

FULTON FINANCIAL CORP  
Form 11-K  
June 27, 2003  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 11-K**

(Mark One)

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

For the fiscal year end December 31, 2002

OR

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

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

COMMISSION FILE NUMBER 0-10587

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**THE DROVERS AND MECHANICS BANK**  
**SALARY DEFERRAL PLAN**



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**THE DROVERS AND MECHANICS BANK**

**SALARY DEFERRAL PLAN**

**FINANCIAL REPORT**

**DECEMBER 31, 2002**

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**INDEPENDENT AUDITOR S REPORT**

Retirement Plan Administrative Committee

The Drivers and Mechanics Bank Salary Deferral Plan

Lancaster, Pennsylvania

We have audited the accompanying statements of net assets available for plan benefits of The Drivers and Mechanics Bank Salary Deferral Plan as of December 31, 2002 and 2001 and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of Assets Held for Investment Purposes is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended December 31, 2002 and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SMITH ELLIOTT KEARNS & COMPANY, LLC

Hagerstown, Maryland

May 13, 2003

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**THE DROVERS AND MECHANICS BANK**

**SALARY DEFERRAL PLAN**

**STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS**

**December 31, 2002 and 2001**

	<b>2002</b>	<b>2001</b>
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Cash	\$ 5,081	\$ 5,525
Investments	2,225,551	2,814,110
<b>Receivables:</b>		
Employer contributions	0	8,802
Employee contributions	0	3,564
	<u>          </u>	<u>          </u>
Total receivables	0	12,366
	<u>          </u>	<u>          </u>
<b>Total assets</b>	<u>2,230,632</u>	<u>2,832,001</u>
	<u>          </u>	<u>          </u>
<b>Operating liabilities</b>	954	536
	<u>          </u>	<u>          </u>
<b>Net assets available for plan benefits</b>	<u>\$ 2,229,678</u>	<u>\$ 2,831,465</u>

The Notes to Financial Statements are an integral part of these statements.

**Table of Contents****THE DROVERS AND MECHANICS BANK****SALARY DEFERRAL PLAN****STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS****Years Ended December 31, 2002 and 2001**

	<b>2002</b>	<b>2001</b>
	<u>          </u>	<u>          </u>
<b>Additions:</b>		
Employer contributions	\$ 116,084	\$ 135,304
Employee contributions	290,789	336,330
Employee rollovers	4,647	46,874
Investment income	23,416	84,380
Net realized and unrealized gains and (losses) on investments	(350,689)	(492,606)
	<u>          </u>	<u>          </u>
Total additions	84,247	110,282
	<u>          </u>	<u>          </u>
<b>Deductions:</b>		
Administrative expenses	41,774	7,024
Benefit payments and withdrawals	644,260	1,278,874
	<u>          </u>	<u>          </u>
Total deductions	686,034	1,285,898
	<u>          </u>	<u>          </u>
<b>Net (Decrease) in Net Assets Available for Plan Benefits</b>	(601,787)	(1,175,616)
<b>Net Assets Available for Plan Benefits:</b>		
Beginning of year	2,831,465	4,007,081
	<u>          </u>	<u>          </u>
End of year	\$ 2,229,678	\$ 2,831,465
	<u>          </u>	<u>          </u>

The Notes to Financial Statements are an integral part of these statements.

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**NOTES TO FINANCIAL STATEMENTS**

**Note 1. Plan Description**

The following description of The Drovers and Mechanics Bank Salary Deferral Plan (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

- A. *General*** The Plan is a defined contribution plan covering all full-time employees who have completed one year of service, worked 1,000 hours and have attained age 21. Effective July 1, 2001, the Drovers and Mechanics Bank became affiliated with the holding company of Fulton Financial Corporation. On August 25, 2001, the Drovers and Mechanics Bank became a division of Fulton Bank. The Drovers and Mechanics Bank Salary Deferral Plan remains in effect for employees hired prior to July 1, 2001. However, the Plan is essentially closed to new participants or new employees of Drovers Bank Division of Fulton as they enter the Fulton Financial Corporation Profit Sharing Plan upon meeting the conditions of that plan's eligibility. This Plan was established in 1986 and provides for retirement, death and disability benefits. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).
- B. *Contributions*** Eligible employees may elect to make contributions up to a maximum dollar amount prescribed by law, with the Employer contributing an amount equal to 50% of the employees' contribution up to a maximum of 6% of compensation (the Employer Match).
- C. *Participant Accounts*** Each participant's account is credited with the participant's contribution, the Employer Match and an allocation of plan earnings. Allocations are based on participant account balances, as defined.
- D. *Vesting*** The Plan provides for 100% vesting immediately upon becoming a participant in the Plan.
- E. *Payment of Benefits*** On termination of service, a participant may elect to receive either a lump sum amount of the account balance or if the account balance exceeds \$5,000, installment payments or a life annuity.
- F. *Investment Options*** As of November 1, 2001, participant directed contributions were directed from existing mutual funds into the 9 investment options described below. Participants may change their investment elections three times a quarter in 1% increments.

**Goldman Sachs Financial Square Government Fund**

This fund seeks to maximize current income, preserve capital and maintain liquidity. Investments are made in securities issued or guaranteed as to principal and interest by the U.S. government, its agencies, authorities and instrumentalities and repurchase agreements relating to such securities.



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**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 1. Plan Description (continued)**

**Retirement Fixed Income Fund**

This fund seeks to provide high current income consistent with safety of capital for retirement, pension, profit sharing and other similar trust accounts which are administered by the Bank and are exempt from taxation under the Internal Revenue Code.

**Vanguard 500 Index Fund**

This fund seeks to track, as closely as possible, the investment performance of the S&P 500 Index by investing in each of the Index's 500 stocks according to each stock's weighting in the Index.

**Retirement Common Stock Fund**

This fund seeks to provide long-term growth of capital and current income with emphasis on protection of principal during market declines. Established for retirement, pension, profit sharing and other similar trust accounts which are administered by the Bank and are exempt from taxation under the Internal Revenue Code.

**JP Morgan Institutional U.S. Equity Fund**

This equity fund seeks high total return. The Fund invests primarily in large- and medium-capitalization U.S. companies. Industry by industry, the fund's weighting is similar to those of the Standard & Poor's 500 Stock Index (S&P 500).

**Fidelity Advisor Mid Cap Fund**

This fund seeks long-term capital appreciation by investing primarily in companies that fall within the range of the S&P MidCap 400 Index.

**Fidelity Advisor Value Strategies Fund**

This fund seeks capital appreciation and normally invests the funds assets primarily in common stocks. Fund management focuses on securities of companies that it believes are undervalued. Although the fund focuses on securities issued by medium-sized companies, it may also make substantial investments in securities issued by larger or smaller companies. The fund may invest in securities of foreign issuers in addition to securities of domestic issuers.

*Goldman Sachs International Equity Fund*

This fund seeks long-term capital appreciation by investing in equity securities of companies organized outside the U.S. or principally traded outside the U.S.

*Fulton Financial Corporation Common Stock Fund*

This fund provides employees with the opportunity to invest in Fulton Financial Corporation's common stock.

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**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 1. Plan Description (continued)**

- G. Administration** The Plan is administered by Fulton Financial Corporation. Fulton Financial Corporation (the Corporation) may pay all or part of the administrative expenses of the Plan. Any expenses not paid by the Corporation shall be paid out of Plan assets.

The Plan's assets are held by Fulton Financial Advisors, as trustee. Fulton Financial Advisors is a wholly owned subsidiary of the Corporation.

- H. Termination Provisions** In the event of termination of the Plan, the trustee (Fulton Financial Advisors) may continue to administer the trust fund and pay account balances in accordance with the Plan or distribute the net assets remaining in the trust fund to members in proportion to their respective account balances.

**Note 2. Summary of Significant Accounting Policies**

***Basis of Accounting***

The accounting records of the Plan are maintained on an accrual basis. Interest and dividend income is recognized when earned, and benefits are recognized when paid.

***Use of estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of contributions, earnings, expenses and benefit payments during the reporting period. Actual results could differ from those estimates.

***Investment Valuation***

Investments are stated at aggregate market value. Securities which are traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. The Plan's investments in mutual funds and common trust funds are valued at the aggregate of the quoted market prices of the underlying securities.

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Purchases and sales of securities are reflected on a trade-date basis. The unrealized difference in market value from one year to the next and realized gains and losses are recognized as net appreciation (depreciation) in fair value of investments in the accompanying statements of changes in net assets available for benefits.

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**Table of Contents****NOTES TO FINANCIAL STATEMENTS (continued)****Note 3. Investments**

Investments that represent five percent or more of the Plan's net assets available for plan benefits at the beginning of year are identified below:

	<b>December 31, 2002</b>	
	<b>Shares</b>	<b>Fair Value</b>
*Retirement Common Stock Fund	4,379	\$ 308,508
*Retirement Fixed Income Fund	25,016	414,010
Fidelity Advisor Mid Cap Fund	12,770	200,866
Fidelity Advisor Value Strategies Fund	9,866	195,747
Vanguard 500 Index Fund	3,890	315,708
Goldman Sachs Financial Square Government Fund	398,739	398,739
*Fulton Financial Corporation Common Stock	12,948	228,662

	<b>December 31, 2001</b>	
	<b>Shares</b>	<b>Fair Value</b>
*Retirement Common Stock Fund	4,578	\$ 411,745
*Retirement Fixed Income Fund	26,494	414,631
Fidelity Advisor Mid Cap Fund	12,306	237,268
Fidelity Advisor Value Strategies Fund	10,029	269,187
Vanguard 500 Index Fund	3,949	418,206
Goldman Sachs Financial Square Government Fund	661,815	661,815

\* Represents a party-in-interest.

During 2002 and 2001, the Plan's investments appreciated (depreciated), including realized gains and losses on sales of assets, in market value by (\$350,689) and (\$492,606) as follows:

	<b>2002</b>	<b>2001</b>
Mutual Funds	\$ (279,728)	\$ (512,417)
Common Trust Funds	(67,853)	18,814
Fulton Financial Common Stock Fund	(3,108)	997
Net appreciation (depreciation) in fair value	<b>\$ (350,689)</b>	<b>\$ (492,606)</b>



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**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 4. Transactions With Parties-in-Interest**

During 2002 and 2001, respectively, the Plan purchased 4,698 and 8,090 shares of Fulton Financial Corporation common stock at a total cost of \$95,024 and \$175,616. During 2002, the Plan sold 1,984 shares of Fulton Financial Corporation Common Stock with original cost of \$35,898 at a price of \$36,497. During 2001, the Plan sold 150 shares of Fulton Financial Corporation common stock with original cost of \$3,255 at a price of \$3,283.

The Plan also has investments in common trust funds that are administered by Fulton Financial Advisors, as trustee.

**Note 5. Income Tax Status**

The Internal Revenue Service has determined and informed the Corporation by a letter dated in March 1994, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

**Note 6. Plan Termination**

Although it has not expressed any intent to do so, the Corporation has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA.

**Note 7. Obligations due Terminated Participants**

Separated participants' vested interests as of December 31, 2002 and 2001 were \$345,562 and \$736,299, respectively.

**Table of Contents****NOTES TO FINANCIAL STATEMENTS (continued)****Note 8. Reconciliation of Financial Statement to Form 5500**

The following is a reconciliation of investments listed on the financial statements to categories of investments used on the Form 5500 as of December 31:

	<u>2002</u>	<u>2001</u>
<b><i>Financial Statement Presentation</i></b>		
Investments	\$ 2,225,551	\$ 2,814,110
<b><i>Form 5500</i></b>		
Value of interest in common/collective trusts	\$ 722,518	\$ 826,376
Value of interest in registered investment companies (e.g., mutual funds)	1,274,371	1,814,404
Employer securities	228,662	173,330
<b>Total Investments</b>	<b>\$ 2,225,551</b>	<b>\$ 2,814,110</b>

The following is a reconciliation of investment income categories per the financial statements to the Form 5500:

<b><i>Financial Statement Presentation</i></b>		
Investment income	\$ 23,416	\$ 84,380
Net realized and unrealized gains (losses)	(350,689)	(492,606)
<b>Total</b>	<b>\$ (327,273)</b>	<b>\$ (408,226)</b>
<b><i>Form 5500</i></b>		
Interest income	\$ 0	\$ 14,311
Dividend income	6,452	0
Net gain on sale of assets	599	0
Unrealized depreciation of assets - other	(3,718)	0
Investment gain (loss) from common trusts	(67,853)	18,903
Net loss from registered investment company	(262,753)	(441,440)
<b>Total</b>	<b>\$ (327,273)</b>	<b>\$ (408,226)</b>

**Note 9. Subsequent Events**



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Effective June 1, 2003, the Drivers and Mechanics Bank Salary Deferral Plan has been merged with the Fulton Financial Advisors 401(k) Savings Plan and Trust. The merger is expected to have minimal impact on plan operations and benefits.

**Table of Contents****THE DROVERS AND MECHANICS BANK SALARY DEFERRAL PLAN****SUPPLEMENTAL SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES****December 31, 2002**

Description of Investment	Shares	Market Value
Goldman Sachs Financial Square Government Fund	398,739	\$ 398,739
*Retirement Fixed Income Fund	25,016	414,010
Vanguard 500 Index 500 Fund	3,890	315,708
*Retirement Common Stock Fund	4,379	308,508
JP Morgan Institutional U.S. Equity Fund	17,701	134,707
Fidelity Advisor Mid Cap Fund	12,770	200,866
Fidelity Advisor Value Strategies Fund	9,866	195,747
Goldman Sachs International Equity Fund	2,329	28,437
*Fulton Financial Corporation Common Stock Fund	12,948	228,662
Goldman Sachs Financial Square Prime Obligation Money Market Fund	167	167
<b>Total Investments</b>		<b>\$ 2,225,551</b>

\* Represents a party-in interest

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**THE DROVERS AND MECHANICS BANK SALARY DEFERRAL PLAN**

**EIN: 23-2195389 PLAN NO.: 002**

**Schedule H, Part IV, item 4i**

**SUPPLEMENTAL SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES**

**December 31, 2002**

a.	c.	Shares	e. Market Value
	<u>Description of Investment</u>	<u>Shares</u>	<u>Value</u>
	Goldman Sachs Financial Square Government Fund	398,739	\$ 398,739
	*Retirement Fixed Income Fund	25,016	414,010
	Vanguard 500 Index 500 Fund	3,890	315,708
	*Retirement Common Stock Fund	4,379	308,508
	JP Morgan Institutional U.S. Equity Fund	17,701	134,707
	Fidelity Advisor Mid Cap Fund	12,770	200,866
	Fidelity Advisor Value Strategies Fund	9,866	195,747
	Goldman Sachs International Equity Fund	2,329	28,437
	*Fulton Financial Corporation Common Stock Fund	12,948	228,662
	Goldman Sachs Financial Square Prime Obligation Money Market Fund	167	167
	<b>Total Investments</b>		<b>\$ 2,225,551</b>

\* Represents a party-in interest

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**EXHIBIT INDEX**

**EXHIBIT DESCRIPTION**

23 Consent of Independent Auditors

99.1 Sarbanes Oxley Certification