

FULTON FINANCIAL CORP  
Form 10-Q  
May 12, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20459  
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008, or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

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

**Commission File No. 0-10587**

**FULTON FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

23-2195389

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

One Penn Square, P.O. Box 4887 Lancaster,  
Pennsylvania

17604

(Address of principal executive offices)

(Zip Code)

(717) 291-2411

(Registrant's telephone number, including area code)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, \$2.50 Par Value 174,002,000 shares outstanding as of April 30, 2008.



**FULTON FINANCIAL CORPORATION**  
**FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2008**  
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**Item 1. Financial Statements****FULTON FINANCIAL CORPORATION****CONSOLIDATED BALANCE SHEETS****(dollars in thousands, except per-share data)**

	<b>March 31 2008 (unaudited)</b>	December 31 2007
<b>ASSETS</b>		
Cash and due from banks	\$ 406,601	\$ 381,283
Interest-bearing deposits with other banks	12,418	11,330
Federal funds sold	822	9,823
Loans held for sale	95,144	103,984
Investment securities:		
Held to maturity (estimated fair value of \$10,635 in 2008 and \$10,399 in 2007)	10,207	10,285
Available for sale	3,094,620	3,143,267
Loans, net of unearned income	11,388,653	11,204,424
Less: Allowance for loan losses	(115,257)	(107,547)
<i>Net Loans</i>	<b>11,273,396</b>	11,096,877
Premises and equipment	197,424	193,296
Accrued interest receivable	65,865	73,435
Goodwill	624,058	624,072
Intangible assets	28,980	30,836
Other assets	243,332	244,610
<i>Total Assets</i>	<b>\$ 16,052,867</b>	\$ 15,923,098
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 1,737,442	\$ 1,722,211
Interest-bearing	8,311,486	8,383,234
<i>Total Deposits</i>	<b>10,048,928</b>	10,105,445
Short-term borrowings:		
Federal funds purchased	1,103,804	1,057,335
Other short-term borrowings	1,125,323	1,326,609
<i>Total Short-Term Borrowings</i>	<b>2,229,127</b>	2,383,944
Accrued interest payable	66,637	69,238

Other liabilities	<b>205,486</b>	147,418
Federal Home Loan Bank advances and long-term debt	<b>1,890,969</b>	1,642,133
<i>Total Liabilities</i>	<b>14,441,147</b>	14,348,178
<b>SHAREHOLDERS EQUITY</b>		
Common stock, \$2.50 par value, 600 million shares authorized, 192.0 million shares issued in 2008 and 191.8 million shares issued in 2007	<b>480,106</b>	479,559
Additional paid-in capital	<b>1,255,897</b>	1,254,369
Retained earnings	<b>156,708</b>	141,993
Accumulated other comprehensive loss	<b>(1,763)</b>	(21,773)
Treasury stock, 18.3 million shares in 2008 and 2007, at cost	<b>(279,228)</b>	(279,228)
<i>Total Shareholders Equity</i>	<b>1,611,720</b>	1,574,920
<i>Total Liabilities and Shareholders Equity</i>	<b>\$ 16,052,867</b>	\$ 15,923,098

*See Notes to Consolidated Financial Statements*

**FULTON FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**  
(dollars in thousands, except per-share data)

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2008</b>	<b>2007</b>
<b>INTEREST INCOME</b>		
Loans, including fees	<b>\$ 191,166</b>	\$ 195,557
Investment securities:		
Taxable	<b>29,561</b>	24,619
Tax-exempt	<b>4,535</b>	4,281
Dividends	<b>2,163</b>	1,919
Loans held for sale	<b>1,577</b>	3,684
Other interest income	<b>218</b>	596
<i>Total Interest Income</i>	<b>229,220</b>	230,656
<b>INTEREST EXPENSE</b>		
Deposits	<b>63,485</b>	71,208
Short-term borrowings	<b>18,829</b>	19,054
Long-term debt	<b>21,007</b>	18,619
<i>Total Interest Expense</i>	<b>103,321</b>	108,881
<i>Net Interest Income</i>	<b>125,899</b>	121,775
Provision for loan losses	<b>11,220</b>	957
<i>Net Interest Income After Provision for Loan Losses</i>	<b>114,679</b>	120,818
<b>OTHER INCOME</b>		
Service charges on deposit accounts	<b>13,967</b>	10,627
Investment management and trust services	<b>8,759</b>	9,810
Other service charges and fees	<b>8,591</b>	7,375
Gains on sales of mortgage loans	<b>2,311</b>	5,393
Investment securities gains	<b>1,246</b>	1,782
Other	<b>2,806</b>	4,078
<i>Total Other Income</i>	<b>37,680</b>	39,065
<b>OTHER EXPENSES</b>		
Salaries and employee benefits	<b>55,195</b>	56,293
Net occupancy expense	<b>10,524</b>	10,196
Equipment expense	<b>3,448</b>	3,715
Data processing	<b>3,246</b>	3,202
Advertising	<b>2,905</b>	2,409

Intangible amortization	<b>1,857</b>	1,983
Operating risk loss	<b>1,243</b>	5,914
Other	<b>18,242</b>	17,193
<i>Total Other Expenses</i>	<b>96,660</b>	100,905
<i>Income Before Income Taxes</i>	<b>55,699</b>	58,978
Income taxes	<b>14,203</b>	17,850
<i>Net Income</i>	<b>\$ 41,496</b>	\$ 41,128
<b>PER-SHARE DATA:</b>		
Net income (basic)	<b>\$ 0.24</b>	\$ 0.24
Net income (diluted)	<b>0.24</b>	0.24
Cash dividends	<b>0.1500</b>	0.1475
<i>See Notes to Consolidated Financial Statements</i>		



**FULTON FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME**  
**(UNAUDITED)**  
**THREE MONTHS ENDED MARCH 31, 2008 AND 2007**

	Number of Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings (in thousands)	Accumulated Other Com- prehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2007	173,503	\$ 479,559	\$ 1,254,369	\$ 141,993	\$ (21,773)	\$ (279,228)	\$ 1,574,920
Comprehensive income:							
Net income				41,496			41,496
Other comprehensive income					20,010		20,010
<i>Total comprehensive income</i>							<b>61,506</b>
Stock issued, including related tax benefits	219	547	952				1,499
Stock-based compensation awards			576				576
Impact of pension plan measurement date change (net of \$23,000 tax effect)				43			43
Cumulative effect of EITF 06-4 adoption				(677)			(677)
Cash dividends \$0.1500 per share				(26,147)			(26,147)
Balance at March 31, 2008	173,722	\$ 480,106	\$ 1,255,897	\$ 156,708	\$ (1,763)	\$ (279,228)	\$ 1,611,720
Balance at December 31, 2006	173,648	\$ 476,987	\$ 1,246,823	\$ 92,592	\$ (39,091)	\$ (261,001)	\$ 1,516,310
Comprehensive income:							
Net income				41,128			41,128
Other comprehensive income					2,265		2,265
<i>Total comprehensive income</i>							<b>43,393</b>
Stock issued, including related tax benefits	474	1,176	2,218				3,394

Stock-based compensation awards			508				508
Cumulative effect of FIN 48 adoption				220			220
Acquisition of treasury stock	(1,039)					(16,377)	(16,377)
Cash dividends \$0.1475 per share				(25,517)			(25,517)

Balance at March 31, 2007      173,083    \$ 478,163    \$ 1,249,549    \$ 108,423    \$ (36,826)    \$ (277,378)    \$ 1,521,931

*See Notes to Consolidated Financial Statements*

**FULTON FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
(in thousands)

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 41,496	\$ 41,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	11,220	957
Depreciation and amortization of premises and equipment	4,904	4,336
Net amortization of investment security premiums	370	563
Investment securities gains	(1,246)	(1,782)
Net decrease in loans held for sale	8,840	32,620
Amortization of intangible assets	1,857	1,983
Stock-based compensation expense	587	508
Excess tax benefits from stock-based compensation expense	(2)	(114)
Decrease in accrued interest receivable	7,570	4,245
(Increase) decrease in other assets	(8,550)	2,026
(Decrease) increase in accrued interest payable	(2,601)	2,092
Increase in other liabilities	17,098	8,594
Total adjustments	40,047	56,028
<i>Net cash provided by operating activities</i>	<b>81,543</b>	97,156
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of securities available for sale	194,571	271,483
Proceeds from maturities of securities held to maturity	3,961	220
Proceeds from maturities of securities available for sale	229,210	103,032
Purchase of securities held to maturity	(3,884)	(122)
Purchase of securities available for sale	(303,250)	(109,428)
Decrease in short-term investments	7,913	10,511
Net increase in loans	(188,589)	(73,794)
Net purchases of premises and equipment	(9,032)	(3,377)
<i>Net cash (used in) provided by investing activities</i>	<b>(69,100)</b>	198,525
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase (decrease) in demand and savings deposits	38,894	(48,777)
Net (decrease) increase in time deposits	(95,411)	51,888
Additions to long-term debt	343,990	290,000
Repayments of long-term debt	(95,154)	(17,865)
Decrease in short-term borrowings	(154,817)	(542,397)
Dividends paid	(26,114)	(25,596)

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Net proceeds from issuance of common stock	<b>1,485</b>	3,280
Excess tax benefits from stock-based compensation expense	<b>2</b>	114
Acquisition of treasury stock		(16,377)
<i>Net cash provided by (used in) financing activities</i>	<b>12,875</b>	(305,730)
<b>Net Increase (Decrease) in Cash and Due From Banks</b>	<b>25,318</b>	(10,049)
<b>Cash and Due From Banks at Beginning of Year</b>	<b>381,283</b>	355,018
<b>Cash and Due From Banks at End of Year</b>	<b>\$ 406,601</b>	\$ 344,969
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for:		
Interest	<b>\$ 105,922</b>	\$ 106,789
Income taxes	<b>5,000</b>	1,117
<i>See Notes to Consolidated Financial Statements</i>		

**FULTON FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****NOTE A Basis of Presentation**

The accompanying unaudited consolidated financial statements of Fulton Financial Corporation (the Corporation) have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities as of the date of the financial statements as well as revenues and expenses during the period. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

**NOTE B Net Income Per Share and Other Comprehensive Income**

The Corporation's basic net income per share is calculated as net income divided by the weighted average number of shares outstanding. For diluted net income per share, net income is divided by the weighted average number of shares outstanding plus the incremental number of shares added as a result of converting common stock equivalents, calculated using the treasury stock method. The Corporation's common stock equivalents consist solely of outstanding stock options and restricted stock. Excluded from the calculation were 5.2 million and 2.2 million anti-dilutive options for the three months ended March 31, 2008 and 2007, respectively.

A reconciliation of the weighted average shares outstanding used to calculate basic net income per share and diluted net income per share follows:

	<b>Three months ended</b>	
	<b>March 31</b>	
	<b>2008</b>	2007
	(in thousands)	
Weighted average shares outstanding (basic)	<b>173,624</b>	173,273
Impact of common stock equivalents	<b>585</b>	1,605
Weighted average shares outstanding (diluted)	<b>174,209</b>	174,878

The following table presents the components of other comprehensive income (loss):

	<b>Three months ended</b>	
	<b>March 31</b>	
	<b>2008</b>	2007
	(in thousands)	
Unrealized gain on securities (net of \$9.6 million and \$1.9 million tax effect in 2008 and 2007, respectively)	<b>\$ 17,773</b>	\$ 3,537
Unrealized gain (loss) on derivative financial instruments (net of \$18,000 and \$103,000 tax effect in 2008 and 2007, respectively)	<b>34</b>	(191)
Reclassification adjustment for securities losses (gains) included in net income (net of \$1.2 million tax benefit in 2008 and \$624,000 tax expense in 2007)	<b>2,203</b>	(1,158)
Amortization of unrecognized pension and postretirement costs (net of \$41,000 tax effect in 2007)		77
Other comprehensive income	<b>\$ 20,010</b>	\$ 2,265

#### **NOTE C Income Taxes**

In accordance with Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), the Corporation maintains a reserve for unrecognized income tax positions as a component of other liabilities. Upon adoption of FIN 48 on January 1, 2007, the Corporation recorded a \$220,000 decrease in existing reserves for unrecognized income tax positions, with a cumulative effect adjustment for the same amount recorded to retained earnings.

As of March 31, 2008 and 2007 the Corporation had total reserves for unrecognized income tax positions of \$3.1 million and \$4.1 million, respectively, all of which, if recognized, would impact the effective tax rate. Also as of March 31, 2008 and 2007, the Corporation had \$1.0 million and \$1.4 million, respectively, in accrued interest payable related to such unrecognized positions. The Corporation recognizes interest accrued related to unrecognized income tax positions as a component of income tax expense. Penalties, if incurred, would also be recognized in income tax expense.

During the three months ended March 31, 2008, the Corporation reversed \$2.0 million of its reserves for unrecognized income tax positions, resulting in a reduction of income tax expense. The Corporation had not fully recognized in the consolidated financial statements the positions it had taken on its tax returns for disallowed interest expense on certain tax-exempt municipal securities. In the fourth quarter of 2007, a court ruled in favor of a taxpayer who had taken a similar position on its tax returns. In the first quarter of 2008, the Internal Revenue Service indicated that it would not pursue an appeal of this ruling. As a result, the criteria for remeasurement of this tax position were reached.

The Corporation, or one of its subsidiaries, files income tax returns in the U.S. Federal jurisdiction, and various states. In many cases, unrecognized income tax positions are related to tax years that remain subject to examination by the relevant taxable authorities. With few exceptions, the Corporation is no longer subject to U.S. Federal, state and local examinations by tax authorities for years before 2004.

#### **NOTE D Stock-Based Compensation**

As required by Statement of Financial Accounting Standards No. 123R, Share-Based Payment, the fair value of equity awards to employees is recognized as compensation expense over the period during which employees are required to provide service in exchange for such awards. The Corporation's equity awards consist of stock options and restricted stock granted under its Stock Option and Compensation Plans (Option Plans) and shares purchased by employees under its Employee Stock Purchase Plan.

The following table presents compensation expense and the related tax benefits for equity awards recognized on the consolidated income statements:

**Three months ended  
March 31**