assets equal to or greater than $50 billion. In June 2012, the Federal Reserve issued three proposed rules (the *Proposed Rules*) that would substantially revise its current capital rules and implement the Basel Committee on Banking Supervision s December 2010 regulatory capital reforms, known as Basel III. The Proposed Rules set forth the proposed criteria for qualifying additional Tier 1 capital instruments consistent with Basel III, including the requirement that any dividends on such instruments only be paid out of the banking organization s net income and retained earnings. Such provisions could adversely affect our ability to pay dividends or may result in additional limitations on our ability to pay dividends on shares of the Preferred Stock.

In addition, Cullen/Frost and Frost Bank are subject to other regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The Federal Reserve is authorized to determine under certain circumstances relating to the financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The Federal Reserve has stated that paying dividends that deplete a bank s capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

These limitations are in addition to state law requirements restricting the payment of dividends that would cause us to be insolvent or not to satisfy certain requirements that we maintain adequate surplus.

The Preferred Stock may be junior in rights and preferences to our future preferred stock.

We may in the future create and issue additional shares of preferred stock ranking senior to the Preferred Stock as to dividends and/or distribution of assets upon our liquidation, dissolution or winding up with the requisite consent of the holders of the Preferred Stock and other parity stock entitled to vote thereon. The terms of any of our future preferred stock which by its terms is expressly senior to the Preferred Stock may restrict dividend payments on the Preferred Stock. This could result in dividends on the Preferred Stock not being paid.

Dividends on the Preferred Stock will be discretionary and non-cumulative.

Dividends on the Preferred Stock will be discretionary and non-cumulative. Consequently, if our board of directors or a duly authorized committee of the board does not authorize and declare a dividend for any dividend period prior to the related dividend payment date, holders of the Preferred Stock will not be entitled to receive a dividend for that dividend period, and the unpaid dividend will cease to accrue and be payable. We will have no obligation to pay dividends accrued for a dividend period after the dividend payment date for that period if our board of directors or a duly authorized committee of the board has not declared a dividend before the related dividend payment date, whether or not dividends on the Preferred Stock or any other series of our preferred stock or our common stock are declared for any future dividend period.

In addition, unlike indebtedness, where principal and interest customarily are payable on specified due dates, in the case of preferred stock like the Preferred Stock, (1) dividends will be payable only if declared by our board of directors or a duly authorized committee of the board and (2) dividends will not accumulate if they are not declared. As a bank holding company, our ability to declare and pay dividends is also dependent on certain federal regulatory considerations.

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The Preferred Stock may be redeemed at our option, and you may not be able to reinvest the redemption price you receive in a similar security.

Subject to the approval of the Federal Reserve (if then required), at our option, we may redeem the Preferred Stock at any time, either in whole or in part, on any dividend payment date on or after March 15, 2018. We may also redeem the Preferred Stock at our option, subject to the approval of the Federal Reserve (if then required), at any time, in whole, but not in part, within 90 days following the occurrence of a regulatory capital treatment event , such as a proposed change in law or regulation after the initial issuance date with respect to whether the Preferred Stock qualifies as a Tier 1 capital instrument. It is possible that the Preferred Stock may not satisfy the criteria for qualifying additional Tier 1 capital instruments consistent with Basel III as set forth in any final rules adopted by the Federal Reserve. As a result, in addition to other circumstances that may constitute a regulatory capital treatment event, if the Federal Reserve revises and replaces its current capital rules with final risk-based and leverage capital requirements implementing Basel III, there could be a regulatory capital treatment event whereby we would have the right, subject to prior approval of the Federal Reserve, to redeem the Preferred Stock in accordance with its terms prior to March 15, 2018 at a redemption price equal to $25 per share plus any declared and unpaid dividends for prior dividend periods and accrued but unpaid dividends (whether or not declared) for the then-current dividend period prior to but excluding the redemption date.

If we redeem the Preferred Stock for any reason, you may not be able to reinvest the redemption price you receive in a similar security. See Description of the Preferred Stock Redemption for more information on redemption of the Preferred Stock.

Holders should not expect us to redeem the Preferred Stock on the date it becomes redeemable or on any particular date after it becomes redeemable.

The Preferred Stock will be a perpetual equity security. This means that it will have no maturity or mandatory redemption date and will not be redeemable at the option of the holders. The Preferred Stock may be redeemed by us at our option, either in whole or in part, on any dividend payment date on or after March 15, 2018 or in whole, but not in part, at any time within 90 days of the occurrence of a regulatory capital treatment event as described herein. It is possible that the Preferred Stock may not satisfy the criteria for qualifying additional Tier 1 capital instruments consistent with Basel III as set forth in any final rules adopted by the Federal Reserve. As a result, in addition to other circumstances that may constitute a regulatory capital treatment event, if the Federal Reserve revises and replaces its current capital rules with the Proposed Rules, there could be a regulatory capital treatment event whereby we would have the right, subject to prior approval of the Federal Reserve, to redeem the Preferred Stock in accordance with its terms prior to March 15, 2018 at a redemption price equal to $25 per share plus any declared and unpaid dividends for prior dividend periods and accrued but unpaid dividends (whether or not declared) for the then-current dividend period prior to but excluding the redemption date. Any decision we may make at any time to propose a redemption of the Preferred Stock will depend upon, among other things, our evaluation of our capital position, the composition of our shareholders equity and general market conditions at that time.

Our right to redeem the Preferred Stock will also be subject to limitations. Under the Federal Reserve s current risk-based capital guidelines applicable to bank holding companies, any redemption of the Preferred Stock will be subject to prior approval by the Federal Reserve. We cannot assure you that the Federal Reserve will approve any redemption of the Preferred Stock that we may propose. There also can be no assurance that, if we propose to redeem the Preferred Stock without replacing it with Tier 1 capital that is not a restricted core capital element, the Federal Reserve will authorize redemption. We understand that the factors that the Federal Reserve will consider in evaluating a proposed redemption, or a request that we be permitted to redeem the Preferred Stock without replacing it with Tier 1 capital that is not a restricted core capital element, include its evaluation of the overall level and quality of our capital components, considered in light of our risk exposures, earnings and growth strategy, and other supervisory considerations, although the Federal Reserve may change these factors at any time. These limitations are in addition to state law requirements that we not effect any redemption that would cause us to be insolvent or not to satisfy certain requirements that we maintain adequate surplus.

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If we are deferring payments on our outstanding junior subordinated notes or are in default under the indentures governing those securities, we will be prohibited from making distributions on or redeeming the Preferred Stock.

The terms of our outstanding junior subordinated notes prohibit us from declaring or paying any dividends or distributions on our preferred stock, including the Preferred Stock, or redeeming, purchasing, acquiring or making a liquidation payment on the Preferred Stock, if an event of default under the indentures governing those junior subordinated notes has occurred and is continuing or at any time when we have deferred payment of interest on those junior subordinated notes.

Offerings of debt, which would be senior to our Preferred Stock upon liquidation, may adversely affect the market price of our Preferred Stock.

We may attempt to increase our capital resources or, if our or Frost Bank s regulatory capital ratios fall below the required minimums, we or Frost Bank could be forced to raise additional capital by making additional offerings of debt or equity securities, including senior or subordinated notes, preferred stock and common stock. Upon liquidation, holders of our debt securities and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our Preferred Stock. This may cause the market price of the Preferred Stock to decline.

Holders of the Preferred Stock will have limited voting rights.

Holders of the Preferred Stock will have no voting rights with respect to matters that generally require the approval of voting shareholders. Holders of the Preferred Stock will have voting rights only with respect to authorizing or increasing the authorization of senior stock, certain changes in the terms of the Preferred Stock, certain dividend non-payments and as otherwise required by applicable law. See Description of the Preferred Stock Voting Rights.

You may find it difficult to sell your Preferred Stock.

The Preferred Stock will have no established trading market. We have applied to list the Preferred Stock on the NYSE under the symbol CFR PrA . However, there is no guarantee that we will be able to list the Preferred Stock. If approved, we expect trading of the Preferred Stock on the NYSE to begin within 30 days after the original issuance date. Even if the Preferred Stock is listed, there may be little or no secondary market for the Preferred Stock. Even if a secondary market for the Preferred Stock develops, it may not provide significant liquidity, and transaction costs in any secondary market could be high. As a result, the difference between bid and asked prices in any secondary market could be substantial.

General market conditions and unpredictable factors could adversely affect market prices for the Preferred Stock.

Future trading prices of the Preferred Stock will depend on many factors, including:

whether we declare or fail to declare dividends on the Preferred Stock from time to time;

our operating performance, financial condition and prospects, or the operating performance, financial condition and prospects of our competitors;

our creditworthiness;

the ratings given to our securities by credit rating agencies, including the ratings given to the Preferred Stock;

prevailing interest rates;

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- economic, financial, geopolitical, regulatory or judicial events affecting us or the financial markets generally; and

- the market for similar securities.

Accordingly, the Preferred Stock may trade at a discount to the price per share paid for such shares even if a secondary market for the Preferred Stock develops.

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USE OF PROCEEDS

We expect net proceeds of this offering, after deducting the underwriting discount and commissions and estimated offering expenses payable by us, will be approximately $144.5 million.

We intend to use the net proceeds from this offering to repurchase $144.0 million of shares of our common stock pursuant to an accelerated share repurchase agreement we have entered into on the date of this prospectus supplement with Goldman, Sachs & Co. Under the terms of the agreement, we will pay $144.0 million to Goldman, Sachs & Co. on February 15, 2013 and in exchange will receive shares of our common stock, with the substantial majority of shares expected to be delivered on February 15, 2013 and any additional shares expected to be delivered upon completion of the program. The number of shares that we will receive and the consideration paid ultimately will be determined based on the volume-weighted daily average price of our common stock during the repurchase program. Goldman, Sachs & Co., one of the joint book-running managers of this offering, may receive 5% or more of the net proceeds of this offering by reason of our use of the proceeds of this offering in accordance with the accelerated share repurchase agreement. See Underwriting; Conflicts of Interest Conflicts of Interest on page S-38.

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CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2012, on an actual basis and as adjusted to give effect to the net proceeds of $144.5 million from the issuance and sale of 6,000,000 shares of Preferred Stock offered hereby after deduction of underwriting discount and commissions and estimated offering expenses payable by us, and the application of net proceeds from this offering.

The following table should be read in conjunction with our consolidated financial statements and the related notes incorporated by reference in this prospectus supplement and the accompanying prospectus.

	As of December 31, 2012 ($ in thousands)	
	Actual	**As Adjusted**
Short term debt		
Federal funds purchased and repurchase agreements	$ 561,061	$ 561,061
Total short term debt	**561,061**	**561,061**
Long term debt		
Federal Home Loan Bank advances	7	7
Junior subordinated deferrable interest debentures	123,712	123,712
Other borrowings	100,000	100,000
Total long term debt	**223,719**	**223,719**
Shareholders equity		
Preferred stock, $0.01 par value, 10,000,000 shares authorized; no shares issued and outstanding on an actual basis; 6,000,000 shares of Series A Preferred stock ($25 liquidation value) issued and outstanding on an as adjusted basis		144,531
Common stock, $0.01 par value, 210,000,000 shares authorized; 61,479,189 shares issued and outstanding as of December 31, 2012 on an actual basis, and 61,479,189 shares issued and 59,029,793 shares outstanding on an as adjusted basis(1)	615	615
Additional paid-in capital	702,968	702,968
Retained earnings	1,475,851	1,475,851
Accumulated other comprehensive income	238,048	238,048
Treasury stock, at cost, no shares on an actual basis, and 2,449,396 shares on an as adjusted basis(1)		(144,000)
Total shareholders equity	**2,417,482**	**2,418,013**(1)
Total capitalization	**$ 3,202,262**	**$ 3,202,793**(1)

(1) Amounts shown above reflect the application of the net proceeds of this offering to repurchase shares of our common stock pursuant to an accelerated share repurchase agreement that we have entered into on the date of this prospectus supplement with Goldman, Sachs & Co., assuming the repurchase of $144.0 million of shares of our common stock at a repurchase price of $58.79 per share (the weighted average closing price per share over the past 30 days). The total number of shares of our common stock that we will receive and the consideration paid ultimately will be determined upon final settlement, based on the volume-weighted daily average price of our common stock during the repurchase program. See Use of Proceeds on page S-16.

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REGULATORY MATTERS

Cullen/Frost is a legal entity separate and distinct from Frost Bank and its other subsidiaries. As a financial holding company and a bank holding company, Cullen/Frost is regulated under the Bank Holding Company Act of 1956, as amended (*BHC Act*), and its subsidiaries are subject to inspection, examination and supervision by the Federal Reserve. The BHC Act provides generally for umbrella regulation of financial holding companies such as Cullen/Frost by the Federal Reserve, and for functional regulation of banking activities by bank regulators, securities activities by securities regulators, and insurance activities by insurance regulators. The Federal Reserve examines us periodically and prepares reports for the consideration of our board of directors on any operating deficiencies that they may identify. While the Federal Reserve historically has expected bank holding companies to act as a source of strength to their bank subsidiaries, effective July 21, 2011, we are required by the Dodd-Frank Act to act as a source of strength for Frost Bank and for any other depository institution subsidiary of ours in the future.

Cullen/Frost is also under the jurisdiction of the SEC and is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Exchange Act, as administered by the SEC. Cullen/Frost s common stock is listed on the NYSE under the trading symbol CFR , and we are subject to the rules of the NYSE for listed companies.

On June 22, 2012, Frost Bank, the sole banking subsidiary of Cullen/Frost, became a Texas state chartered bank and a member of the Federal Reserve System. Accordingly, the Texas Department of Banking and the Federal Reserve are now the primary regulators of Frost Bank, and Frost Bank is no longer regulated by the OCC.

Many of the Corporation s non-bank subsidiaries also are subject to regulation by the Federal Reserve and other federal and state agencies.

There are numerous governmental requirements and regulations that affect our business activities. For a discussion of the material elements of the regulatory framework applicable to bank holding companies and their subsidiaries and specific information relevant to Cullen/Frost, please refer to our Annual Report on Form 10-K for the year ended December 31, 2012, incorporated by reference in this prospectus supplement, and any subsequent reports we file with the SEC that are incorporated by reference in this prospectus supplement. This regulatory framework is intended primarily for the protection of depositors and the federal deposit insurance funds and not for the protection of security holders, such as holders of the Preferred Stock. As a result of this regulatory framework, our earnings are affected by actions of the Federal Reserve, the FDIC and the Texas Department of Banking, among other factors. A change in applicable statutes, regulations or regulatory policy may have a material adverse effect on our business and the Preferred Stock.

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DESCRIPTION OF THE PREFERRED STOCK

This summary contains a description of the material terms of the Preferred Stock, and it is qualified in its entirety by reference to the pertinent sections of our restated certificate of formation, including the certificate of designations creating the Preferred Stock, and the applicable provisions of the Texas Business Organizations Code and federal law governing bank holding companies.

General

Our restated certificate of formation authorizes us to issue 10,000,000 shares of preferred stock in one or more series and authorizes our board of directors or a duly authorized committee of the board to fix the number of shares and determine the rights, preferences, privileges and restrictions of any such series of preferred stock. As of the date of this prospectus supplement, we have no issued and outstanding series of preferred stock.

The Preferred Stock represents a single series of our authorized preferred stock. We are offering 6,000,000 shares of the Preferred Stock in the aggregate by this prospectus supplement. Upon issuance of the Preferred Stock and receipt of payment therefor, the shares of the Preferred Stock will be validly issued, fully paid and nonassessable.

We reserve the right to re-open this series of Preferred Stock and issue additional shares of the Preferred Stock either through public or private sales at any time and from time to time without notice to or the consent of holders of the Preferred Stock; provided that any such additional shares of Preferred Stock are not treated as disqualified preferred stock within the meaning of Section 1059(f)(2) of the Internal Revenue Code and such additional shares of Preferred Stock are otherwise treated as fungible with the Preferred Stock offered hereby for U.S. federal income tax purposes. The additional shares would form a single series with the Preferred Stock offered by this prospectus supplement.

The Preferred Stock will not be convertible into, or exchangeable for, shares of any other class or series of our stock or other securities and will not be subject to any sinking fund or other obligation to redeem or repurchase. The Preferred Stock represents non-withdrawable capital, will not be an account of an insurable type, and will not be insured or guaranteed by the FDIC or any other governmental agency or instrumentality.

Ranking

The Preferred Stock will rank, as to the payment of dividends and/or distribution of assets upon our liquidation, dissolution, or winding-up:

- senior to our common stock and any other class or series of shares we may issue in the future ranking junior to the Preferred Stock as to payment of dividends and/or distribution of assets upon our liquidation, dissolution or winding-up;

- equally with any series of preferred stock we may issue in the future ranking equal to the Preferred Stock as to payment of dividends and/or distribution of assets upon our liquidation, dissolution or winding-up; and junior to any series of preferred stock we may issue in the future ranking senior to the Preferred Stock as to payment of dividends and/or distribution of assets upon our liquidation, dissolution or winding-up, and to all of our existing and future debt obligations.

Dividends

Holders of the Preferred Stock will be entitled to receive, when, as and if declared by our board of directors or a duly authorized committee of the board out of funds legally available therefor, non-cumulative cash dividends on the liquidation preference amount of $25 per share from and including the date of original issuance,

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at a rate of 5.375% per annum. Dividends on the Preferred Stock will be payable quarterly in arrears on March 15, June 15, September 15, and December 15 of each year, beginning on June 15, 2013, with respect to the quarterly dividend period (or portion thereof) ending on the day preceding such respective dividend payment date. Dividends will be payable to holders of record at 5:00 p.m., New York City time, on the 15th calendar day before such dividend payment date or such other record date not more than 60 nor less than 10 days preceding such dividend payment date fixed for that purpose by our board of directors or a duly authorized committee of the board in advance of payment of each particular dividend.

A dividend period for the Preferred Stock is the period from and including a dividend payment date to but excluding the next dividend payment date, except that the initial dividend period of the Preferred Stock issued as part of this offering will commence on and include the date we first issue shares of Preferred Stock. The dividend payable per share of Preferred Stock shall be computed on the basis of a 360-day year consisting of twelve 30-day months. Dollar amounts resulting from that calculation will be rounded to the nearest cent, with one-half cent being rounded upward. If a dividend payment date is not a business day, the appropriate dividend will be paid on the first business day following that day without adjustment. A *business day* means each weekday on which banking institutions in New York, New York are not authorized or obligated by law, regulation or executive order to close.

Dividends on the Preferred Stock will not be cumulative. If dividends are not declared on the Preferred Stock for payment on any dividend payment date, those dividends will not accumulate or be payable and will cease to accrue, and we will have no obligation to pay a dividend for that dividend period on the applicable dividend payment date or at any time in the future, whether or not our board of directors or a duly authorized committee of the board declares a dividend on the Preferred Stock or any other series of our preferred stock or common stock for any future dividend period.

Dividends on the Preferred Stock will not be declared, paid or set aside for payment to the extent such act would cause us to fail to comply with applicable laws and regulations, including applicable capital adequacy guidelines.

Dividends on any shares of Preferred Stock called for redemption will cease to accrue on the redemption date for such shares or upon such earlier date as is specified below under Redemption Procedures.

During any dividend period, so long as any share of Preferred Stock remains outstanding and except as otherwise provided in the next succeeding paragraph, (i) no dividend may be paid, declared or set apart for any payment on and no distribution shall be made on any Dividend Junior Stock (as defined below) (other than a dividend payable solely in stock that ranks junior to the Preferred Stock with respect to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding-up) and (ii) no shares of Dividend Junior Stock or Dividend Parity Stock (as defined below) shall be purchased, redeemed or otherwise acquired for consideration by us, directly or indirectly, unless full dividends on all outstanding shares of the Preferred Stock for the most recently completed quarterly dividend period have been declared and paid in full (or have been declared and a sum sufficient for the payment thereof has been set apart for such payment) and any prior redemption requirements with respect to shares of the Preferred Stock have been complied with. As used in this prospectus supplement, *Dividend Junior Stock* refers to our common stock and any other class or series of our capital stock over which the Preferred Stock has preference or priority in the payment of current dividends. As used in this prospectus supplement, *Dividend Parity Stock* means any other class or series of our capital stock that ranks on a parity with the Preferred Stock in the payment of current dividends.

The limitations on dividends and other distributions described in the paragraph above shall not apply to:

redemptions, purchases or other acquisitions of shares of Dividend Junior Stock in connection with the administration of any employee benefit plan in the ordinary course of business;

purchases or other acquisitions by any broker-dealer subsidiary of Cullen/Frost solely for the purpose of market making, stabilization or customer facilitation transactions in Dividend Junior Stock or Dividend Parity Stock in the ordinary course of its business;

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- purchases by any broker-dealer subsidiary of Cullen/Frost of our capital stock for resale pursuant to an offering by us of such capital stock underwritten by such broker-dealer subsidiary;

- any dividends or distributions of rights or Dividend Junior Stock in connection with a shareholders rights plan or any redemption or repurchase of rights pursuant to any shareholders rights plan;

- the acquisition by us or any of our subsidiaries of record ownership in Dividend Junior Stock or Dividend Parity Stock for the beneficial ownership of any other persons (other than for the beneficial ownership by us or any of our subsidiaries), including as trustees or custodians; and

- the exchange or conversion of (i) Dividend Junior Stock for or into other Dividend Junior Stock or (ii) Dividend Parity Stock for or into other Dividend Parity Stock (with the same or lesser aggregate liquidation preference) or Dividend Junior Stock, and, in each case, the payment of cash solely in lieu of fractional shares.

When dividends are not paid in full upon the shares of Preferred Stock and any Dividend Parity Stock, all dividends declared upon shares of the Preferred Stock and all Dividend Parity Stock shall be shared ratably by the holders of Preferred Stock and any Dividend Parity Stock, based on the ratio between the then-current dividends due on shares of Preferred Stock and (i) in the case of any series of non-cumulative Dividend Parityily:Times New Roman">Total segment income

$148.0 $164.5 $477.7 $452.1

Deduct:

Business separation costs (Note 6)

13.8

Gain on sale of brands and related assets (Note 3)

(13.2)

Restructuring charges (Note 7)

11.2 1.0 12.0 3.7

Other (credits) charges (Note 7)

(8.1) 1.6 (3.3) 17.9

Consolidated operating income

$144.9 $161.9 $482.2 $416.7

Interest expense

20.9 28.5 73.0 79.9

Loss on early extinguishment of debt (Note 11)

13.8		56.9	

Other income

(0.3)	(1.9)	(2.5)	(30.3)

Income from continuing operations before income tax

$110.5	$135.3	$354.8	$367.1

As a result of the errors described in Note 1 above, our segment results presented above for the 2012 periods are revised from previously reported amounts as follows: North America net sales and operating income decreased by \$0.3 million and \$0.3 million in the three months ended September 30, 2012, and \$3.0 million and \$1.3 million in the nine months ended September 30, 2012; EMEA net sales and operating income decreased by \$0.3 million and \$0.1 million in the three months ended September 30, 2012, and \$1.7 million and \$0.6 million in the nine months ended September 30, 2012; and, APSA net sales and operating income decreased by \$0.2 million and \$0.1 million in the three months ended September 30, 2012 and \$1.6 million and \$0.6 million in the nine months ended September 30, 2012.

None of these errors were considered significant to the results of the segments except for the cumulative correction of prior period items, which resulted in the retrospective revision of our results.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.
The following information should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions, which could cause actual results to differ materially from management s expectations. Please see Forward-Looking Statements.

We are a leading premium spirits company that makes and sells branded distilled spirits products in major markets worldwide. Our principal products include bourbon whiskey, tequila, Scotch whisky, Canadian whisky, vodka, cognac, rum, cordials, and ready-to-drink pre-mixed cocktails. Our diverse portfolio includes several of the world s top premium spirits brands.

Our portfolio consists of brands we identify as Power Brands, Rising Stars, Local Jewels, and Value Creators. The Power Brands are our core brand equities, with global reach in premium categories and large annual sales volume. Rising Stars are smaller premium brands in priority markets that we believe have excellent growth profiles and receive substantial advertising and marketing program support to drive expansion. Brands identified as Local Jewels act as Power Brands in local markets. Value Creators include a variety of brands providing scale and profit across multiple categories. Power Brands, Rising Stars, and combined Local Jewels/Value Creators (including non-branded sales) represent approximately 60%, 15%, and 25%, respectively, of our annual net sales (based on net sales for the year ended December 31, 2012). Our Power Brands and Rising Stars, which are the focus of our advertising and marketing programs, are listed below.

Power Brands:	Jim Beam Bourbon, Maker s Mark Bourbon, Sauza Tequila, Courvoisier Cognac, Canadian Club Whisky, Teacher s Scotch, and Pinnacle Vodka
Rising Stars:	Laphroaig Scotch, Knob Creek Bourbon, Basil Hayden s Bourbon, Kilbeggan Irish Whiskey, Cruzan Rum, Hornitos Tequila, Skinnygirl Cocktails, and Sourz Liqueurs

The principal markets for our spirits products are the United States, Australia, Germany, Spain, the United Kingdom, and Canada, and we continue to invest in emerging markets such as India, Brazil, Mexico, Russia, Central Europe, Eastern Europe, Asia, and other geographies. We operate our business on the basis of geographical regions, consisting of North America, Europe/Middle East/Africa (EMEA), and Asia-Pacific/South America (APSA).

EXECUTIVE SUMMARY

Revision of Prior Period Financial Statements

In connection with preparing our consolidated financial statements for the three and six months ended June 30, 2013, we identified errors that affected prior interim and annual periods related to the timing of recognition of sales of non-branded spirits, primarily Canadian whisky, and other immaterial out of period items. As discussed in Note 1, *Description of Business, Basis of Presentation, and Principles of Consolidation Revision of Prior Period Financial Statements*, the prior period errors were not material to any of our previously issued financial statements. The prior period financial statements included in this Quarterly Report on Form 10-Q have been revised to correct these errors, and certain other immaterial errors that had been identified in 2012. The following discussion and analysis is based on the revised financial results.

Operational and Financial Overview for the Third Quarter of 2013

The following is an overview of operational and financial results for the third quarter of 2013:

Net sales decreased 4% in the third quarter of 2013 as compared to the third quarter of 2012, reflecting the impacts of the timing of sales in the U.S. as distributors reduced inventories, continued decline in the U.S. ready-to-serve category, and a significant decline in APSA. Lower results in APSA were due to Australia, related to the timing of sales as a large customer reduced trade inventory levels, slower market growth and price competition, the impact of the repositioning of our India business, and the timing of sales within the second half of 2013 as well as softer emerging markets;

Operating income decreased 11% in the third quarter of 2013 as compared to the year-ago period. The decrease in operating income was primarily due to lower sales and higher restructuring charges ($10 million), partially offset by a decrease in selling, general, and administrative expense that includes a $12 million benefit related to an adjustment in the estimated fair value measurement of acquisition-related contingent consideration for the Skinnygirl ready-to-serve cocktail business; and

Diluted earnings per share from continuing operations were $0.52 in the third quarter of 2013 compared with $0.61 per share in the year-ago period. The decrease was due primarily to lower operating income as discussed above and a $14 million loss on the early extinguishment of debt, partially offset by lower interest expense ($8 million) and a lower effective income tax rate.

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Certain items had a significant impact on our financial results in the third quarters of 2013 and 2012, as summarized below.

In the third quarter of 2013, our financial results include the following:

- Restructuring charges of $11 million ($7 million net of tax, or $0.04 per diluted share) related to an organizational restructuring plan to improve efficiency and effectiveness across the organization;

- Other selling, general and administrative expenses of $3 million ($2 million net of tax, or $0.01 per diluted share) related to our India investigation and the repositioning of that business;

- Acquisition and integration-related credits of $11 million ($7 million net of tax, or $0.04 per diluted share) mostly in connection with a $12 million benefit related to the aforementioned adjustment to the fair value of acquisition-related contingent consideration; and

- A loss on the early extinguishment of debt of $14 million ($9 million net of tax, or $0.06 per diluted share) in connection with our redemption in July 2013 of an aggregate principal amount of $248 million of our outstanding 6.375% Notes due 2014.

In the third quarter of 2012, our financial results include the following:

- Restructuring credits of $1 million related to the reversal of accruals which were deemed to be no longer necessary; and

- Acquisition and integration-related charges of $3 million ($2 million net of tax, or $0.01 per diluted share) incurred in connection with the acquisition of the Pinnacle and Calico Jack assets (Pinnacle) and Cooley business. These charges consist primarily of expenses incurred in connection with integrating these businesses into the Company s existing operational structure (e.g., accelerated depreciation, employee retention, information technology systems integration costs and other organizational streamlining expenses).

Business Outlook

We believe that long-term trends are favorable for the continued profitable growth of western premium spirits globally. While we believe the growth of a key market, Australia, has slowed significantly this year, we continue to estimate that our global spirits market will grow value by approximately 3% for the full year 2013, assuming gradual improvement in Australia and emerging markets. Further slowing of growth in Western Europe and emerging economies could adversely impact trading conditions. In addition, in the fourth quarter, we expect higher raw material-related costs and, assuming current foreign exchange rates, the majority of an $8 million full year adverse impact on operating income from foreign exchange. We believe that the continued management and investment focus on the best growth and return opportunities in our brand portfolio and geographic markets, including innovation, advertising and more effective routes to market, position us well for the long term. In the fourth quarter, we expect to continue benefiting from above-market growth of the bourbon category globally and our efficiency and effectiveness agenda, as well as improved year-over-year results in emerging markets, benefiting from timing, but also improved year-over-year results in India, where results were adversely impacted by our repositioning of that business and the internal investigation that began in the third quarter of 2012.

Please see Forward-Looking Statements for a discussion of certain factors that may cause our actual results to vary materially from those expected as of the date of the filing of this report.

RESULTS OF OPERATIONS

Presentation Basis and Non-GAAP Measures

Volume is measured on a nine liter equivalent unit basis. We divide ready-to-drink cases by 10 to obtain a nine liter case equivalent.

Price/mix is the number of percentage points by which the comparable net sales changes exceeds the change attributable to branded volume. The difference arises because of changes in the composition of sales between higher and lower priced brands or from price changes.

We include financial measures (including those that are non-GAAP financial measures) in the discussion of our results of operations below. Comparable net sales growth rate is a non-GAAP measure that we use to evaluate our sales growth on a year-over-year basis exclusive of certain items that are not indicative of the underlying sales performance of our business. To calculate comparable net sales, our GAAP net sales growth rates are adjusted for the impact of acquisitions/divestures and foreign exchange.

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In calculating comparable net sales, the acquisition/divesture impact is determined by comparing our actual reported net sales in the current period, including net sales attributable to acquired companies from the acquisition date, to adjusted net sales from the prior-year period. In arriving at adjusted prior-year net sales, we include the net sales of acquired companies and/or brands and remove the net sales of divested companies and/or brands for the prior-year periods comparable to the current-year periods for which the companies are included in our actual reported revenue. The foreign exchange impact is calculated by translating current year results at prior year exchange rates and excluding hedge impacts.

Approximately 45% of our business was outside the U.S during the year ended December 31, 2012. As a result, changes in foreign exchange rates can have a significant impact on our reported results of operations when translated and presented in U.S. dollars. Our discussion of results of operations by segment includes the use of constant currency net sales and operating income, non-GAAP measures which exclude the impact of foreign exchange translation.

Comparable net sales and constant currency net sales and operating income (by segment) are measures that may not be comparable to similar measures used by other companies. These measures should not be considered in isolation or as a substitute for any measure derived in accordance with GAAP. Management believes these measures are useful for evaluating performance, as the impact of acquisitions/divestitures and fluctuations in exchange rates can impact the underlying year-over-year growth rates of the Company and its segments.

Consolidated Results for the Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012

Net sales

Net sales decreased $28 million, or 4%, from $627 million in the third quarter of 2012 to $599 million in the third quarter of 2013. The 4% decrease in net sales in the third quarter of 2013 reflects an 8% decrease in volumes and a 4% benefit from favorable price/mix. The 4% decrease in net sales in the third quarter of 2013 was driven by declines in APSA and North America, partially offset by growth in EMEA. The 4% decrease in net sales reflects the impacts of the timing of sales in the U.S. as distributors reduced inventories, a continued decline in the ready-to-serve category, and a significant decline in APSA due to lower results in Australia, related to the timing of sales as a large customer reduced trade inventory levels, slower market growth and price competition, the impact of the repositioning of our India business, the timing of sales within the second half of 2013, and somewhat softer emerging markets. The year-over-year decrease in volumes is largely due to declines in Value Creator brands, Teacher s Scotch (adversely impacted by India), Pinnacle Vodka (adversely impacted by movements in distributor inventory levels), and Skinnygirl (adversely impacted by the decline of the ready-to-serve category). The decrease in volumes was partially offset by increased demand for our bourbon and tequila portfolios, particularly Jim Beam, Maker s Mark, and Sauza. The price/mix benefit was largely attributable to increased sales of our premium bourbons. Third quarter comparable net sales were not impacted by foreign exchange or acquisitions/divestitures.

Cost of goods sold

Cost of goods sold was relatively flat in the third quarter of 2013, as compared to the year-ago period, as higher raw material-related costs (approximately $5 million) and the unfavorable impact of foreign exchange (approximately $3 million) were mostly offset by lower volumes and the benefit of our organizational streamlining and procurement savings initiatives (approximately $7 million). Gross profit margin decreased approximately 180 basis points in the third quarter of 2013 compared to the third quarter of 2012 largely as a result of the prior-year quarter benefiting from the reversal of a non-income tax accrual for a closed review period.

Advertising and marketing expense

Advertising and marketing expense decreased $3 million, or 3%, in the third quarter of 2013, which was generally consistent with the net sales decrease discussed above. Advertising and marketing expense as a percentage of net sales was 17.5% in the third quarter of 2013 and 17.2% in the third quarter of 2012.

Selling, general and administrative expense

Selling, general and administrative expense decreased $18 million, or 19%, in the third quarter of 2013, as compared to the year ago period, largely reflecting lower incentive compensation expense accruals due to lower expected performance payouts as well as a $12 million benefit related to an adjustment to the fair value of acquisition-related contingent consideration due to lower expected payouts attributed to lower estimated sales volumes and growth rates. This decrease was partially offset by increased costs to support growth as well as $3 million of costs related to our India investigation and repositioning of that business.

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The following table summarizes information related to certain of our operating expenses as a percentage of net sales:

($ in millions)	Three month ended September 30, 2013		Three months ended September 30, 2012		Favorable (Unfavorable) change		
	$	% of net sales	$	% of net sales	$	%	basis points
Cost of goods sold	255.3	42.6%	255.7	40.8%	0.4	0.2%	(180)
Advertising and marketing expense	104.7	17.5%	107.5	17.2%	2.8	2.6%	(30)
Selling, general, and administrative expense	78.2	13.1%	96.3	15.4%	18.1	18.8%	230

Restructuring charges

During the third quarter of 2013, the Company approved an organizational restructuring plan to improve efficiency and effectiveness across the organization. This plan includes the elimination of certain sales, marketing, operations and other positions within the Company s three operating segments and corporate function. The Company accrued future employee-related costs of approximately $10 million in the third quarter of 2013 and expects to incur additional employee-related costs of approximately $2 million related to the plan. See Note 7, *Restructuring and Other Charges*, for additional information.

Operating income

Operating income decreased $17 million, or 11%, from $162 million in the third quarter of 2012 to $145 million in the third quarter of 2013. Operating income decreased due to a decline in gross profit ($28 million) from lower sales (discussed above) and higher restructuring charges ($10 million). The decrease in operating income in the third quarter of 2013 was partially offset by lower selling, general, and administrative expense ($18 million), which reflects lower incentive compensation expense accruals and a decrease to the fair value of an acquisition-related contingent consideration liability, discussed above.

Interest expense

Interest expense decreased $8 million, or 27%, from $29 million in the three months ended September 30, 2012 to $21 million in the three months ended September 30, 2013, primarily due to lower weighted-average interest rates on outstanding borrowings and lower debt balances. Lower weighted-average interest rates are largely related to our debt refinancing in June and July of 2013.

Loss on early extinguishment of debt

The loss on early extinguishment of debt of $14 million primarily relates to a contractual redemption premium incurred in connection with our redemption in July 2013 of an aggregate principal amount of $248 million of our outstanding 6.375% Notes due 2014.

Income taxes

The effective income tax rates for the three months ended September 30, 2013 and 2012 were 23.2% and 27.3%, respectively. The effective tax rate for the three months ended September 30, 2013 was less than the U.S. federal statutory rate primarily due to foreign income taxed at lower rates and implementation of a tax planning strategy to utilize net operating losses for which a benefit was not recorded in prior periods that reduced income tax expense by $4 million. The effective tax rate for the three months ended September 30, 2012 was less than the U.S. federal statutory rate primarily due to foreign income taxed at lower rates.

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Segment Results for the Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012

We evaluate our segment net sales and operating income excluding certain items considered by management to be unusual or infrequent in nature and not indicative of the segments underlying operating performance. Consequently, segment results presented in accordance with GAAP exclude these items.

The following table sets forth net sales and operating income by operating segment for the three months ended September 30, 2013 and 2012 as reported and adjusted to exclude the impact of foreign exchange translation (in millions):

				Non-GAAP Constant Currency (a)	
Net Sales	**2013**	**2012**	**% Change Reported**	**2013 Adjusted Amount**	**% Change Adjusted**
North America	$ 374.5	$ 379.8	(1.4)%	$ 374.6	(1.4)%
EMEA	124.5	116.2	7.1%	119.6	2.9%
APSA	99.7	130.7	(23.7)%	104.2	(20.3)%
Segment net sales	598.7	626.7	(4.5)%	598.4	(4.5)%
Foreign exchange				0.3	n/m
Net sales	$ 598.7	$ 626.7	(4.5)%	$ 598.7	(4.5)%

				Non-GAAP Constant Currency (a)	
Operating Income	**2013**	**2012**	**% Change Reported**	**2013 Adjusted Amount**	**% Change Adjusted**
North America	$ 99.9	$ 105.5	(5.3)%	$ 100.8	(4.5)%
EMEA	27.5	27.8	(1.1)%	26.5	(4.7)%
APSA	20.6	31.2	(34.0)%	23.1	(26.0)%
Segment operating income	148.0	164.5	(10.0)%	150.4	(8.6)%
Deduct:					
Foreign exchange				2.4	
Restructuring charges (Note 7)	11.2	1.0		11.2	
Other (credits) charges (Note 7)	(8.1)	1.6		(8.1)	
Operating income	$ 144.9	$ 161.9	(10.5)%	$ 144.9	(10.5)%

(a) See Presentation Basis and Non-GAAP Measures above for information related to the rationale for presenting this non-GAAP information. The foreign exchange impact is calculated by translating current year results at prior year exchange rates and excluding hedge impacts.

We also evaluate our segment net sales on a comparable basis (a non-GAAP measure). In the following discussion, we refer to sales presented on this basis as comparable net sales. The following table is a reconciliation of GAAP segment net sales growth to comparable segment net sales growth (non-GAAP) for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012.

	North America	**EMEA**	**APSA**
Net sales growth (GAAP)	(1)%	7%	(24)%
Foreign exchange rates [(a)]		(4)%	4%
Comparable net sales growth (Non-GAAP)	(1)%	3%	(20)%

(a) See Presentation Basis and Non-GAAP Measures above for information related to a description and methodology of these adjustments.

North America

North America net sales decreased 1% both on a GAAP basis and comparable basis in the third quarter of 2013 as compared to 2012. The 1% comparable net sales decrease was primarily due to lower volumes (7%), mostly offset by favorable price/mix (6%). Lower volume in the third quarter of 2013 was predominately due to the impact of the timing of sales in the U.S. as distributors reduced inventories compared to last year and a decrease in Skinnygirl volume that was largely due to a substantial decrease in the ready-to-serve category in 2013. A resulting decline in volume in Pinnacle, Skinnygirl, and Local Jewel and Value Creator brands more than offset volume growth in Jim Beam and Maker s Mark. The price/mix benefit primarily related to increased sales of premium whiskeys. The decrease in North America net sales was due to a decline in the U.S. which was adversely impacted by distributor inventories, partially offset by growth in both Canada and Mexico. We estimate that the timing of sales in the U.S. discussed above adversely impacted comparable net sales by approximately 5%.

North America operating income decreased $6 million, or 5%, on a GAAP basis and 4% on constant currency basis in the third quarter of 2013 as compared to 2012. Constant currency operating income decreased principally from a decline in gross profit reflecting lower net sales and higher advertising and marketing expense, partially offset by a decrease in incentive compensation expense accruals.

Europe/Middle East/Africa

EMEA net sales increased 7% on a GAAP basis and 3% on a comparable basis in the third quarter of 2013 as compared to 2012. The positive foreign currency exchange impact on our GAAP results was primarily due to the weighted-average impact of a stronger Euro relative to the U.S. dollar. The 3% comparable net sales increase was due to favorable price/mix (2%) and higher volumes (1%). The price/mix benefit primarily related to Courvoisier, Teacher s, and Jim Beam. The 1% increase in comparable volume in the 2013 period was primarily due to strong growth for the Jim Beam family of products, as well as growth for Laphroaig and Larios, partially offset by a decrease in Courvoisier and Value Creator brands. The comparable net sales growth was primarily driven by Germany, Russia, and Travel Retail, partly offset by decreased sales in Spain due to challenging market conditions.

EMEA operating income decreased 1% on a GAAP basis and 5% on a constant currency basis in the third quarter of 2013 as compared to 2012. The positive foreign currency exchange impact on our GAAP results was primarily due to the weighted-average impact of a stronger Euro relative to the U.S. dollar. The decrease in constant currency operating income was mostly due to the absence of a reversal of a non-income tax accrual for a closed review period that benefited the prior year period, partially offset by lower advertising and marketing expense.

Asia-Pacific/South America

APSA net sales decreased 24% on a GAAP basis and 20% on a comparable basis in the third quarter of 2013 as compared to 2012. The difference between GAAP and comparable net sales is primarily due to the negative foreign currency exchange impact related to Australia. The comparable net sales decrease was due to lower volumes (28%), partially offset by favorable price/mix (7%). The decline in comparable net sales reflects lower volumes in Australia, India, and certain emerging markets. Lower volumes in Australia related to the timing of sales of Jim Beam products (as a large customer reduced trade inventory levels substantially compared with the prior year) and a modest market decline. Lower volumes were also driven by a decline in Teacher s, largely a result of the repositioning of our business in India and also due to a decline in Brazil, largely due to timing. Price competition also adversely impacted net sales in Australia. The net sales decrease in India unfavorably impacted APSA s net sales growth in the 2013 period by approximately three percentage points. The favorable price/mix was due primarily due to a shift in sales to higher price per case markets.

APSA operating income decreased $11 million, or 34%, on a GAAP basis and 26% on a constant currency basis in the third quarter of 2013 as compared to 2012. The difference between GAAP and constant currency operating income is primarily due to the negative foreign currency exchange impact related to Australia. The decrease in constant currency operating income was primarily due to lower sales and the adverse impact of price competition in Australia, partially offset by a decrease in advertising and marketing expense and lower incentive compensation. See Note 15, *Commitments and Contingencies*, for further discussion of India matters.

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Consolidated Results for the Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012

Net sales

The following table presents a reconciliation of GAAP net sales growth to comparable net sales growth (non-GAAP) for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012:

	Consolidated Net Sales Growth
Net sales growth (GAAP)	3%
Acquisitions/divestitures [(a)]	(2)%
Comparable net sales growth (Non-GAAP)	1%

(a) See Presentation Basis and Non-GAAP Measures above for information related to a description and methodology of these adjustments. Significant acquisitions and divestitures are identified and discussed below.

GAAP net sales increased $57 million, or 3%, from $1,751 million in the nine months ended September 30, 2012 to $1,808 million in the nine months ended September 30, 2013. The 3% increase in GAAP net sales in the nine months ended September 30, 2013 was primarily due to the May 2012 acquisition of the Pinnacle assets (2%) and comparable net sales (1%). Comparable net sales increased 1% in the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012 primarily due to favorable price/mix (3%), partially offset by lower volumes (2%). The price benefit was due predominantly to the carry-over effect of prior targeted price increases for certain brands and markets such as Maker s Mark in the U.S. Favorable mix was due to the impact of innovations and premiumization on our product portfolio. The year-over-year decline in volumes was largely due to decreases in Value Creator and Local Jewels brands, Skinnygirl, Courvoisier, Pinnacle, and Teacher s, partially offset by volume increases in Jim Beam, Maker s Mark, and Sauza. The decline in Skinnygirl is largely due to the substantial decrease of the U.S. ready-to-serve category in 2013 and the decline in Teacher s Scotch is largely due to the impact of our repositioning in India. We estimate that comparable net sales were reduced by approximately three points of growth mostly from the impact of our India investigation and repositioning of that business, timing of sales in emerging markets within the second half of 2013, and the reduction in trade inventories by a large customer in Australia. The comparable net sales increase of 1% was driven by net sales growth in North America and EMEA, partially offset by a decrease in APSA.

Cost of goods sold

The $23 million, or 3%, increase in cost of goods sold in the nine months ended September 30, 2013 was primarily due to a net increase from acquisitions/divestitures (approximately $25 million), primarily attributable to the acquisition of the Pinnacle assets, and higher raw-material related costs (approximately $10 million), which reflects the recognition of a contractual incentive related to 2012 production that did not become realizable until the first quarter of 2013 ($8 million benefit). Higher raw material and labor costs were largely offset by the benefit of our organizational streamlining and procurement savings initiatives (approximately $25 million).

Advertising and marketing expense

Advertising and marketing expense increased approximately $1 million in the nine months ended September 30, 2013. The increase in advertising and marketing expense was mostly in connection with the Pinnacle acquisition. Advertising and marketing expense as a percentage of net sales decreased from 16.1% in the nine months ended September 30, 2012 to 15.7% in the nine months ended September 30, 2013.

Selling, general and administrative expense

The $14 million, or 5%, decrease in selling, general and administrative expense in the nine months ended September 30, 2013 was mostly due to lower acquisition and integration-related expenses ($28 million), which is net of a $12 million benefit related to an adjustment to the fair value of acquisition-related contingent consideration, lower incentive compensation expense accruals, and the benefits from cost controls, partially offset by increased costs associated with inflation and growth of the business and support functions as well as $8 million of costs related to our India investigation and repositioning of that business.

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The following table summarizes information related to certain of our operating expenses as a percentage of net sales:

($ in millions)	Nine months ended September 30, 2013		Nine months ended September 30, 2012		Favorable (Unfavorable) change		
	$	% of net sales	$	% of net sales	$	%	basis points
Cost of goods sold	743.0	41.1%	719.9	41.1%	(23.1)	(3.2)%	
Advertising and marketing expense	283.6	15.7%	282.2	16.1%	(1.4)	(0.5)%	40
Selling, general, and administrative expense	287.0	15.9%	301.4	17.2%	14.4	4.8%	130

Gain on sale of brands and related assets

The $13 million gain on sale of brands and related assets primarily relates to a $12 million gain from the January 2013 sale of certain non-strategic economy brands and related assets.

Restructuring charges

In the nine months ended September 30, 2013, we recorded restructuring charges of $12 million primarily related to the aforementioned third quarter 2013 organizational restructuring plan.

In the nine months ended September 30, 2012, we recorded restructuring charges of $4 million related to organizational streamlining initiatives, which primarily relate to the relocation of certain U.S. finance and human resource shared services from our Deerfield, Illinois headquarters to Kentucky.

Business separation costs

Business separation costs in 2012 primarily consist of a $15 million pension settlement charge associated with a required $29 million lump sum distribution of benefits paid to former Fortune Brands, Inc. executives in July 2012 in connection with the Separation Transactions, partially offset by a decrease in accrued liabilities for estimated costs to complete the Separation Transactions.

Operating income

Operating income increased $66 million, or 16%, from $417 million in the nine months ended September 30, 2012 to $482 million in the nine months ended September 30, 2013. Operating income increased due to increased gross profit ($34 million) from higher sales, which were largely driven by the acquisition of the Pinnacle assets and price/mix benefits. The increase in operating income in the nine months ended September 30, 2013 also benefited from lower acquisition and integration-related expenses ($27 million), which includes a $12 million benefit related to an adjustment to the fair value of acquisition-related contingent consideration, lower incentive compensation expense accruals, and a $13 million gain on sale of brands and related assets in the 2013 period, partially offset by costs related to our India investigation and repositioning of that business ($8 million) and higher restructuring charges in the 2013 period ($8 million).

Interest expense

Interest expense decreased $7 million, or 9%, from $80 million in the nine months ended September 30, 2012 to $73 million in the nine months ended September 30, 2013, primarily due to lower weighted-average interest rates on outstanding borrowings and lower debt balances. Lower weighted-average interest rates are largely related to our debt refinancing in June and July of 2013.

Loss on early extinguishment of debt

The loss on early extinguishment of debt of $57 million was incurred in connection with our repayment of an aggregate principal amount of $485 million of our outstanding notes and debentures in June and July 2013. The loss on early extinguishment of debt primarily consists of $42 million in premiums paid to repurchase the debt and $14 million related to a contractual redemption premium. The repayment primarily related to our 6.375% Notes due 2014 ($326 million principal amount) and 5.875% Notes due 2036 ($138 million principal amount).

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Other income

Other income decreased $28 million, from $30 million in the nine months ended September 30, 2012 to $3 million in the nine months ended September 30, 2013. The change from 2012 to 2013 was primarily due to a nontaxable indemnification payment of approximately $18 million received in 2012 from Pernod Ricard related to tax matters in connection with the assets acquired from Pernod Ricard in July 2005, a decrease in equity income related to our international distribution joint ventures with The Edrington Group ($6 million), lower foreign currency transaction gains ($3 million, net of hedging impacts), and the absence of a distribution related to the wind down of our Maxxium joint venture investment that was received in the 2012 period ($2 million).

Income taxes

The effective income tax rates for the nine months ended September 30, 2013 and 2012 were 22.8% and 24.7%, respectively. The effective income tax rates for 2013 and 2012 were less than the U.S. federal statutory rate primarily due to foreign income taxed at lower rates.

The effective tax rate for the nine months ended September 30, 2013 was less than the U.S. federal statutory rate due to a reduction in unrecognized tax benefits of $6 million, which was primarily due to our participation in a tax amnesty program, a second quarter election made by one of our subsidiaries under a new tax law that allowed it to increase the value of its assets resulting in a $5 million reduction to income tax expense and the aforementioned third quarter items. The effective tax rate for the nine month period ended September 30, 2012 was less than the U.S. federal statutory rate primarily due to foreign income taxed at lower rates, the receipt of non-taxable indemnification income from Pernod Ricard, and a combined $6 million tax benefit as a result of a final foreign audit settlement and the expiration of foreign jurisdiction income tax review periods, partially offset by additional tax recorded on the distribution of earnings between certain foreign jurisdictions.

Segment Results for the Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012

The following table sets forth net sales and operating income by operating segment for the nine months ended September 30, 2013 and 2012 as reported and adjusted to exclude the impact of foreign exchange translation (in millions):

Net Sales				**Non-GAAP Constant Currency (a)**	
	2013	**2012**	**% Change Reported**	**2013 Adjusted Amount**	**% Change Adjusted**
North America	$ 1,145.5	$ 1,056.5	8.4%	$ 1,144.6	8.3%
EMEA	345.6	333.8	3.5%	339.0	1.6%
APSA	316.7	360.2	(12.1)%	322.5	(10.5)%
Segment net sales	1,807.8	1,750.5	3.3%	1,806.1	3.2%
Foreign exchange				1.7	n/m

Net sales	$ 1,807.8	$ 1,750.5	3.3%	$ 1,807.8	3.3%

Operating Income				**Non-GAAP Constant Currency (a)**	
	2013	**2012**	**% Change Reported**	**2013 Adjusted Amount**	**% Change Adjusted**
North America	$ 343.7	$ 308.5	11.4%	$ 345.0	11.8%
EMEA	74.8	68.1	9.8%	73.1	7.3%
APSA	59.2	75.5	(21.6)%	62.1	(17.7)%
Segment operating income	477.7	452.1	5.7%	480.2	6.2%
Deduct:					
Foreign exchange				2.5	
Gain on sale of brands and related assets (Note 3)	(13.2)			(13.2)	
Business separation costs (Note 6)		13.8			
Restructuring charges (Note 7)	12.0	3.7		12.0	
Other (credits) charges (Note 7)	(3.3)	17.9		(3.3)	
Operating income	$ 482.2	$ 416.7	15.7%	$ 482.2	15.7%

(a) See Presentation Basis and Non-GAAP Measures above for information related to the rationale for presenting this non-GAAP information. The foreign exchange impact is calculated by translating current year results at prior year exchange rates and excluding hedge impacts.

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Below is a reconciliation of GAAP segment net sales growth to comparable segment net sales growth for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012.

	North America	EMEA	APSA
Net sales growth (GAAP)	8%	4%	(12)%
Acquisitions/divestitures [(a)] [(b)]	(4)%	2%	
Foreign exchange rates [(a)]		(2)%	2%
Comparable net sales (Non-GAAP)	4%	4%	(10)%

(a) See Presentation Basis and Non-GAAP Measures above for information related to a description and methodology of these adjustments.

(b) Significant acquisitions and divestitures are identified and discussed below.

North America

North America net sales increased 8% on both a GAAP basis and constant currency basis in the nine months ended September 30, 2013 as compared to 2012. Adjusting constant currency net sales for the impact of acquisitions/divestitures, North America s comparable net sales increased 4% in the nine months ended September 30, 2013. The acquisition/divestiture impact (4%) was primarily due to the May 2012 acquisition of the Pinnacle assets. The 4% comparable net sales increase was primarily due to favorable price/mix (6%), partially offset by a decline in volumes (2%). The price/mix benefit primarily related to Maker s Mark, Jim Beam, and Pinnacle, which includes the impact of premium-priced innovation and faster growth of our premium brands on mix. Innovations introduced this year include Jacob s Ghost, Jim Beam Honey, Jim Beam Maple, Sauza Sparkling Margarita, and Hornitos Lime Shot. The 2% volume decrease was primarily due to Skinnygirl, which declined largely due to a substantial decrease of the U.S. ready-to-serve category in 2013, as well as declines in Local Jewels brands and Courvoisier. Pinnacle volume was also down compared to the year-ago period, reflecting distributor inventory movements. These volume decreases were partially offset by volume increases in Jim Beam, Sauza, and Maker s Mark.

North America operating income increased $35 million, or 11% on a GAAP basis and 12% on a constant currency basis, in the nine months ended September 30, 2013 as compared to 2012. Constant currency operating income increased principally from increased gross profit from higher net sales, partially offset by higher advertising and marketing expense, which increased largely due to the acquisition of the Pinnacle brand.

Europe/Middle East/Africa

EMEA net sales increased 4% on a GAAP basis and 2% on a constant currency basis in the nine months ended September 30, 2013 as compared to 2012. The positive foreign currency exchange impact on our GAAP results was primarily due to the weighted-average impact of a stronger Euro relative to the U.S. dollar. Further adjusting constant currency net sales for the impact of divestitures, EMEA s comparable net sales increased 4% in the nine months ended September 30, 2013. The divestiture impact (2%) relates to the 2012 termination of a third-party distribution agreement in connection with the 2012 acquisition of the Cooley business. The 4% comparable net sales increase was mostly due to favorable price/mix (3%) and was primarily related to Jim Beam innovations and faster growth of our premium brands. Comparable net sales growth was primarily due to increased sales in Germany and Central Europe.

EMEA operating income increased $7 million, or 10%, on a GAAP basis and 7% on a constant currency basis in the nine months ended September 30, 2013 as compared to 2012. The positive foreign currency exchange impact on our GAAP results was primarily due to the weighted-average impact of a stronger Euro relative to the U.S. dollar. The increase in constant currency operating income was mostly due to net sales growth, operating leverage, and lower advertising and marketing expense, partially offset by the absence of a reversal of a non-income tax accrual for a closed review period that benefited the prior year period.

Asia-Pacific/South America

APSA net sales decreased 12% on a GAAP basis and 10% on a comparable basis in the nine months ended September 30, 2013 as compared to 2012. The difference between GAAP and comparable net sales is primarily due to the negative foreign currency exchange impact related to Australia and Brazil. The comparable net sales decrease was due to lower volumes (7%) and the unfavorable impact of price/mix (3%). Lower volumes and unfavorable price/mix were largely driven by a decline in Teacher s as a result of the repositioning of our business in India. The net sales decrease in India unfavorably impacted APSA s net sales growth in the 2013 period by approximately five percentage points. Comparable net sales also declined in Australia, where market conditions became more challenging in the third quarter.

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As compared with the nine months ended September 30, 2012, APSA operating income decreased $16 million, or 22% on a GAAP basis and 18% on a constant currency basis in the nine months ended September 30, 2013. The difference between GAAP and constant currency operating income is primarily due to the negative foreign exchange impact related to Australia and Brazil. The decrease in constant currency operating income was primarily due to decreased net sales, as described above, partially offset by decreased advertising and marketing expense.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capitalization

The ratio of total debt to total capital decreased to 31.3% at September 30, 2013 from 35.3% at December 31, 2012, primarily due to lower outstanding debt (discussed below) and higher equity resulting from 2013 net income and proceeds from stock option exercises.

In June 2013, we issued $250 million in aggregate principal amount of 1.750% Notes due 2018 (the 2018 Notes) and $250 million in aggregate principal amount of 3.250% Notes due 2023 (the 2023 Notes and together with the 2018 Notes, the Notes). Net proceeds were used to repurchase and redeem outstanding debt in June and July of 2013 (as discussed below).

The 2018 Notes will mature on June 15, 2018 and bear interest at a fixed rate of 1.750% per annum. The 2023 Notes will mature on June 15, 2023 and bear interest at a fixed rate of 3.250% per annum. Interest is payable on the Notes from June 15, 2013 semi-annually, in arrears, on June 15 and December 15 of each year beginning December 15, 2013. The Notes constitute unsecured and unsubordinated obligations of the Company and rank on parity with all of the Company s other unsecured and unsubordinated indebtedness from time to time outstanding.

In July 2013, we used a portion of the net proceeds from the issuance of the Notes and cash on hand to redeem the remaining outstanding principal amount ($248 million) of the 6.375% Notes due 2014. We recorded a loss on early extinguishment of debt of approximately $14 million in the third quarter of 2013, primarily related to a contractual redemption premium.

In June 2013, we used a portion of the net proceeds from the issuance of the Notes and cash on hand to repay an aggregate principal amount of $237 million of our outstanding debentures in accordance with a tender offer announced in May 2013, resulting in a loss on early extinguishment of debt of $43 million, which primarily consisted of $42 million in premiums paid to repay the debt. The repayments primarily related to our 6.375% Notes due 2014 ($78 million principal amount) and 5.875% Notes due 2036 ($138 million principal amount).

In January 2013, we repaid at maturity the remaining principal amount of 218.8 million ($296.9 million) on our 4% notes.

As of September 30, 2013, we had total cash and cash equivalents of $171 million, of which $149 million was held at non-U.S. subsidiaries. The permanent repatriation of non-U.S. cash balances from certain subsidiaries where we have indefinitely reinvested such earnings could have adverse tax consequences as we may be required to pay and record income tax expense on those funds to the extent they were previously considered indefinitely reinvested. However, we currently do not expect a repatriation of this nature and we believe that we are able to maintain required liquidity due to the following:

We manage our global cash requirements considering (i) operating cash flows generated by our domestic operations and available funds among the many subsidiaries through which we conduct business, (ii) the geographic location of our liquidity needs, and (iii) the cost to access international cash balances.

If we require more funding in the U.S. than is generated by our domestic operations, we could elect to repatriate future earnings from foreign jurisdictions or raise capital in the U.S. through debt or equity issuances. We believe that our access to the debt markets, including access to our committed revolving credit facility (of which $750 million was available as of September 30, 2013), is a viable alternative to repatriation of indefinitely reinvested foreign earnings that would be subject to additional U.S. tax expense. Repatriating non-U.S. cash balances or issuing debt or equity to raise capital could result in higher effective tax rates, increased interest expense, and dilution of our earnings.

We have an investment grade credit rating from three credit rating agencies. We believe that our cash from operations, committed revolving credit facility and other sources of liquidity will be sufficient to fund current operations, service outstanding indebtedness and pay dividends.

Under a share repurchase plan authorized by our Board of Directors, we may repurchase up to 3 million shares of the Company s common stock, par value $3.125 per share either in the open market or in other privately negotiated transactions. The share repurchase plan has no expiration date.

Cash Flows

Below is a summary of cash flows for the nine months ended September 30, 2013 and 2012 (in millions).

	2013	2012
Net cash provided by operating activities	$ 114.1	$ 112.6
Net cash used in investing activities	(14.8)	(761.9)
Net cash (used in) provided by financing activities	(287.6)	571.7
Effect of foreign exchange rate changes on cash	(6.2)	6.8
Net decrease in cash and cash equivalents	$ (194.5)	$ (70.8)

Operating Activities

Net cash provided by operating activities was $114 million in the nine months ended September 30, 2013 compared to $113 million in the nine months ended September 30, 2012. Operating cash flow in the 2013 period, as compared to the year-ago period, was adversely impacted by increased cash used to fund the growth of maturing spirits inventories and increased payments related to accrued liabilities, largely due to timing. These increases in cash used were offset by the cash impact of increased sales, largely due to the acquisition of the Pinnacle assets, and lower cash used related to discontinued operations (discussed below).

Operating cash flows in the nine months ended September 30, 2013 included approximately $17 million of cash outflows related to discontinued operations and liabilities related to the Separation Transactions completed in 2011, primarily consisting of indemnity payments related to tax matters, as compared to approximately $80 million of discontinued operations-related payments, primarily consisting of incentive compensation, severance and pension benefits for former Fortune Brands executives and settlement of a legal matter, in the nine months ended September 30, 2012.

Investing Activities

Net cash used in investing activities was $15 million in the nine months ended September 30, 2013 as compared to $762 million in the nine months ended September 30, 2012. The net cash used in investing activities in the nine months ended September 30, 2013 was primarily due to capital expenditures during the period ($92 million, mostly related to the purchase of new oak barrels required to produce bourbon, warehouse capacity expansion at Maker s Mark, and capacity expansion to support future growth in bourbon, scotch, and cognac), partially offset by proceeds received for the sale of certain non-strategic economy brands and related assets in January 2013 ($63 million) and the sale of property, plant, and equipment ($13 million). The net cash used in investing activities in the nine months ended September 30, 2012 related to the acquisition of the Cooley business in January 2012 ($72 million) and the Pinnacle assets in May 2012 ($608 million) and capital expenditures during the period, partially offset by $6 million in cash received from Home & Security under agreements related to the Spin-Off.

Financing Activities

Net cash used in financing activities was $288 million in the nine months ended September 30, 2013 as compared to $572 million of net cash provided by financing activities in the nine months ended September 30, 2012. As discussed above, we repaid long-term debt during 2013 ($832 million), which was partially offset by the issuance of long-term debt of $496 million in aggregate principal (net of discounts) during 2013. In 2012, we issued $606 million of long-term debt in aggregate principal (net of discounts) largely to finance the acquisition of the Pinnacle assets in May 2012. We also received more cash in 2013 as a result of increased option exercise activity ($53 million).

Customer Credit Risk

We routinely grant unsecured credit to customers in the normal course of business. Accounts receivable were $465 million and $453 million as of September 30, 2013 and December 31, 2012, respectively, and are recorded at their stated amount less allowances for doubtful accounts. Allowances for doubtful accounts include provisions for certain customers where a risk of default has been specifically identified, as well as provisions based on other factors, such as the evaluation of historical write-offs, aging of balances and other qualitative and quantitative factors, when it is determined that some default is probable and estimable but cannot yet be associated with specific customers. The assessment of the likelihood of customer defaults is based on various factors, including the length of time the receivables are past due, the historical collection experience and existing economic conditions. In accordance with our policy, our allowance for doubtful accounts was $13 million and $14 million as of September 30, 2013 and December 31, 2012, respectively. Adverse conditions in the global economy and credit markets may reduce our customers ability to access sufficient liquidity and capital to fund their operations and make our estimation of customer defaults inherently uncertain. While we believe current allowances for doubtful accounts are adequate, it is possible that weakening economic conditions and other factors may cause significantly higher levels of customer defaults and bad debt expense in future periods.

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Counterparty Risk

The counterparties to our derivative contracts are major financial institutions. Although our theoretical risk is the replacement cost at the then estimated fair value of these instruments, we believe that the risk of incurring losses is unlikely and that the losses, if any, would be immaterial to our results of operations, cash flows or financial condition. The fair value of our derivative assets at September 30, 2013 was $7 million. The estimated fair value of our derivative contracts represents the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices.

Pension Plans

We sponsor defined benefit pension plans that are funded by a portfolio of investments maintained within benefit plan trusts. We are not required to make any contributions in 2013 to comply with U.S. minimum funding requirements based on assumptions as of December 31, 2012. For the foreseeable future, we believe that we have sufficient liquidity to meet the minimum funding that may be required by law with respect to the pension plans, including under the Pension Protection Act of 2006. As of December 31, 2012, the fair value of our pension plan assets was $354 million, representing 74% of the accumulated benefit obligation liability.

Guarantees and Commitments

We have partially guaranteed credit facilities entered into by certain of our joint ventures. Our maximum guarantee exposure, assuming the credit facilities are fully utilized, is a total U.S. dollar equivalent of $25 million, of which our guarantee exposure was $12 million based on facilities utilized at September 30, 2013. We have not recorded a liability for these guarantees.

As part of the sale of the Golf business we agreed to indemnify the buyer for certain obligations (primarily taxes) that will be paid by the buyer, but that relate to periods during which we owned the Golf business. Our estimate of our liabilities under these indemnification obligations is approximately $33 million as of September 30, 2013; approximately $3 million is recorded within Other current liabilities and approximately $30 million is recorded within Other non-current liabilities on our unaudited condensed consolidated balance sheet. Our actual obligation for tax-related indemnities which have been accrued may differ based on closure of the tax period with the taxing authorities or a tax authority audit resulting in a change in the amount of tax due or refundable (including related interest and/or penalties if applicable).

Critical Accounting Policies and Estimates

The Company regularly reviews its selection and application of significant accounting policies and related financial disclosures. The application of these accounting policies requires that management make estimates and judgments. The estimates that affect the application of our most critical accounting policies and require our most significant judgments are outlined in Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains statements relating to future results, or states our intentions, beliefs, expectations and targets for the future. Readers are cautioned that these are forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, which involve a number of risks and uncertainties. Words such

as anticipates, believes, continues, estimates, expects, targets, goal, intends, may, opportunity, p
projects, forecasts, should, will, seeks, strives, and similar expressions are intended to identify such forward-l
statements. Readers are cautioned that these forward-looking statements speak only as of the date on which this report is filed with the SEC, and the Company does not assume any obligation to update, amend or clarify them to reflect events, new information or circumstances occurring after such date. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to:

general economic conditions;

competitive innovation and marketing pressures, including price;

changes in consumer preferences and trends;

financial and integration risks associated with acquisitions, joint ventures, and alliances, as well as potential divestitures;

the price and availability of raw materials and energy;

risks associated with doing business outside the United States, including changes in laws, governmental regulations and policies, compliance with anti-corruption statutes, civil and political unrest, and local labor conditions;

our ability to manage organizational productivity and global supply chains effectively;

the impact of excise tax increases and customs duties on our products or changes to government financial incentives;

fluctuations in currency exchange rates;

our ability to reach agreement on, maintain or renegotiate key agreements;

potential liabilities, costs and uncertainties of litigation;

our ability to attract and retain qualified personnel;

changes to laws and regulations;

downgrades of the Company s credit ratings;

dependence on performance of distributors, promoters and other marketing arrangements;

product quality issues;

costs of certain employee and retiree benefits and returns on pension assets;

tax law changes or interpretation of existing tax laws;

ability to secure and maintain rights to intellectual property, including trademarks, trade dress, and tradenames;

impairment in the carrying value of goodwill or other acquired intangible assets;

disruptions at production facilities and supply/demand forecasting uncertainties;

breaches of data security; and

other risks and uncertainties described from time to time in the Company s filings with the Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There were no material changes in the information provided in Item 7A-Quantitative and Qualitative Disclosures about Market Risk of the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

Item 4. Controls and Procedures.
Evaluation of Disclosure Controls and Procedures

The Company s management has evaluated, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company s internal control over financial reporting that occurred during the Company s fiscal quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.
Tobacco Litigation

On December 22, 1994, we sold The American Tobacco Company (ATCO) subsidiary to Brown & Williamson Tobacco Corporation (now known as Brown & Williamson Holding, Inc.) (B&W). In connection with the sale, B&W and ATCO, which subsequently merged into B&W, agreed, under an Indemnification Agreement (the Indemnification Agreement), to indemnify the Company against claims including legal expenses arising from smoking and health and fire-safe cigarette matters relating to the tobacco business of ATCO.

On July 30, 2004, B&W and R.J. Reynolds Tobacco Holdings, Inc. announced that they had completed the combination of their respective U.S. tobacco businesses, previously conducted by B&W (and ATCO) and R.J. Reynolds Tobacco Co., by forming a new combined company known as R.J. Reynolds Tobacco Company. As a result of the combination and in accordance with the Indemnification Agreement, the new R.J. Reynolds Tobacco Company assumed the indemnification obligations under the Indemnification Agreement relating to the U.S. business previously conducted by B&W (and ATCO). B&W has not been released from any of its obligations under the Indemnification Agreement. We refer to B&W and the new R.J. Reynolds Tobacco Company as the Indemnitor under the Indemnification Agreement.

The Indemnitor has complied with the terms of the Indemnification Agreement since 1994, and we are not aware of any inability on the part of the Indemnitor to satisfy its indemnity obligations.

Numerous legal actions, proceedings and claims are pending in various jurisdictions against leading tobacco manufacturers, including B&W both individually and as successor by merger to ATCO, based upon allegations that cancer and other ailments have resulted from tobacco use. The Company has been named as a defendant in some of these cases. These claims have generally fallen within three categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs, (ii) smoking and health cases alleging personal injury and other damages and purporting to be brought on behalf of classes of individual plaintiffs, and (iii) health care cost recovery cases, including class actions, brought by foreign governments, unions, health trusts, taxpayers and others seeking reimbursement for health care expenditures allegedly caused by cigarette smoking. Damages claimed in some of the cases range into the billions of dollars.

It is not possible to predict the outcome of the pending tobacco-related litigation, and it is possible that some of these actions could be decided unfavorably. Management is unable to make a reasonable estimate of the amount or range of loss that could result from an unfavorable outcome of the pending litigation. Management believes that there are a number of meritorious defenses to the pending actions, including the fact that the Company never made or sold tobacco, and these actions are being vigorously contested by the Indemnitor. Management believes that the pending actions will not have a material adverse effect upon the results of operations, cash flows or financial condition of the Company because it believes it has meritorious defenses, and because the Company is indemnified under the Indemnification Agreement.

On September 14, 2011, in connection with the Spin-Off, the Company agreed to indemnify Home & Security for any losses arising from smoking and health or fire-safe cigarette matters relating to the tobacco business of any of the Company s predecessors or former subsidiaries.

Pending Cases

As of September 30, 2013, there were four smoking and health cases pending on behalf of individual plaintiffs in which the Company has been named as one of the defendants. As of September 30, 2013, there were no purported smoking and health class actions or health care recovery actions pending against the Company.

Terminated Cases

There were no tobacco-related cases terminated in the three months ended September 30, 2013 in which the Company was named as one of the defendants.

Certain Developments Affecting the Indemnitor

On July 14, 2000, in Engle v. R.J. Reynolds Tobacco Company, et al., a Florida state case brought against B&W (individually and as successor to ATCO) and other U.S. tobacco manufacturers on behalf of a class of Florida residents allegedly injured as a result of their alleged addiction to cigarettes containing nicotine, a jury awarded a total of $144.87 billion in punitive damages against the defendants, including $17.59 billion against B&W. On July 6, 2006, the Florida Supreme Court vacated the jury s $145 billion punitive damage award and also decertified the class and reinstated compensatory damages to the two named plaintiffs, and permitted individual members of the former class to file separate lawsuits within one year of issuance of the mandate (which was ultimately issued January 11, 2007). As of September 30, 2013, B&W and/or R.J. Reynolds Tobacco Company had been served in approximately 5,192 pending cases (the Engle progeny cases) in Florida. As of September 30, 2013, approximately 100 Engle progeny cases have been tried to verdict in state and federal court, approximately 67 of which resulted in adverse judgments against tobacco companies. Of those approximately 67 adverse judgments, approximately 55 resulted in adverse judgments against the Indemnitor. As of September 30, 2013, the Indemnitor has appealed every adverse judgment, with the exception of those adverse judgments in which the time to appeal had not yet expired. The Indemnitor has paid final judgments in eleven Engle progeny cases as of September 30, 2013. The Company is not a party to any of the Engle progeny cases.

In September 1999, the United States government filed a recoupment lawsuit in Federal Court in Washington, D.C. against the leading tobacco manufacturers (including the Indemnitor and B&W individually and as a successor to ATCO) seeking recovery of costs paid by the Federal government for claimed smoking-related illness. On August 17, 2006, the Court issued a final judgment and remedial order, which found that the defendants violated federal civil RICO law by defrauding the public with regard to smoking and health issues. The court did not award monetary damages to the government, but did order the defendants to, among other things, remove descriptors such as low tar, light or ultra light from cigarette packages and to publish certain corrective statements regarding smoking and health issues. On May 22, 2009, the U.S. Court of Appeals for the District of Columbia unanimously affirmed the district court s RICO liability judgment against several defendants, including the Indemnitor, and remanded for further factual findings and clarification as to whether liability should be imposed against B&W. The District Court issued an order on December 22, 2010, on consent of the parties, ruling that B&W is no longer subject to the injunctive remedies in the case. On November 27, 2012, the District Court issued an order that the defendants publish certain corrective statements as set forth in the order. The defendants

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appealed this order on January 25, 2013. On February 25, 2013, the U.S. Court of Appeals for the District of Columbia granted defendants unopposed motion to hold this appeal in abeyance pending the District Court s resolution of implementation issues regarding the corrective statements. In addition, certain defendants filed an appeal on June 3, 2011 from an order entered by the District Court denying the defendants motion to vacate all injunctive remedies and dismiss the case in its entirety based on the passage of new federal law that granted the Food and Drug Administration regulatory authority over the marketing and sale of tobacco products. Defendants also noticed an appeal on June 8, 2011 from an order entered by the District Court requiring the defendants to disclose various disaggregated marketing data. The U.S. Court of Appeals for the District of Columbia denied both appeals on July 27, 2012. The Company is not a party to this action.

On March 21, 2003, a judgment for $7.1 billion in compensatory and $3 billion in punitive damages was entered by an Illinois state court against Philip Morris, Inc. in Price, et al. v. Philip Morris, Inc., a class action alleging that certain advertising for light or low tar cigarettes was deceptive under the Illinois Consumer Fraud Act. On September 28, 2011, after several years of appellate proceedings, the Supreme Court of Illinois remanded the case to the trial court for further proceedings. Plaintiffs filed a petition to reinstate the $10.1 billion judgment on February 15, 2012. On December 12, 2012, the court entered judgment for Philip Morris, denying plaintiffs petition. This ruling is on appeal. Class actions involving similar allegations as Price (Howard, et al. v. Brown & Williamson Tobacco Corp. and Turner v. R.J. Reynolds Tobacco Co.) are pending against B&W and R.J. Reynolds Tobacco Company, respectively, in the same court. Proceedings in the Howard and Turner cases have been stayed or are otherwise inactive pending resolution of the Price litigation. The Company is not a party to the Price, Howard or Turner litigation.

Resolution of Health Care Cost Recovery Actions by State, U.S. Territories and the District of Columbia

In 1998, certain U.S. tobacco companies, including B&W, entered into a Master Settlement Agreement (the MSA) with certain state attorneys general that resulted in the dismissal of all remaining health care reimbursement lawsuits brought by 52 government entities, including 46 states, American Samoa, Guam, Puerto Rico, the U.S. Virgin Islands, the Northern Mariana Islands and the District of Columbia. Although the Company is not a party to the MSA and is not bound by any of its payment obligations or other restrictions, the Company understands that it is a released party under the terms of the MSA, which provides for the release of claims not only against participating manufacturers, but also against their predecessors, successors, and past, present and future affiliates.

Under the MSA, participating manufacturers were required to make initial payments through 2003, with additional payments to the settling parties required to continue in perpetuity (starting at $4.5 billion in 2000 and increasing to $9 billion in 2018 and thereafter). Payments to a strategic contribution fund for individual states from 2008 to 2017, and a public health foundation until 2008, were also required. Ongoing payments are to be allocated according to market share and are subject to various credits and adjustments, depending on industry volume. The MSA also calls for the participating manufacturers to pay attorneys fees for the states attorneys in the settled litigation.

Other Legal Proceedings

From time to time the Company is subject to various other lawsuits, claims, disputes and investigations in the normal conduct of its operations. These include, but are not limited to, commercial disputes, including purported class actions, employment claims, actions by tax and customs authorities, and environmental matters. Some of the legal proceedings to which we are subject include claims for substantial or unspecified damages. We believe that there are meritorious defenses to these legal proceedings and are contesting them vigorously. We do not believe that any currently pending legal proceedings to which we are a party will have a material adverse effect, individually or in the aggregate, on our results of operations, cash flows or financial condition.

Item 1A. Risk Factors.

You should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially adversely impact our business, results of operations, cash flows, and financial condition. There have been no material changes to our risk factors from those disclosed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable.

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Item 3. Defaults Upon Senior Securities.
Not applicable.

Item 4. Mine Safety Disclosures.
Not applicable.

Item 5. Other Information.
Not applicable.

Item 6. Exhibits.

3.1	Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.3 to our Current Report on Form 8-K filed on November 27, 2012, Commission file number 1-9076).
3.2	By-laws of the Company (incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed on October 7, 2011, Commission file number 1-9076).
12*	Statement re computation of ratio of earnings to fixed charges.
31.1*	Certificate of Chief Executive Officer Required Under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certificate of Chief Financial Officer Required Under Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Joint CEO/CFO Certification Required Under Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials from the Beam Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statement of Income, (ii) the Condensed Consolidated Statement of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheet, (iv) the Condensed Consolidated Statement of Cash Flows, and (v) the Notes to the Condensed Consolidated Financial Statements.

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	BEAM INC.
Date: November 7, 2013	BY: /s/ ROBERT F. PROBST Robert F. Probst Senior Vice President and Chief Financial Officer (principal financial officer)

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