STAR GAS FINANCE CO
Form 10-K
December 09, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 2010

OR

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

For the transition period from ______ to ______

Commission File Number: 001-14129

Commission File Number: 333-103873-01

STAR GAS PARTNERS, L.P.

STAR GAS FINANCE COMPANY

(Exact name of registrants as specified in its charters)

Delaware	**06-1437793**
Delaware	**75-3094991**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2187 Atlantic Street, Stamford, Connecticut	**06902**
(Address of principal executive office)	**(Zip Code)**

(203) 328-7310

(Registrants telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Units	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).* Yes ¨ No ¨

* The registrant has not yet been phased into the interactive data requirements.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 definitions of large accelerated filer, and accelerated filer and smaller reporting company in Rule 12b-2 of the Act (check one).

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ 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 x

The aggregate market value of Star Gas Partners, L.P. Common Units held by non-affiliates of Star Gas Partners, L.P. on March 31, 2010 was approximately $304,139,000. As of November 30, 2010, the registrants had units and shares outstanding for each of the issuers classes of common stock as follows:

Star Gas Partners, L.P.	Common Units	67,077,553
Star Gas Partners, L.P.	General Partner Units	325,729
Star Gas Finance Company	Common Shares	100

Documents Incorporated by Reference: None

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STAR GAS PARTNERS, L.P.

2010 FORM 10-K ANNUAL REPORT

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PART I

Statement Regarding Forward-Looking Disclosure

This Annual Report on Form 10-K includes forward-looking statements which represent our expectations or beliefs concerning future events that involve risks and uncertainties, including those associated with the effect of weather conditions on our financial performance, the price and supply of home heating oil, the consumption patterns of our customers, our ability to obtain satisfactory gross profit margins, our ability to obtain new customers and retain existing customers, our ability to make strategic acquisitions, the impact of litigation, our ability to contract for our current and future supply needs, natural gas conversions, union relations and the outcome of union negotiations, the impact of current and future governmental regulations, including environmental, health, and safety regulations, the ability to attract and retain employees, customer credit worthiness, counterparty credit worthiness, marketing plans, general economic conditions and new technology. All statements other than statements of historical facts included in this Report including, without limitation, the statements under Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere herein, are forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct and actual results may differ materially from those projected as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to, those set forth under the heading Risk Factors and Business Initiatives and Strategy. Without limiting the foregoing, the words believe, anticipate, plan, expect, seek, estimate, and similar expressions are intended to identify forward-looking statements. Important factors that could cause actual results to differ materially from our expectations (Cautionary Statements) are disclosed in this Annual Report on Form 10-K. All subsequent written and oral forward-looking statements attributable to the Partnership or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements. Unless otherwise required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Report.

ITEM 1. BUSINESS

Structure

Star Gas Partners, L.P. (Star Gas Partners, the Partnership, we, us, or our) is a home heating oil distributor and services provider with one reportable operating segment that principally provides services to residential and commercial customers to heat their homes and buildings. Star Gas Partners is a master limited partnership, which at November 30, 2010, had outstanding 67.1 million common units (NYSE: SGU) representing a 99.5% limited partner interest in Star Gas Partners, and 0.3 million general partner units, representing a 0.5% general partner interest in Star Gas Partners.

The Partnership is organized as follows:

- Our general partner is Kestrel Heat, LLC, a Delaware limited liability company (Kestrel Heat or the general partner). The Board of Directors of Kestrel Heat is appointed by its sole member, Kestrel Energy Partners, LLC, a Delaware limited liability company (Kestrel).

- Our operations are conducted through Petro Holdings, Inc. (a Minnesota corporation that is our indirect wholly owned subsidiary) and its subsidiaries.

- Star Gas Finance Company is our 100% owned subsidiary. Star Gas Finance Company serves as the co-issuer, jointly and severally with us, of our Rule 144A $125.0 million 8.875% Senior Notes (excluding discounts and premiums), which are due in 2017. We are dependent on distributions, including inter-company interest payments, from our subsidiaries to service our debt obligations. The distributions from our subsidiaries are not guaranteed and are subject to certain loan restrictions. Star Gas Finance Company has nominal assets and conducts no business operations. (See Note 6. - Long-Term Debt and Bank Facility Borrowings)

We file annual, quarterly, current and other reports and information with the SEC. These filings can be viewed and downloaded from the Internet at the SEC s website at www.sec.gov. In addition, these SEC filings are available at no cost as soon as reasonably practicable after the filing thereof on our website at www.star-gas.com/sec.cfm. These reports are also available to be read and copied at the SEC s public reference room located at Judiciary Plaza, 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. You may also obtain copies of these filings and other information at the offices of the New York Stock Exchange located at 11 Wall Street, New York, New York 10005.

Partnership structure

The following chart summarizes our partnership structure as of September 30, 2010.

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Recent Developments

On November 16, 2010, we completed a Rule 144A offering of $125.0 million in aggregate principal amount of senior notes due 2017. The notes will accrue interest at a rate of 8.875% and were priced at 99.350%, for total gross proceeds of $124.2 million. The net proceeds from the offering will be used to redeem on December 20, 2010 any and all of the Partnership s outstanding 10.25% notes due 2013, which currently equate to approximately $82.5 million. All remaining cash will be utilized for general partnership purposes.

Business Overview

As of September 30, 2010, we sold home heating oil to approximately 404,000 full service residential and commercial home heating oil customers and propane to approximately 10,000 propane customers. We believe we are the largest retail distributor of home heating oil in the United States. We also sell home heating oil, gasoline and diesel fuel to approximately 35,000 customers on a delivery only basis. We install, maintain, and repair heating and air conditioning equipment for our customers and provide ancillary home services, including home security and plumbing, to approximately 11,000 customers. During fiscal 2010, total sales were comprised approximately 77% from sales of home heating oil; 15% from the installation and repair of heating and air conditioning equipment and ancillary services; and 8% from the sale of other petroleum products. We provide home heating equipment repair service 24 hours a day, seven days a week, 52 weeks a year. These services are an integral part of our heating oil business, and are intended to maximize customer satisfaction and loyalty.

In fiscal 2010, sales to residential customers represented 89% of the retail heating oil gallons sold and 93% of heating oil gross profits.

We conduct our business through an operating subsidiary, Petro Holdings, Inc., utilizing over 30 local brand names such as Petro Heating & Air Conditioning Services and Meenan Oil. We believe that the Petro, Meenan and other trademarks and service marks are an important part of our ability to attract new customers and to effectively maintain and service our customer base.

We offer several pricing alternatives to our residential customers, including a variable price (market based) option and a price-protected option, the latter of which either sets the maximum price or fixes the price that a customer will pay. Approximately 97% of our deliveries for our full service residential and commercial home heating oil customers are automatically scheduled based on ongoing weather conditions. In addition, we offer a smart pay budget payment plan in which homeowners estimated annual oil deliveries and service billings are paid for in a series of equal monthly installments. We use derivative instruments on a daily basis to mitigate our exposure to market risk associated with our price-protected offerings and the storing of our physical home heating oil inventory. Given our size, we are able to realize benefits of scale and seek to provide consistent, strong customer service.

We have operations and markets in the following states, regions and counties:

Connecticut
Fairfield
New Haven
Middlesex
Litchfield
Hartford

Maryland
Baltimore
Harford
Cecil
Anne Arundel
Carroll
Howard
Montgomery
North Calvert
Prince George s
Calvert
Charles
Frederick

Massachusetts
Suffolk
Norfolk
Essex
Bristol
Middlesex
Barnstable
Plymouth
Worcester

New Jersey
Salem
Gloucester
Camden
Burlington
Ocean
Monmouth
Somerset
Middlesex
Mercer

New York
Dutchess
Ulster
Orange
Westchester
Putnam
Nassau
Suffolk
Bronx
Queens
Kings
Richmond
New York

Pennsylvania
Philadelphia
Bucks
Montgomery
Chester
Lancaster

Rhode Island
Providence
Kent
Washington
Newport
Bristol

New Hampshire
Rockingham
Strafford

Maine
York

Virginia
Loudoun
Prince William
Fauquier
Stafford
Arlington

Hunterdon	Lebanon	Fairfax
Union	Lehigh	
Hudson	Northampton	***Washington, D.C.***
Bergen	Berks	District of Columbia
Essex	Monroe	
Passaic	Delaware	
Sussex	Perry	
Morris	Dauphin	
Warren	Cumberland	
	York	

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Industry Characteristics

Home heating oil is primarily used as a source of fuel to heat residences and businesses in the Northeast and Mid-Atlantic regions. According to the U.S. Department of Energy Energy Information Administration, 2005 Residential Energy Consumption Survey (the latest survey published), these regions account for 81% (6.2 million of 7.7 million) of the households in the United States where heating oil is the main space-heating fuel and 31% (6.2 million of 20.0 million) of the homes in these regions use home heating oil as their main space-heating fuel. In recent years, as the price of home heating oil increased, customers have tended to increase their conservation efforts, which has decreased their consumption of home heating oil.

The retail home heating oil industry is mature, with total market demand expected to decline in the foreseeable future due to conversions to natural gas. Our customer losses to natural gas conversions for fiscal years 2010, 2009 and 2008 were 1.2%, 1.6% and 1.6%, respectively. Therefore, our ability to maintain our business or grow within the industry is dependent on the acquisition of other retail distributors as well as the success of our marketing programs.

It is common practice in our business to price products to customers based on a per gallon margin over wholesale costs. As a result, we believe distributors such as ourselves generally seek to maintain their per gallon margins by passing wholesale price increases through to customers, thus insulating themselves from the volatility in wholesale heating oil prices. However, distributors may be unable or unwilling to pass the entire product cost increases through to customers. In these cases, significant decreases in per gallon margins may result. The timing of cost pass-throughs can also significantly affect margins. The retail home heating oil industry is highly fragmented, characterized by a large number of relatively small, independently owned and operated local distributors. Some dealers provide full service, as we do, and others offer delivery only on a cash-on-delivery basis, which we also do to a significantly lesser extent. The industry is becoming more complex and costly due to new regulations, working capital requirements and the cost to hedge for protected price customers. We utilize derivative instruments in order to hedge a substantial majority of the heating oil volume we expect to sell to protected price customers that have renewed their protected price plans, mitigating our exposure to changing commodity prices. We also use derivative instruments as a hedge against our physical inventory and priced purchase commitments.

Business strategy

Our business strategy is to increase operating profits and cash flow by conservatively managing our operations and growing our customer base as a leading retail distributor of home heating oil and ancillary services. The key elements of this strategy include the following:

Deliver superior customer service. We are completely focused on providing the best customer service in our regions, with the aim of maximizing customer retention. To engage our employees and enhance their ability to provide superior customer service (and reduce gross customer losses), we require all employees to go through appropriate training supplemented by customer service monitoring. Our Director of Quality Assurance is responsible for customer service evaluation and directs teams that conduct district quality assurance assessments. These assessments are focused on improving our performance in customer relations and retention to drive customer service performance to the best level possible.

Continue to focus on operating efficiencies. We constantly work to reduce operating costs and streamline our operations through the elimination of redundant systems and appropriate reductions in overhead. By spreading certain administrative costs over a growing customer base, we believe we can continue to generate strong financial results.

Pursue select acquisitions. Our senior management team has developed expertise in identifying acquisition opportunities and integrating acquired customers into our operations. Through our acquisitions, we have been able to increase our presence in some of our existing geographic markets and selectively expand into new markets, while maintaining or improving our financial results. Our acquisition strategy has enabled us to achieve our current market position and offers us the ability to continue to achieve operating efficiencies and economies of scale.

Broaden products and services. We sell related and complementary products and services, such as air conditioning systems, plumbing services and home security systems, in order to leverage our organizational structure and improve our sales penetration within the existing customer base. We continue to increase the quality and breadth of our service offerings and believe that these actions will further enhance our position with existing and potential customers, allowing us to maintain or improve customer retention.

Seasonality

The following matters should be considered in analyzing our financial results. Our fiscal year ends on September 30. All references to quarters and years respectively in this document are to fiscal quarters and years unless otherwise noted. The seasonal nature of our business results in the sale of approximately 30% of our volume of home heating oil in the first fiscal quarter and 50% of our volume in the second fiscal quarter of each fiscal year, the peak heating season. As a result, we generally realize net income in our first and second fiscal quarters and net losses during our third and fourth fiscal quarters and we expect that the negative impact of seasonality on our third and fourth fiscal quarter operating results will continue. In addition, sales volume typically fluctuates from year to year in response to variations in weather, wholesale energy prices and other factors.

Competition

Most of our district locations compete with numerous distributors, primarily on the basis of reliability of service, price, and response to customer needs. Each district location operates in its own competitive environment.

We compete with distributors offering a broad range of services and prices, from full-service distributors, like ourselves, to those offering delivery only. Like many companies in the home heating oil business, we provide home heating equipment repair service on a 24-hour-a-day, seven-day-a-week, 52 weeks a year basis. We believe that this level of service tends to help build customer loyalty. In some instances homeowners have formed buying cooperatives that seek to purchase fuel oil from distributors at a price lower than individual customers are otherwise able to obtain. We also compete for retail customers with suppliers of alternative energy products, principally natural gas, propane and electricity. The expansion of natural gas into traditional home heating oil markets in the Northeast has historically been inhibited by the capital costs required to expand distribution and pipeline systems.

Customers and Pricing

Our full service home heating oil customer base is comprised of 96% residential customers and 4% commercial customers. Our residential customer receives small deliveries on average of 160 gallons and our commercial accounts receive larger deliveries on average of 350 gallons. Typically, we make four to six deliveries per customer per year. Currently, 97% of our deliveries are scheduled automatically and 3% of our home heating oil customer base call from time to time to schedule a delivery. Automatic deliveries are scheduled based on each customer s historical consumption pattern and prevailing weather conditions. Our practice is to bill customers promptly after delivery. We also offer a balanced payment plan in which a customer s estimated annual oil purchases and service contract fees are paid for in a series of equal monthly payments. Approximately 38% of our residential home heating oil customers have selected this billing option.

We offer several pricing alternatives to our customers. Our variable pricing program allows the price to float with the home heating oil market and generally move up or down in response to market changes and other factors. In addition, we offer price protection programs, which establish either a ceiling or a fixed per gallon price that the customer would pay over a defined period. Over the last several years, a greater number of our price protected customers have selected the ceiling plan over the fixed price plan.

	September 30,			
	2010	2009	2008	2007
Variable	55.8%	52.3%	48.6%	61.0%
Ceiling	41.8%	44.6%	34.4%	23.2%
Fixed	2.4%	3.1%	17.0%	15.8%
	100.0%	100.0%	100.0%	100.0%

Sales to residential customers ordinarily generate higher per gallon margins than sales to commercial customers. Due to greater price sensitivity and hedging complexities of residential protected price customers, the per gallon margins realized from price protected customers generally are less than from variable priced residential customers.

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Customer Attrition

We measure net customer attrition for our full service residential and commercial home heating oil customers. Net customer attrition is the difference between gross customer losses and customers added through marketing efforts. Customers added through acquisitions are not included in the calculation of gross customer gains. Gross customer losses are the result of a number of factors, including price competition, move outs, service issues, credit losses and conversions to natural gas. When a customer moves out of an existing home we count the move out as a loss and if we are successful in signing up the new homeowner, the move in is treated as a gain.

For fiscal 2010, we lost 19,800 accounts (net), or 5.0% of our home heating oil customer base as compared to fiscal 2009, where we lost 30,300 accounts (net), or 7.6% of our home heating oil customer base. Excluding customer gains and losses at the home heating oil operations that we acquired in fiscal 2010, which acquisitions were completed after the fall marketing initiatives, we lost 17,600 accounts (net), or 4.7% of our home heating oil customer base. In fiscal 2008, we lost 18,300 accounts (net), or 4.3% of our home heating oil customer base. Our net customer attrition decreased in fiscal 2010 when compared to fiscal 2009, largely due to a reduction in gross losses (which is reflective of customer turn-over). In fiscal 2010 gross losses decreased to 16.8%, as compared to 21.1% in fiscal 2009 and 19.1% in fiscal 2008. (See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Customer Attrition)

Suppliers and Supply Arrangements

We purchase home heating oil for delivery in either barge, pipeline or truckload quantities, and as of September 30, 2010 have contracts with approximately 80 third-party terminals for the right to temporarily store heating oil at their facilities. Purchases are made under supply contracts or on the spot market. Including our own physical storage, we have entered into market price based contracts for approximately 68% of our retail home heating oil requirements for fiscal 2011. During fiscal 2010, Global Companies, Sunoco Inc., NIC Holding Corp. (Northville Industries) and BP North America provided 19.6%, 12.0%, 11.2% and 11.1% respectively, of our product purchases. Aside from these four suppliers, no single supplier provided more than 10% of our product supply during fiscal 2010. For fiscal 2011, we generally have supply contracts for similar quantities with Global Companies, Sunoco Inc., NIC Holding Corp. (Northville Industries) and BP North America. Supply contracts typically have terms of 6 to 12 months. All of the supply contracts provide for minimum quantities. In all cases, the supply contracts do not establish in advance the price of fuel oil. This price is based upon a published market index price at the time of delivery or pricing date plus an agreed upon differential. We believe that our policy of contracting for the majority of our anticipated supply needs with diverse and reliable sources will enable us to obtain sufficient product should unforeseen shortages develop in worldwide supplies.

Derivatives

We use derivative instruments in order to mitigate our exposure to market risk associated with the purchase of home heating oil for our protected price customers, physical inventory on hand, inventory in transit and priced purchase commitments.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 815-10-05 Derivatives and Hedging topic, established accounting and reporting standards requiring that derivative instruments be recorded at fair value and included in the consolidated balance sheet as assets or liabilities. Currently, the Partnership has elected not to designate its derivative instruments as hedging instruments under this standard, and the change in fair value of the derivative instruments are recognized in our statement of operations. While we largely expect our realized derivative gains and losses to be offset by increases or decreases in the value of our physical purchases, we will experience volatility in reported earnings due to the recording of unrealized non-cash gains and losses on our derivative instruments prior to their maturity.

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Home Heating Oil Price Volatility

In recent years, the wholesale price of home heating oil has been extremely volatile, resulting in increased consumer price sensitivity to heating costs and increased gross customer attrition. Like any other market commodity, the price of home heating oil is generally impacted by many factors, including economic and geopolitical forces. The price of home heating oil is closely linked to the price refiners pay for crude oil, which is the principal cost component of home heating oil. The volatility in the wholesale cost of home heating oil, as measured by the New York Mercantile Exchange (Nymex) price per gallon for fiscal 2010, 2009, and 2008 by quarter, is illustrated by the following chart:

	Fiscal 2010		Fiscal 2009		Fiscal 2008	
	Low	High	Low	High	Low	High
Quarter Ended						
December 31	$ 1.7810	$ 2.1190	$ 1.1983	$ 2.8469	$ 2.1596	$ 2.7066
March 31	1.8860	2.2030	1.1331	1.6263	2.4188	3.1483
June 30	1.8720	2.3450	1.3147	1.8630	2.8797	3.9748
September 30	1.9160	2.2440	1.5038	1.9569	2.7197	4.1060

Acquisitions

From April 1 to September 30, 2010 (after the heating season), the Partnership completed five acquisitions and added approximately 56,100 home heating oil, propane and security accounts. While these acquisitions provided additional revenues in fiscal 2010, the Partnership s profitability measures such as operating income and net income, were adversely impacted as product costs and operating expenses from these acquisitions have exceeded revenues, which is normal for this non-heating period. The fiscal 2010 acquisitions cost approximately $68.8 million, including $4.2 million of working capital. In fiscal 2009, we completed the purchase of one retail heating oil dealer with approximately 3,800 home heating oil customers for an aggregate cost of approximately $4.0 million, reduced by $0.7 million of working capital credits. In fiscal 2008, we completed the purchase of seven retail heating oil dealers with approximately 5,700 home heating oil customers and one small home security business for an aggregate cost of approximately $2.6 million, reduced by $0.7 million of working capital credits.

Income Taxes Valuation Allowance and Net Operating Loss Carry Forward

Based upon a review of a number of factors, including historical operating performance and our expectation that we could generate sustainable consolidated taxable income for the foreseeable future, we concluded at the end of fiscal 2009 that the majority of our net deferred tax assets should be recognized. Thus, pursuant to FASB ASC 740-10 Income Taxes topic (FAS 109), we recorded a tax benefit during fiscal 2009 reversing a majority of the opening valuation allowance, resulting in a non-cash increase in net income of $86.4 million. This benefit was offset by a current income tax expense of $3.8 million and deferred income tax expense of $25.0 million related to current year activity (including net operating loss carry forward utilization), resulting in a net income tax benefit of $57.6 million. Most of the $86.4 million benefit relating to the valuation allowance release related to Federal and State loss carry forwards (NOLs), insurance reserves, and the net operating book versus tax timing of intangible amortization.

At December 31, 2006, we had Federal NOLs of $160.8 million and at December 31, 2009, we had Federal NOLs of $51.7 million. Over this three year period, we utilized $36.4 million of Federal NOLs on average each year to offset our taxable income. We expect that over the next twelve to fifteen months, we will utilize substantially all of the remaining unlimited Federal NOLs. After we exhaust the Federal NOLs, the amount of cash taxes that we will pay will increase significantly and will reduce the annual amount of cash available for distribution to unitholders. For example, in calendar 2007, 2008 and 2009 we paid Federal cash taxes of $1.0 million, $0.6 million, and $0.7 million respectively. If we did not have the Federal NOLs available to us for calendar 2007, 2008 and 2009 our Federal cash taxes would have increased to $17.2 million, $11.1 million and $9.9 million for calendar 2007, 2008 and 2009 respectively.

Income taxes book versus tax deductions

The amount of cash flow that we generate in any given year depends upon a variety of factors including the amount of cash income taxes that our subsidiaries will pay. The amount of depreciation and amortization that we deduct for book (i.e. financial reporting) purposes will differ from the amount that our subsidiaries can deduct for tax purposes. The table below compares the estimated depreciation and amortization for book purposes to the amount that our subsidiaries expect to deduct for tax purposes. (Our subsidiaries file their tax returns based on a calendar year. The amounts below are based on our fiscal year.)

Estimated depreciation and amortization expense

(in thousands)

Fiscal year	Book	Tax
2011	$ 19,586	$ 30,835
2012	13,431	27,625
2013	10,224	24,339
2014	8,897	20,493
2015	8,032	17,597

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Employees

As of September 30, 2010, we had 2,729 employees, of whom 810 were office, clerical and customer service personnel; 848 were equipment technicians; 388 were oil truck drivers and mechanics; 396 were management and 287 were employed in sales. Of these employees 909 are represented by 24 different local chapters of labor unions. Some of these unions have union administered pension plans that have significant unfunded liabilities, a portion of which could be assessed to us should we withdraw from these plans. The Partnership does not expect to withdraw from these plans. In addition, approximately 456 seasonal employees (305 of which are represented by the local chapters of labor unions indicated earlier) are rehired annually to support the requirements of the heating season. We are currently involved in 3 union negotiations. We believe that our relations with both our union and non-union employees are generally satisfactory.

Government Regulations

We are subject to various federal, state and local environmental, health and safety laws and regulations. Generally, these laws impose limitations on the discharge or emission of pollutants and establish standards for the handling of solid and hazardous wastes. These laws include the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the Clean Air Act, the Occupational Safety and Health Act, the Emergency Planning and Community Right to Know Act, the Clean Water Act and comparable state statutes. CERCLA, also known as the Superfund law, imposes joint and several liabilities without regard to fault or the legality of the original conduct on certain classes of persons that are considered to have contributed to the release or threatened release of a hazardous substance into the environment. Products stored and/or delivered by us and certain automotive waste products generated by our fleet are hazardous substances within the meaning of CERCLA or otherwise subject to investigation and cleanup under other environmental laws and regulations. While we have implemented programs and policies designed to address potential liabilities and costs under applicable environmental laws and regulations, failure to comply with such laws and regulations could result in civil or criminal penalties in cases of non-compliance or impose liability for remediation costs.

We have incurred and continue to incur costs to address soil and groundwater contamination at some of our locations, including legacy contamination at properties that we have acquired. A number of our properties are currently undergoing remediation, in some instances funded and/or by prior owners or operators contractually obligated to do so. To date, no material issues have arisen with respect to such prior owners or operators addressing such remediation, although we cannot assure you that this will continue to be the case. In addition, we have been subject to proceedings by regulatory authorities for alleged violations of environmental and safety laws and regulations. We do not expect any of these liabilities or proceedings of which we are aware to result in material costs to, or disruptions of, our business or operations.

In addition, transportation of our products by truck are subject to regulations promulgated under the Federal Motor Carrier Safety Act. These regulations cover the transportation of hazardous materials and are administered by the United States Department of Transportation or similar state agencies. We conduct ongoing training programs to help ensure that our operations are in compliance with applicable safety regulations. We maintain various permits that are necessary to operate some of our facilities, some of which may be material to our operations.

ITEM 1A. RISK FACTORS

You should consider carefully the risk factors discussed below, as well as all other information, as an investment in the Partnership involves a high degree of risk. Any of the risks described below could impair our business, financial condition and operating results, which could result in a partial or total loss of your investment.

We are subject to certain risks and hazards due to the nature of the business activities we conduct. The risks discussed below, any of which could materially and adversely affect our business, financial condition, cash flows, and results of operations, are not the only risks we face. We may experience additional risks and uncertainties not currently known to us or, as a result of developments occurring in the future, conditions that we currently deem to be immaterial may also materially and adversely affect our business, financial condition, cash flows and results of operations.

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Current economic conditions could adversely affect our results of operations and financial condition.

Since 2008, economic conditions in the United States have experienced a downturn due to the sequential effects of the sub-prime lending crisis, general credit market crisis, the general unavailability of financing, collateral effects on the finance and banking industries, volatile energy prices, concerns about inflation, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions, increased unemployment, liquidity concerns and declines in housing prices and house sales.

Uncertainty about current economic conditions poses a risk as our customers may reduce or postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a material negative effect on the demand for our equipment and services and could lead to increased conservation and the possibility of certain of our customers seeking lower cost providers. Any increase in existing customers seeking lower cost providers and/or increase in our rejection rate of potential accounts because of credit considerations could increase our overall rate of net customer attrition. If adverse economic conditions persist, we could experience an increase in bad debts from financially distressed customers, which would have a negative effect on our liquidity, results of operations and financial condition.

We rely on the continued solvency of our derivative and insurance counterparties. We regularly use derivative instruments such as futures, options, and swap agreements, in order to mitigate our exposure to market risk associated with the purchase of home heating oil for our price-protected customers, physical inventory on hand, inventory in transit and priced purchase commitments. We insure ourself against catastrophic property and other losses with insurance companies.

The financial turmoil affecting the banking system and financial markets and the possibility that financial institutions may consolidate or go out of business have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency and equity markets that may also adversely affect our results of operations and financial condition. There could be a number of follow-on effects from the credit crisis on our business, including insolvency of key suppliers resulting in product delays and failure of derivative counterparties and other financial institutions negatively impacting our liquidity and financial condition.

If counterparties to our derivative instruments were to fail, our liquidity, results of operations and financial condition could be materially impacted, as we would be obligated to fulfill our operational requirement of purchasing, storing and selling home heating oil, while losing the mitigating benefits of economic hedges with a failed counterparty. If one of our insurance carriers should fail, our liquidity, results of operations and financial condition could be materially impacted, as we would have to fund any catastrophic loss. Currently, we have outstanding derivative instruments with the following counterparties: Cargill, Inc., Key Bank National Association, Bank of America, N.A., JPMorgan Chase Bank, NA, Societe Generale, Newedge USA, LLC, and Wachovia Bank, N.A. (Wells Fargo Bank, N.A.). Our primary insurance carrier is a subsidiary of Chartis, formerly known as American International Group.

Our operating results are subject to seasonal fluctuations.

Our operating results are subject to seasonal fluctuations since the demand for home heating oil is greater during the first and second fiscal quarter of our fiscal year, which is the peak heating season. The seasonal nature of our business has resulted on average in the last five years in the sale of approximately 30% of our volume of home heating oil in the first fiscal quarter and 50% of our volume in the second fiscal quarter of each fiscal year. As a result, we generally realize net income in our first and second fiscal quarters and net losses during our third and fourth fiscal quarters and we expect that the negative impact of seasonality on our third and fourth fiscal quarter operating results will continue.

Since weather conditions may adversely affect the demand for home heating oil, our financial condition is vulnerable to warm winters.

Weather conditions in the Northeast and Mid-Atlantic regions in which we operate have a significant impact on the demand for home heating oil because our customers depend on this product principally for space heating purposes. As a result, weather conditions may materially adversely impact our operating results and financial condition. During the peak-heating season of October through March, sales of home heating oil historically have represented approximately 80% of our annual home heating oil volumectors of the Board of Directors, after discussion, approved the recommendations of the Executive Compensation Committee for increasing the 2005 salaries of the executive officers.

opportunity to choose to accept the stock options or 15,000 shares of restricted stock. He chose to accept the restricted stock. The Executive Compensation Committee did not establish specific target levels for individual performance or corporate profitability. The Executive Compensation Committee believes, however, that awards of stock options, restricted stock and bonuses are an appropriate means of compensating executive officers based on the performance of Fulton Financial Corporation.

Executive Compensation Committee[1]

Donald W. Lesher, Jr., Chair	Patrick J. Freer
George W. Hodges, Vice Chair	Eugene H. Gardner
Donald M. Bowman, Jr.	Carolyn R. Holleran

SEVERANCE AGREEMENTS AND SURVIVORS' BENEFITS

Fulton Financial Corporation has entered into severance agreements with Messrs. Smith, Ashby and Nugent (the "Executives")[2] . Under the terms of those agreements, certain limited severance benefits are payable in the event an Executive resigns or is discharged other than for cause following, and for reasons relating to, a change in control of Fulton Financial Corporation. Specifically, in the event of such a discharge or resignation, the Executive would be entitled to receive from Fulton Financial Corporation an annual benefit consisting of his then effective base salary, certain fringe benefits in lieu of coverage under employee benefit plans and a supplemental retirement benefit in lieu of his continuing participation in the Fulton Financial Corporation employee retirement plans. Such benefits would be payable, in the cases of Messrs. Smith, Ashby and Nugent, for a period of three years, beginning on the date of the Executive's discharge or resignation and continuing until (i) he elects to terminate benefits in order to accept employment with another financial services institution; (ii) the end of the year in which he attains the age of 65; or (iii) he dies, whichever first occurs.

Officers of Fulton Financial Corporation and certain of its bank subsidiaries as of April 1, 1992, who had been employed by the Corporation for at least five years as of that date, are eligible to participate in a survivors' benefit program. This program provides the employee's spouse, in the event of the employee's death prior to retirement, with an annual income equal to the lesser of $25,000 or 25 percent of the employee's final annual salary. This benefit is paid from the date of death until the employee's 65th birthday with a minimum of ten annual payments. Messrs. Smith and Ashby participate in this program.

[1] The charter for the Executive Compensation Committee is available on Fulton Financial Corporation s website: www.fult.com

[2] Messrs. Shreiner, Wenger and Hill, who became executive officers on January 1, 2006 also have severance agreements. Messrs. Shreiner and Wenger have agreements that provide for payment for 18 months. Mr. Hill s severance agreement provides for payment for 12 months.

PERFORMANCE GRAPH

The following graph shows cumulative investment returns to shareholders based on the assumptions that (A) an investment of $100 was made on December 31, 2000, in each of the following: (i) Fulton Financial Corporation common stock; (ii) the stock of all United States companies traded on the NASDAQ Stock Market and (iii) common stock of a peer group approved by the Board of Directors on September 21, 2004 consisting of bank and financial holding companies located throughout the United States with assets of $6-20 billion and (B) all dividends were reinvested in such securities over the past five years.

Comparison of Five Year-Cumulative Total Returns

Fulton Financial Corporation

Legend	Description
FFC	FULTON FINANCIAL CORPORATION
NASDAQ	NASDAQ Stock Market (U.S. Companies)
2004 Peer Group	Self-Determined Peer Group consisting of bank and financial holding companies located throughout the United States with assets of $6-20 billion at 9/21/04 and not under an acquisition agreement as of 12/31/05

Notes:

A. The lines represent yearly index levels derived from compounded daily returns that include all dividends.

B. If the yearly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.

C. The index level for all series was set to 100.0 on 12/31/00.

	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05
FFC	100.00	102.52	107.05	143.77	165.65	161.52
NASDAQ	100.00	79.18	54.44	82.09	89.59	91.54
2004 Peer Group	100.00	113.20	113.26	147.35	170.95	171.68

Source : SNL Financial LC, Charlottesville, VA

INFORMATION CONCERNING DIRECTORS

Meetings and Committees of the Board of Directors

The Board of Directors of Fulton Financial Corporation has a standing Executive Committee, Audit Committee, Nominating Committee, Executive Compensation Committee and Trust Committee. There is also a standing Human Resources Committee which, except with regard to the executive officers of Fulton Financial Corporation, serves as the compensation committee.

Compensation Committee Interlocks and Insider Participation

In March 2004, the Executive Compensation Committee was formed and its membership consists only of independent directors. In December 2004, this committee recommended the 2005 compensation for the executive officers to the independent directors of the Board, who then approved the committee s recommendation. Members of the Executive Compensation Committee are Donald W. Lesher, Jr., Chair, George W. Hodges, Vice Chair, Mrs. Holleran and Messrs. Bowman, Freer, and Gardner. There are no interlocking relationships, as defined in regulations of the SEC, involving members of the Executive Compensation Committee. Director Bowman has the indirect relationships described in "Transactions with Directors and Executive Officers." The Executive Compensation Committee is responsible for, among other things, recommending the compensation and stock option awards for the executive officers to the Board of Directors. The Executive Compensation Committee met four times in 2005.

Other Board Committees

Members of the Audit Committee are George W. Hodges, Chair, Thomas W. Hunt, Vice Chair, Mrs. Mary Ann Russell and Messrs. Gardner, Kooyker and Stewart. Mrs. Russell and Mr. Gardner will be retiring as of the 2006

Annual Meeting in accordance with the Corporation's mandatory retirement policy. Director Freer will join the committee on the same date. All members of the Audit Committee meet the experience and independence requirements of the National Association of Security Dealers, Inc., the Securities Exchange Act of 1934, and the rules and regulations of the SEC. Directors Gardner and Hunt were determined to qualify, and agreed to serve, as the Audit Committee's "financial expert" as defined by the SEC regulations. The Audit Committee met fourteen times during the year. The Audit Committee is governed by a formal charter, which

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was adopted in 2004. The Audit Committee's pre-approval policy and procedure for audit and non-audit services is set forth in its charter. The functions of the Audit Committee include, among other things, sole authority to appoint or replace the independent auditor; direct responsibility for the compensation and oversight of the work of the independent auditor; oversight of the overall relationship with the independent auditor; meeting with the independent auditor to review the scope of audit services; reviewing and discussing with management and the independent auditor annual and quarterly financial statements and related disclosures; overseeing the internal audit function; reviewing holding company regulatory examination reports and management's responses thereto; and reviewing periodic reports from the loan review function.

Members of the Nominating Committee are Craig A. Dally, Chair, Jeffrey G. Albertson, Vice Chair and Messrs. Bowman, Hunt, Shirk and Stewart. The Nominating Committee met one time during the year. The Nominating Committee is responsible for, among other things, recommending to the independent directors the nominees for election to the Board of Directors.

Members of the Executive Committee are Donald M. Bowman, Jr., Chair, Donald W. Lesher, Jr., Vice Chair, Mrs. Holleran and Messrs. Freer, Gardner, Hodges, and Smith. The Executive Committee met two times during the year. Except for the powers expressly excluded in Section 5 of Article III of the Bylaws, the Executive Committee exercises the powers of the Board of Directors between board meetings. In January 2006, Chairman, President and Chief Executive Officer, R. Scott Smith, Jr. replaced Mr. Fulton on the Executive Committee and Mr. Fulton joined the Human Resources Committee.

Members of the Trust Committee are Craig A. Dally, Chair, Clark S. Frame, Vice Chair, and Messrs. Bowman, Horst, Mowad and Shirk. Director Mowad will be retiring as of the 2006 Annual Meeting in accordance with the Corporation's mandatory retirement policy. In 2005, Mr. Fulton and Mr. Smith served as ex-officio members of this Committee. The Trust Committee met eight times during the year. The Trust Committee is responsible for consulting with management of Fulton Financial Advisors, National Association, a subsidiary of Fulton Financial Corporation, and overseeing all trust, investment, insurance and related financial services which Fulton Financial Corporation performs, directly or indirectly through an affiliate.

Members of the Human Resources Committee are Jeffrey G. Albertson, Chair, Patrick J. Freer, Vice Chair, Mrs. Holleran and Messrs. Fulton, Lesher and Opatut. In 2005, Mr. Fulton and Mr. Smith served as ex-officio members of this Committee. The Committee met seven times during the year to review benefit and salary administration programs (except for executive officers of Fulton Financial Corporation) and other human resources matters affecting Fulton Financial Corporation and its subsidiaries.

There were eight meetings of the Board of Directors of Fulton Financial Corporation and forty-four meetings of committees of the Board of Directors of Fulton Financial Corporation during 2005. No director attended fewer than 75% of the aggregate number of meetings of the Board of Directors and of the board committees on which he or she served.

Executive Sessions

The independent directors of the board met two times in executive session in 2005.

Annual Meeting Attendance

Fulton Financial Corporation does not have a formal policy requiring directors to attend the Annual Meeting, however, in order to facilitate their attendance, the corporation held its regularly scheduled board meeting for April at 9 a.m., April 13, 2005, at the Hershey Lodge and Convention Center, the same date and location as the 2004 Annual

Meeting, which began at 12:00 noon. One director was absent from that regular board meeting and did not attend the Annual Meeting.

Compensation of Directors

Each member of the Board of Directors of Fulton Financial Corporation is paid an annual fee of $20,000 for his or her services as a director, except that no fee is paid to any director who is also a salaried officer of Fulton Financial Corporation or one of its subsidiary banks. In addition, directors are paid a fee of $1,000 for each Board of Directors meeting attended and $1,000 for each committee meeting attended on non-board meeting days. The chairperson of the Audit Committee is paid an annual fee of $10,000 and the chairpersons of the Executive Committee and Executive Compensation Committee are paid an annual fee of $2,500. Certain directors have elected to participate in the Fulton Financial Corporation Deferred Compensation Plan, under which a director may elect not to receive the normal director's fees when earned, but instead, to receive them, together with interest, in a lump sum or in installments over a period of up to twenty (20) years following retirement.

Transactions with Directors and Executive Officers

Some of the directors and executive officers of Fulton Financial Corporation and the companies with which they are associated were customers of, and had banking transactions with Fulton Financial Corporation bank subsidiaries during 2005. All loans and commitments to lend made to such persons and to the companies with which they are associated were made in the ordinary course of bank business, on substantially the same terms (including interest rates, collateral and repayment terms) as those prevailing at the time for comparable transactions with other persons, and did not involve more than a normal risk of collectibility or present other unfavorable features. It is anticipated that similar transactions will be entered into in the future.

Some of the directors of Fulton Financial Corporation are members of law firms which provided legal services to Fulton Financial Corporation or its subsidiaries in 2005 and prior years. The law firm of Albertson Ward, Woodbury, New Jersey, has provided legal services to The Bank, a subsidiary of Fulton Financial Corporation, for many years. In 2005, Albertson Ward was paid $136,090.75 in fees for such services, which constituted more than five percent (5%) of its gross revenues. Director Jeffrey G. Albertson is a partner in this firm. The law firm of Barley Snyder LLC, Lancaster, Pennsylvania, provided legal services to Fulton Financial Corporation and its subsidiaries in 2005. The fees paid to Barley Snyder in 2005 did not exceed five (5%) of its gross revenues. Director John O. Shirk is a partner in this law firm. The law firm of Pierce & Dally, LLP, Nazareth, Pennsylvania, provided legal services to Lafayette Ambassador Bank in 2005. In 2005, Pierce & Dally was paid $45,517.73 in fees for such services, which constituted more than five percent (5%) of its gross revenues. Director Craig A. Dally is a partner in this law firm. In each case, the law firm is expected to continue to provide legal services to Fulton Financial Corporation or its subsidiaries in the future.

In 2005, a banking subsidiary of Fulton Financial Corporation paid annual rent of $95,178 for a branch office to The Bowman Group, LLP. The same banking subsidiary paid annual rent of $108,000 for a branch office to Bowman 2000 LLC. Director Donald M. Bowman, Jr. is a partner in The Bowman Group, LLP and he is the manager of Bowman 2000 LLC.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the directors and executive officers of Fulton Financial Corporation to file with the Securities and Exchange Commission initial reports of ownership and reports of change in ownership of common stock and other equity securities of Fulton Financial Corporation. To the knowledge of Fulton Financial Corporation, all Section 16(a) filing requirements applicable to its directors and executive officers have been complied with, except in the following cases: with respect to Charles J. Nugent, a report was filed on March 25, 2005 for a disposition of 6,116 shares of Fulton Financial Corporation stock in connection with the exercise of a stock option on March 22, 2005; and with respect to Thomas W. Hunt, an amended Form 3 was filed on February 27, 2006 to include 1,279 shares of Fulton Financial Corporation stock which were not reported in the original Form 3. In Mr. Nugent's case, the failure to file a timely report was inadvertent and occurred as a result of a delay in getting timely information from the stock transfer agent in reporting the transaction. In Mr. Hunt's case, the failure to file a correct original Form 3 was inadvertent and occurred when his shares of Resource Bankshares Corporation (Resource)

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were being exchanged for Fulton Financial Corporation stock following the merger of Resource with the Corporation.

RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS

For the year ended December 31, 2005, Fulton Financial Corporation engaged KPMG LLP ("KPMG"), independent certified public accountants, to audit the Corporation's financial statements. The fees incurred for services rendered by KPMG for the years ended December 31, 2005 and 2004 are summarized in the following table.

	2005	2004
Audit Fees Annual Audit and Quarterly Reviews (1)	$1,606,800	$1,822,600
Audit Fees Issuance of Comfort Letters and Consents	218,800	35,000
Audit Fees Subtotal	1,825,600	1,857,600
Audit Related Fees Student Loan Audit	6,240	5,000
Tax Fees - Preparation of Tax Returns	75,500	92,675
All Other Fees (2)	118,622	106,580
TOTAL	$2,025,962	$2,061,855

(1) Amounts presented for 2005 are based upon the audit engagement letter. Final billings for 2005 may differ.

(2) All Other Fees were for services rendered to the trust subsidiary, primarily for a SAS 70 report on the processing of transactions by the retirement services area.

The appointment of KPMG for the current year will be reviewed in the second quarter of 2006. Representatives of KPMG are expected to be present at the 2006 Annual Meeting with the opportunity to make a statement and to be available to respond to appropriate questions.

The Audit Committee of the Board of Directors of Fulton Financial Corporation has carefully considered whether the provision of the non-audit services described above which were performed by KPMG in 2005 would be incompatible with maintaining the independence of KPMG in performing its audit services and has determined that, in its judgment, the independence of the auditor has not been compromised.

All fees paid to KPMG in 2005 and 2004 were preapproved by the Audit Committee. The Audit Committee preapproves all auditing and permitted non-auditing services, including the fees and terms thereof, to be performed by its independent auditor, subject to the de minimus exceptions from non-auditing services permitted by the Securities Exchange Act of 1934. However, these types of services are approved prior to completion of the services. The Committee may form and delegate authority to subcommittees consisting of one or more members, when appropriate, including the authority to grant preapprovals of audit and permitted non-audit services. Any decisions of such subcommittees to grant preapprovals shall be presented to the full Committee for ratification at its next scheduled meeting.

The Audit Committee, based on its review and discussion of the audited 2005 financial statements of the Corporation with management and the Corporation's auditor, KPMG, it recommended to the Board of Directors that the financial statements be included in the Annual Report on Form 10-K for filing with the Securities and Exchange Commission. A copy of the report of the Audit Committee of its findings that resulted from its financial reporting oversight responsibilities is attached as Exhibit A.

ADDITIONAL INFORMATION

A copy of the Annual Report of Fulton Financial Corporation on Form 10-K as filed with the Securities and Exchange Commission, including financial statements, is available without charge to shareholders upon written request addressed to the Corporate Secretary, Fulton Financial Corporation, P.O. Box 4887, Lancaster, Pennsylvania 17604.

Only one proxy statement is being delivered to multiple security holders sharing an address unless the Corporation has received contrary instructions from one or more of the security holders. The Corporation will promptly deliver, upon written or oral request, a separate copy of the proxy statement to a security holder at a shared address to which a single copy of the document was delivered. Such a request should be made to the Corporate Secretary, Fulton Financial Corporation, P.O. Box 4887, Lancaster, Pennsylvania 17604, (717) 291-2411. Requests to receive a separate mailing for future proxy statements should be made orally or in writing to the Corporate Secretary at the foregoing address or phone number.

OTHER MATTERS

The Board of Directors of Fulton Financial Corporation knows of no matters other than those discussed in this Proxy Statement, which will be presented at the 2006 Annual Meeting. However, if any other matters are properly brought before the meeting, any proxy given pursuant to this solicitation will be voted in accordance with the recommendations of the Board of Directors of Fulton Financial Corporation.

BY ORDER OF THE BOARD OF DIRECTORS

R. SCOTT SMITH, JR.

Chairman of the Board, President

and Chief Executive Officer

Lancaster, Pennsylvania

March 27, 2006

EXHIBIT A

Report of Audit Committee

February 27, 2006

To the Board of Directors of Fulton Financial Corporation:

We have reviewed and discussed with management the Corporation s audited financial statements as of, and for the year ended, December 31, 2005.

We have discussed with representatives of KPMG LLP, the Corporation s independent auditor, the matters required to be discussed by the Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants.

We have received and reviewed the written disclosures and the letter from the independent auditor required by Independence Standard No. 1, *Independence Discussions with Audit Committees*, as amended, by the Independence Standards Board, and have discussed with the auditor the auditor's independence.

Based on the reviews and discussions referred to above, we recommend to the Board of Directors that the financial statements referred to above be included in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2005.

George W. Hodges, Chair

Thomas W. Hunt, Vice Chair

Eugene H. Gardner

Willem Kooyker

Mary Ann Russell

Gary A. Stewart

FULTON FINANCIAL

CORPORATION

ATTN; SHAREHOLDER SERVICES

ONE PENN SQUARE

LANCASTER, PA 17604

VOTE BY INTERNET - ***www.proxyvote.com***

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time on April 21, 2006. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE SHAREHOLDER COMMUNICATIONS

If you would like to reduce the costs incurred by Fulton Financial Corporation in mailing proxy material, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above for voting by Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

VOTE BY PHONE 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time on April 21, 2006. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign, and date your proxy card and return it in the postage-paid envelope we have provided or return it to Fulton Financial Corporation, c/o ADP, 51 Mercedes Way, Edgewood, NY 11717 no later than April 21, 2006.

ANNUAL REPORT

Fulton Financial Corporation s Annual Report may be viewed online by visiting our website at www.fult.com. To request an Annual Report, please call Fulton Financial Advisors, N.A. Retirement Services at (717) 291-2445.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

--FULFI3---------------------------------KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

FULTON FINANCIAL
CORPORATION

This proxy is solicited by the Board of

Directors and will be voted as directed.
If no

directions are given, this proxy will be
voted

FOR the election of the nominees listed

VOTE ON PROPOSAL NO. 1 - ELECTION OF DIRECTORS

DIRECTORS RECOMMEND A FOR VOTE FOR THE FOLLOWING NOMINEES FOR A TWO YEAR TERM:	All For	All Withhold	Except For All	To withhold authority to vote for any individual nominee, mark "For All Except" and write the nominee's number on the line below
01) John M. Bond, Jr.				____________________

DIRECTORS RECOMMEND A "FOR" VOTE FOR THE FOLLOWING NOMINEES FOR A THREE YEAR TERM:

02) Jeffrey G. Albertson	05) Clyde W. Horst
03) Craig A. Dally	06) Willem Kooyker
04) Rufus A. Fulton, Jr.	07) R. Scott Smith, Jr.

This proxy also confers authority to vote on any other business that may be properly brought before the meeting or any adjournment thereof. If any other business is presented at the meeting, the shares represented by this proxy will be voted in accordance with the recommendation of the Board of Directors of Fulton Financial Corporation.

For address changes and/or comments, please check this box

and write them on the back where indicated.

Signature (PLEASE SIGN WITHIN BOX)	Date	Signature (Joint Owners)	Date

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This proxy hereby appoints David S. Etter, Samuel H. Jones, Jr. and Arthur M. Peters, Jr., or any one of them, as proxies, with full power of substitution, to represent and vote, as designated on the reverse side, all of the Fulton Financial Corporation Common Stock: (i) held of record by the signer on March 14, 2006, and (ii) which the signer is otherwise entitled to vote at the Annual Meeting of Shareholders to be held on Tuesday, May 2, 2006, at 12:00 noon, at the Hershey Lodge and Convention Center, West Chocolate Avenue and University Drive, Hershey, Pennsylvania, or any adjournment thereof.

If shares of Fulton Financial Corporation Common Stock are issued to or held for the account of the undersigned under employee plans and voting rights attached to such shares (any of such plans, a "Voting Plan"), then the undersigned hereby directs the respective fiduciary of each applicable Voting Plan to vote all shares of Fulton Financial Corporation Common Stock in the undersigned's name and/or account under such Plan in accordance with the instructions given herein, at the Annual Meeting and at any adjournments or postponements thereof, on all matters properly coming before the Annual Meeting, including but not limited to the matters set forth on the reverse side.

Address Changes/Comments:____

____

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(If you noted any address changes/comments above, please mark corresponding box on reverse side.)

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FULTON FINANCIAL

CORPORATION

ATTN; SHAREHOLDER SERVICES

ONE PENN SQUARE

LANCASTER, PA 17604

VOTE BY INTERNET - ***www.proxyvote.com***

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE SHAREHOLDER COMMUNICATIONS

If you would like to reduce the costs incurred by Fulton Financial Corporation in mailing proxy material, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above for voting by Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

VOTE BY PHONE 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign, and date your proxy card and return it in the postage-paid envelope we have provided or return it to Fulton Financial Corporation, c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

---FULFI1---------------------------------KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

FULTON FINANCIAL
CORPORATION

This proxy is solicited by the Board of

Directors and will be voted as directed. If no

directions are given, this proxy will be voted

FOR the election of the nominees listed

VOTE ON PROPOSAL NO. 1 - ELECTION OF DIRECTORS

DIRECTORS RECOMMEND A "FOR" VOTE FOR THE FOLLOWING NOMINEES FOR A TWO YEAR TERM:	All For	All Withhold	Except For All	To withhold authority to vote for any individual nominee, mark "For All Except" and write the nominee's number on the line below
01) John M. Bond, Jr.				____________________

DIRECTORS RECOMMEND A "FOR" VOTE FOR THE FOLLOWING NOMINEES FOR A THREE YEAR TERM:

02) Jeffrey G. Albertson	05) Clyde W. Horst
03) Craig A. Dally	06) Willem Kooyker
04) Rufus A. Fulton, Jr.	07) R. Scott Smith, Jr.

This proxy also confers authority to vote on any other business that may be properly brought before the meeting or any adjournment thereof. If any other business is presented at the meeting, the shares represented by this proxy will be voted in accordance with the recommendation of the Board of Directors of Fulton Financial Corporation.

For address changes and/or comments, please check this box

and write them on the back where indicated.

Signature (PLEASE SIGN WITHIN BOX)	Date	Signature (Joint Owners)	Date

30

This proxy hereby appoints David S. Etter, Samuel H. Jones, Jr. and Arthur M. Peters, Jr., or any one of them, as proxies, with full power of substitution, to represent and vote, as designated on the reverse side, all of the Fulton Financial Corporation Common Stock: (i) held of record by the signer on March 14, 2006, and (ii) which the signer is otherwise entitled to vote at the Annual Meeting of Shareholders to be held on Tuesday, May 2, 2006, at 12:00 noon, at the Hershey Lodge and Convention Center, West Chocolate Avenue and University Drive, Hershey, Pennsylvania, or any adjournment thereof.

Address Changes/Comments:____

(If you noted any address changes/comments above, please mark corresponding box on reverse side.)