

FIDELITY D & D BANCORP INC
Form DEF 14A
March 30, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
 Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material Pursuant to §240.14a-12

FIDELITY D & D BANCORP, INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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| (4) | Date Filed: |

www.bankatfidelity.com

1 (800) 388-4380

April 2, 2007

Dear Fellow Shareholders of Fidelity D & D Bancorp, Inc.:

On behalf of the Board of Directors, we are pleased to invite you to attend our Annual Meeting of Shareholders of Fidelity D & D Bancorp, Inc. to be held on Tuesday, May 1, 2007 at 3:00 p.m., Eastern Daylight Time, at the main office of Fidelity D & D Bancorp, Inc., at Blakely and Drinker Streets, Dunmore, Pennsylvania, 18512. At the annual meeting, you will have the opportunity to ask questions and to make comments. Enclosed are your notice of meeting, proxy statement, proxy card and the Company's 2006 Annual Report to Shareholders.

The principal business of the meeting is to elect two Class C Directors, ratify the selection of independent registered public accounting firm and to transact any other business that is properly presented at the annual meeting. The notice of meeting and proxy statement accompanying this letter describe the specific business to be acted upon in more detail.

We are delighted you have chosen to invest in the Company. We look forward to you joining us. Whether or not you expect to attend the annual meeting in person, we hope that you will vote as soon as possible by completing, signing and returning the enclosed proxy in the envelope provided. The prompt return of your proxy will save the Company expenses involved in further communications. Your vote is important. Voting by written proxy will ensure your representation at the annual meeting, if you do not attend in person.

We look forward to seeing you on May 1, 2007.

Sincerely,

/s/ PATRICK J. DEMPSEY
Patrick J. Dempsey
Chairman of the Board

Blakely & Drinker Streets
Dunmore, PA 18512
Tel: (570) 342-8281
Fax: (570) 356-5724

FIDELITY D & D BANCORP, INC.

Blakely and Drinker Streets
Dunmore, Pennsylvania 18512
(570) 342-8281

**PROXY STATEMENT
FOR THE ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 1, 2007**

The Board of Directors is distributing this proxy statement to shareholders
on or about April 2, 2007

OTC Bulletin Board trading symbol: **FDDB**

www.the-fidelity.com

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 1, 2007**

TO THE SHAREHOLDERS OF FIDELITY D & D BANCORP, INC.:

NOTICE IS HEREBY GIVEN that Fidelity D & D Bancorp, Inc. will hold its Annual Meeting of Shareholders on Tuesday, May 1, 2007 at 3:00 p.m., Eastern Daylight Time, at the main office of Fidelity D & D Bancorp, Inc., at Blakely and Drinker Streets, Dunmore, Pennsylvania, 18512, to consider and vote upon the following proposals:

- (1) Election of two Class C Directors to serve for a three-year term and until their successors are properly elected and qualified;
- (2) To ratify the selection of Parente Randolph, LLC as the Company's independent registered public accounting firm for the year ending December 31, 2007; and
- (3) To transact any other business that may properly come before the annual meeting and any adjournment or postponement of the meeting.

Shareholders of record at the close of business on March 9, 2007, are entitled to notice of the meeting and may vote at the annual meeting, either in person or by proxy.

Management welcomes your attendance at the annual meeting. Whether or not you expect to attend the annual meeting in person, we ask you to complete, sign, date and promptly return the enclosed proxy in the accompanying postage-paid envelope. The prompt return of your proxy will save expenses involved in further communications. Even if you return a proxy, you may vote in person if you give written notice to the Secretary of the Company and attend the annual meeting. Promptly returning your completed proxy will ensure that your shares are voted in accordance with your wishes and will guarantee the presence of a quorum.

The Board of Directors is distributing this proxy statement, form of proxy, and Fidelity D & D Bancorp, Inc.'s 2006 Annual Report on or about April 2, 2007.

By Order of the Board of Directors,

/s/ PAUL A. BARRETT
Paul A. Barrett
Secretary

Dunmore, Pennsylvania
April 2, 2007

**YOUR VOTE IS IMPORTANT.
PLEASE COMPLETE, SIGN, DATE AND RETURN YOUR PROXY CARD.**

PROXY STATEMENT

Date, Time and Place of the Annual Meeting

Fidelity D & D Bancorp, Inc. (the Company) is furnishing this proxy statement in connection with the solicitation by the Board of Directors of proxies to be voted at the Annual Meeting of Shareholders of the Company. The annual meeting will be held at the main office of Fidelity D & D Bancorp, Inc., Blakely and Drinker Streets, Dunmore, Pennsylvania, 18512, on Tuesday, May 1, 2007 at 3:00 p.m., Eastern Daylight Time. The telephone number for the Company is (570) 342-8281. Please direct all inquiries to Salvatore R. DeFrancesco, Jr., Treasurer and Chief Financial Officer of the Company.

Description of the Company

Fidelity D & D Bancorp, Inc., a Pennsylvania corporation and registered bank holding company, was organized in 1999 and became the holding company for The Fidelity Deposit and Discount Bank (the Bank) on June 30, 2000. The Bank, the Company's wholly-owned, sole subsidiary, was established in 1902 as a commercial banking institution under the laws of Pennsylvania. In 1997, the Bank acquired trust powers. The Bank offers a full range of traditional banking and trust services as well as alternative financial products and services.

The Board of Directors encloses a copy of the annual report for the fiscal year ended December 31, 2006, with this proxy statement. You may obtain additional copies of the Company's annual report for the 2006 fiscal year at no cost by contacting Salvatore R. DeFrancesco, Jr., Treasurer and Chief Financial Officer, Fidelity D & D Bancorp, Inc., Blakely and Drinker Streets, Dunmore, Pennsylvania 18512, telephone (570) 342-8281.

We have not authorized anyone to provide you with information. You should rely only on the information contained in this document or in documents to which we refer you. Although we believe we have provided you with all the information you will need to make your decision to vote, events may occur at the Company subsequent to printing this proxy statement that might affect your decision or value of your stock.

PROXY AND VOTING PROCEDURES

Solicitation and Voting of Proxies

The Board of Directors is sending this proxy statement and proxy to shareholders on or about April 2, 2007. The Board of Directors of the Company solicits this proxy for use at the 2007 Annual Meeting of Shareholders of the Company. The directors, officers and other employees of the Company or the Bank may solicit proxies in person or by telephone, facsimile, or other electronic means. The Company will pay the cost of preparing, assembling, printing, mailing and soliciting proxies and any additional material that the Company sends to shareholders. The Company will make arrangements with brokerage houses and other custodians, nominees and fiduciaries to forward proxy solicitation materials to the beneficial owners of stock held by these persons. The Company will reimburse these persons for their reasonable forwarding expenses.

Only shareholders of record as of the close of business on Friday, March 9, 2007, the voting record date, may vote at the annual meeting. On all matters to come before the annual meeting, shareholders may cast one vote for each share held. Cumulative voting rights do not exist with respect to the election of directors.

By properly completing a proxy card, the shareholder appoints the proxy holders named on the proxy card to vote his or her shares as specified on the proxy card. Any signed proxy card, which does not specify how the shares are to be voted, will be voted **FOR**:

- Election of Brian J. Cali and Patrick J. Dempsey, as Class C Directors of the Company, each for three-year terms expiring in 2010; and
- Ratification of the selection of Parente Randolph, LLC as the Company's independent registered public accounting firm for the year ending December 31, 2007.

If a shareholder is a participant in the Fidelity D & D Bancorp, Inc. Dividend Reinvestment Plan, the enclosed proxy will also serve as a proxy for the shares held in the plan. The Register and Transfer Company, as the administrator of the plan, will not provide plan participants with separate proxies covering the shares held in the Dividend Reinvestment Plan. Each holder of common stock is entitled to one vote, in person or by proxy, for each whole share of common stock held as of the record date. If your proxy is signed but does not indicate your voting preferences, the proxy holders will vote your shares in favor of the proposals and for all nominees. If you do not return a proxy, your shares will not be voted.

Quorum and Vote For Approval

The Company's Articles of Incorporation authorize the issuance of up to 10,000,000 shares of common stock. At the close of business on March 10, 2007, the Company had issued and outstanding 2,063,357 shares of common stock, without par value. The Company's Articles of Incorporation also authorize the issuance of up to 5,000,000 shares of preferred stock. The Company has not issued any preferred stock.

To hold the annual meeting, a quorum of shareholders must be present. Under Pennsylvania law and the by-laws of the Company, the presence, in person or by proxy, of the holders of a majority of the outstanding shares entitled to vote is necessary to constitute a quorum for the transaction of business at the meeting. Votes withheld and abstentions will be counted in determining the presence of a quorum for the particular matter. The Company will not count broker non-votes in determining the presence of a quorum. A broker non-vote occurs when a broker nominee, holding shares for a beneficial owner, does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item, and has not received instructions from the beneficial owner. Those shareholders present, in person or by proxy, may adjourn the meeting to another time and place if a quorum is lacking.

Assuming the presence of a quorum, the nominees in each class of directors receiving the highest number of votes cast by shareholders entitled to vote for the election of directors shall be elected. Votes withheld from a nominee and broker non-votes will not be cast for a nominee. The Company's Articles of Incorporation do not permit cumulative voting in the election of directors.

Revocability of Proxy

Shareholders who sign and return proxies to the Company may revoke them at any time before they are voted by:

- Delivering written notice of revocation to Paul A. Barrett, Secretary of Fidelity D & D Bancorp, Inc., at Blakely and Drinker Streets, Dunmore, Pennsylvania 18512; or
- Delivering a properly executed proxy bearing a later date to Paul A. Barrett, Secretary of Fidelity D & D Bancorp, Inc., at Blakely and Drinker Streets, Dunmore, Pennsylvania 18512; or
- Attending the meeting and voting in person, after giving written notice to Paul A. Barrett, Secretary of the Company.

You have the right to vote and, if desired, to revoke your proxy any time before the annual meeting. Should you have any questions, please call Paul A. Barrett, Secretary, at (570) 342-8281.

Methods of Voting

Voting by Proxy

- Mark your selections.
- Date your proxy and sign your name exactly as it appears on your proxy.
- Mail in the enclosed, postage-paid envelope.

Voting in Person

- Attend the annual meeting and show proof of eligibility to vote.
- Obtain a ballot.
- Mark your selections.
- Date your ballot and sign your name exactly as it appears in the transfer books of the Company.

GOVERNANCE OF THE COMPANY

Our Board of Directors believes that the purpose of corporate governance is to ensure that we maximize shareholder value in a manner consistent with legal requirements and the highest standards of integrity. The Board has adopted and adheres to corporate governance practices which the Board and senior management believe promote this purpose, are sound and represent best practices. We continually review these governance practices, Pennsylvania law (the state in which we are incorporated), the rules and listing standards of Nasdaq, and SEC regulations, as well as best practices suggested by recognized governance authorities.

Currently, our Board of Directors has eight members. Under the Nasdaq listing standards for independence, Samuel C. Cali, Michael J. McDonald, David L. Tressler, Sr., Patrick J. Dempsey, Mary E. McDonald and John T. Cognetti meet the Nasdaq standards for independence. This constitutes more than a majority of our Board of Directors. Only independent directors serve on our Audit Committee.

Meetings and Committees of the Board of Directors

During 2006, the Company's Board of Directors maintained three standing committees, and the Bank's Board of Directors maintained eight standing committees. The Board of Directors of the Company has a standing Executive Committee, Audit Committee and Employee Stock Incentive Committee. In addition, the full Board of Directors of the Company performs the functions of a Nominating Committee. The Board of Directors of the Bank has an Asset/Liability Committee, Audit and Compliance Committee, Credit Administration Committee, Executive Committee, Human Resource and Compensation Committee, Loan Application Committee, Trust/401(k)/Investment Committee, and a Building Committee.

Executive Committee. The Executive Committee acts as the Compensation Committee for named executives. Members of the Company's Executive Committee were Patrick J. Dempsey, Chairman, Michael J. McDonald, and Brian J. Cali. The members of the Executive Committee, other than Mr. Cali, meet the Nasdaq listing standards for independence. The principal duties of the Executive Committee are to act on behalf of the Board between meetings to take action on loan approvals, to review and approve compensation paid to senior executive officers and to evaluate governance issues and strategic plans. The Executive Committee met four (4) times during 2006.

Audit Committee. Members of the Company's Audit Committee were Michael J. McDonald, Chairman, Samuel C. Cali, Mary E. McDonald and David L. Tressler, Sr. The Board of Directors has determined that David L. Tressler, Sr. is an audit committee financial expert and independent as defined under applicable SEC and Nasdaq rules. The principal duties of the Audit Committee, as set forth in its charter, which is available on our website, www.the-fidelity.com, under Investor Relations Governance Documents, include reviewing significant audit and accounting principles, policies and practices, reviewing performance of internal auditing procedures, reviewing reports of examination received from regulatory authorities and recommending annually, to the Board of Directors, the engagement of an independent registered public accounting firm. The Audit Committee met four (4) times during 2006.

Employee Stock Incentive Committee. Members of the Company's Employee Stock Incentive Committee were Patrick J. Dempsey, Chairman, Samuel C. Cali, John T. Cognetti and Michael J. McDonald. This committee determines which key employees are eligible for participation in the Company's Incentive Stock Option Plan. This committee also administers the Company's Employee Stock Purchase Plan. Because the full Board of Directors awarded the grant, the Committee did not meet in 2006.

Nominating Committee. The entire Board of Directors, each of whom is a non-employee director, desires to participate on and performs the functions of a Nominating Committee. The members of the Board other than Messrs. Barrett and Brian Cali meet the Nasdaq listing standards for independence. Because of full Director participation, the Board of Directors believes there is no need to have a separate standing committee to perform similar functions. The principal duties of a Nominating Committee include developing and recommending the criteria for selecting qualified director candidates, identifying individuals qualified to become Board members, evaluating and selecting or recommending director nominees for each election of directors, considering committee member qualifications, appointment and removal, recommending codes of conduct and codes of ethics applicable to the Company and providing oversight in the evaluation of the Board and each committee. Because of the rare occurrence of shareholder recommendations, the Board of Directors has not developed a formal policy to consider potential director candidates recommended by shareholders, but will give due consideration to any and all such candidates. If a shareholder wishes to recommend a potential director candidate, the shareholder should mail the information regarding the candidate as required by the Company's by-law

provision 9.1 to the Secretary of the Company at the Company's offices at Blakely and Drinker Streets, Dunmore, PA 18512. The Committee met one (1) time during 2006.

Human Resource and Compensation Committee. Members of the Bank's Human Resources and Compensation Committee were David L. Tressler, Chairman, Patrick J. Dempsey, Samuel C. Cali, and Mary E. McDonald. The principal duties of the Human Resource and Compensation Committee include the establishment of policies dealing with employee compensation, retirement and welfare benefit plans for the Bank. The Human Resource and Compensation Committee met two (2) times during 2006.

Composition Table of the Company and Bank Committees

	AUDIT*	ALCO	CREDIT ADM.	EMPLOYEE STOCK INCENTIVE	EXEC*	HUMAN RESCS.	LOAN	NOM*	TRUST/ 401K/ INVEST.	BUILDING
Paul A. Barrett		X					X	X	X	
Samuel C. Cali	X	X		X		X	X	X	X	
Brian J. Cali			X		X		X	X		X
John T. Cagnetti			X	X			X	X		X
Patrick J. Dempsey		X		X	X	X	X	X	X	
Mary E. McDonald	X	X				X	X	X	X	
Michael J. McDonald	X		X	X	X		X	X		
David L. Tressler, Sr.	X					X	X	X		X
Steven C. Ackmann		X	X		X	X	X		X	X
Meetings held in 2006	4	4	4	0	4	2	24	1	4	3

*Committee jointly serves both the Company and Bank.

The Board of Directors of the Company met 24 times during 2006. There were a total of 50 meetings of the various committees of the Board of Directors in 2006. All directors attended at least 75% or more of the meetings of the Board of Directors and of the various committees on which they served. All Directors attended the 2006 Annual Meeting of Shareholders and plan to attend the 2007 meeting.

Shareholder Communications

The Board of Directors has not adopted a formal process for shareholders to send communications to the Board. Due to the infrequency of shareholder communications, the Board does not believe that a formal process is necessary. Written communications received by the Company from shareholders are shared with the full Board no later than the next regularly scheduled Board meeting.

Nomination of Directors

Under the Company's by-laws, nominations for director may be made by the Board of Directors or by a shareholder of record entitled to vote. In order for a shareholder to make a nomination, the shareholder must provide a notice along with the additional information and materials required by the by-laws to the Company's Secretary not less than 60 days prior to the date of any meeting of shareholders called for the election of directors. For our annual meeting in the year 2008, we must receive this notice on or before March 8, 2008. You can obtain a copy of the full text of the by-law provision by writing to Paul A. Barrett, Secretary, Blakely and Drinker Streets, Dunmore, PA. A copy of our by-laws has been filed with the Securities and Exchange Commission as an exhibit to Registrant's Registration Statement No. 333-90273 on Form S-4, filed with the SEC on November 3, 1999 and as amended on April 6, 2000.

Submission of Shareholder Proposals

Any shareholder who, in accordance with the proxy rules of the SEC, wishes to submit a proposal for inclusion in the Company's proxy statement for its 2008 Annual Meeting of Shareholders must deliver such proposal in writing to the Secretary of Fidelity D & D Bancorp, Inc. at its principal executive office, Blakely and Drinker Streets, Dunmore, Pennsylvania 18512, not later than December 4, 2007.

A shareholder may have other business brought before the 2008 Annual Meeting by submitting the proposal to the Company's Secretary, in accordance with our by-laws. The proposal must be delivered to our executive offices at Blakely and Drinker Streets, Dunmore, PA 18512, to the attention of the Company's Secretary. We are not required to include any proposal received after December 4, 2007 in our proxy materials for the 2008 annual meeting.

Employee Code of Ethics

Since 1993, the Bank has had a Code of Ethics. As required by law and regulation, the Board of Directors amended the Code of Ethics as of March 16, 2004, so that our Code of Ethics is applicable to the Company's and the Bank's directors, officers and employees, including the Chief Executive Officer and senior financial officers.

The Code of Ethics encourages individuals to report any conduct that they believe in good faith to be an actual or apparent violation of the code of ethics. The Board of Directors periodically receives reports on our compliance program. The Code of Ethics is posted on our website at www.the-fidelity.com, under Investor Relations Governance Documents. We have also filed a copy of the Code of Ethics with the SEC as Exhibit 14 to our December 31, 2003 Annual Report on Form 10-K.

**ELECTION OF DIRECTORS
(PROPOSAL NO. 1)**

Qualification and Nomination of Directors

The Company's by-laws provide that the Board of Directors consist of at least three directors and be classified into three classes. Each class is elected for a term of three years. Accordingly, the terms of the classes expire at successive annual meetings. The Board may fix the number of directors and their respective classifications within the foregoing limits. A majority of the Board may also fill vacancies on the Board, and the person appointed to fill the vacancy serves, until the expiration of the term of office of the class of directors to which he or she was appointed.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE **FOR** THE PROPOSAL TO ELECT THE TWO NOMINEES LISTED BELOW AS CLASS C DIRECTORS OF THE COMPANY.

Currently, Class A consists of three directors, Class B consists of three directors, and Class C consists of two directors. Shareholders will elect two Class C directors at the annual meeting to serve for a three year term that expires at the Company's annual meeting in the year 2010.

The proxy holders will vote the proxies for the election of each of the nominees named below, unless you indicate that your vote should be withheld from any or all of them. Each nominee elected as a director will continue in office until his or her successor has been duly elected and qualified, or until his or her death, resignation or retirement.

The Board of Directors is proposing the following nominees for election as Class C Directors at the annual meeting:

- Brian J. Cali, Esquire
- Patrick J. Dempsey

*The Board of Directors recommends a vote **FOR** the election of the above named nominees for directors.*

BOARD OF DIRECTORS AND MANAGEMENT

Information as to Directors and Nominees

The following biographies contain selected information with respect to the directors of the Company. The information includes each person's age as of March 9, 2007, and principal occupation for at least the past five years.

Current Class A Directors (to serve until 2009)

Paul A. Barrett, Esquire

Mr. Barrett, age 73, has been a Director of the Company since 1999. Mr. Barrett has served as a member of the Bank's Board of Directors since 1988. Mr. Barrett is a principal shareholder with the law firm of O'Malley, Harris, Durkin and Perry, P.C., in Scranton, Pennsylvania.

John T. Cognetti

Mr. Cognetti, age 57, has been a Director of the Company since 1999. He has served as a member of the Bank's Board of Directors since 1988. Mr. Cognetti is President of The Hinerfeld Realty Co., in Scranton, Pennsylvania.

Michael J. McDonald, Esquire

Mr. McDonald, age 52, has been a Director of the Company since 1999. Mr. McDonald has served as a member of the Bank's Board of Directors since 1994. He is a partner with the law firm of Foley, McLane, Foley, McDonald and MacGregor, in Scranton, Pennsylvania.

Current Class B Directors (to serve until 2008)

Samuel C. Cali

Mr. Cali, age 90, has been a Director of the Company since 1999. Mr. Cali previously served as Chairman of the Board of Directors of the Company from 1999 to October of 2001. He has been a Director of the Bank since 1958 and served as Chairman of the Bank's Board of Directors from June 1986 to October 2001. Mr. Cali is the retired proprietor of S.C. Cali Agency, an insurance agency located in Dunmore, Pennsylvania.

Mary E. McDonald

Mrs. McDonald, age 73, has been a Director of the Company since 2000. She has been a member of the Bank's Board of Directors since 2000. Mrs. McDonald is a retired educator.

David L. Tressler, Sr.

Mr. Tressler, age 70, has been a Director of the Company since 1999. Mr. Tressler has been a member of the Bank's Board of Directors since 1998. He is a consultant for The Quandel Group, Inc., in Scranton, Pennsylvania.

Current Class C Directors (to serve until 2007) and Nominees (to serve until 2010, if re-elected)

Brian J. Cali, Esquire

Mr. Cali, age 54, has been a Director of the Company since February of 2001. Mr. Cali has served as a member of the Bank's Board of Directors since February of 2001. He is a self-employed attorney practicing in Dunmore, Pennsylvania.

Patrick J. Dempsey

Mr. Dempsey, age 73, has been a Director of the Company since 1999. Mr. Dempsey has also served as a member of the Bank's Board of Directors since 1985. He is the Chief Executive Officer of Dempsey Uniform & Linen Supply, Inc., in Dunmore, Pennsylvania.

Family Relationships

Director Mary E. McDonald is the aunt of Director Michael J. McDonald. Director Brian J. Cali is the son of Samuel C. Cali, Chairman Emeritus.

Executive Officers of the Company and Bank

Steven C. Ackmann, 55, has served as the Company's President and Chief Executive Officer since August 2004. Mr. Ackmann served as President and Chief Executive Officer of the Bank since July 2004. Prior to that date, Mr. Ackmann was an officer of FNB Corporation, Johnstown, Pennsylvania.

Daniel J. Santaniello, 41, has served as Vice President and Chief Operating Officer of the Company since May 2004. Mr. Santaniello has been employed by the Bank since July 2001 and serves as Executive Vice President and Chief Retail Banking Officer.

Salvatore R. DeFrancesco, Jr., CPA, 37, has served as Treasurer and Chief Financial Officer of the Company since January 2003. Mr. DeFrancesco has been employed by the Bank since January 2003 and serves as Executive Vice President and Chief Financial Officer. Prior to that date, Mr. DeFrancesco was Treasurer and Chief Financial Officer of Landmark Community Bank, in Pittston, Pennsylvania.

James T. Gorman, 47, has been employed by the Bank since September 2005 and serves as Executive Vice President, Chief Commercial Banking Officer and Senior Loan Officer. Prior to joining the Bank, Mr. Gorman was Senior Vice President and Regional Manager for the Northeast PA market with Pennstar Bank, in Scranton, Pennsylvania.

John T. Piszak, 60, has been employed by the Bank since January 2004 and currently serves as Senior Vice President and Chief Risk Officer. Mr. Piszak has more than 35 years of experience in the banking profession. Previous to joining the Bank, Mr. Piszak held executive positions at both regional and community banks in Northeastern Pennsylvania.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors is comprised of directors who meet the Nasdaq standards for independence. The Audit Committee operates under a written charter adopted in 2004 by the Board of Directors, which was reviewed and revised in February 2007 and is available on our website, www.the-fidelity.com.

The Audit Committee met with management periodically during the year to consider the adequacy of the Company's internal controls and the objectivity of its financial reporting. The Audit Committee discussed these matters with the Company's independent registered public accountants and with appropriate Company financial personnel and internal auditors. The Audit Committee also discussed with the Company's senior management and independent registered public accountants the process used for certifications by the Company's Chief Executive Officer and Chief Financial Officer which are required for certain of the Company's filings with the Securities and Exchange Commission.

The Audit Committee met privately at its regular meeting with both the independent registered public accountants and the internal auditors, as well as with the Chief Financial Officer, Chief Operating Officer and the Chief Executive Officer on a number of occasions, each of whom has unrestricted access to the Audit Committee.

The Audit Committee has outsourced the internal audit function to the local certified public accounting firm of McGrail Merkel Quinn & Associates. The main responsibility of this firm was to complete the internal audits necessary to meet the monitoring component of the *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Other responsibilities included the identifying, re-testing and reporting all significant findings to the Audit Committee.

The commitment of the Audit Committee, internal audit, and management, resulted in the completion of the scheduled internal audits. Management, in response to findings, has taken corrective action and internal audit re-testing was performed as required. The combined efforts were successful in meeting the internal control components of risk assessment and monitoring required by year end. The internal audit outsource arrangement, audit schedule and the commitment to maintain an effective system of internal controls, required under regulation, caused the Audit Committee to meet four times (4) in 2006.

The Audit Committee selected Parente Randolph, LLC as the independent registered public accounting firm for the Company in 2006 after reviewing the firm's performance and independence from management.

Management has primary responsibility for the Company's consolidated financial statements and the overall reporting process, including the Company's system of internal controls.

Parente Randolph, LLC audited the annual consolidated financial statements prepared by management, expressed an opinion as to whether those consolidated financial statements fairly present the consolidated financial position, results of operations and cash flows of the Company in conformity with accounting principles generally accepted in the United States of America and discussed with the Audit Committee any issues they believed should have been raised with the Audit Committee.

The Audit Committee reviewed with management and Parente Randolph, LLC the Company's audited consolidated financial statements and met separately with both management and Parente Randolph, LLC to discuss and review those consolidated financial statements and reports prior to

issuance. Management has represented, and Parente Randolph, LLC has confirmed, to the Audit Committee, that the consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The Audit Committee received from Parente Randolph, LLC the written disclosure and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The Audit Committee first discussed with Parente Randolph, LLC the items related to the firm's independence from the Company. The Audit Committee also discussed with Parente Randolph, LLC matters required to be discussed by the Statement on Auditing Standards No. 61 (Communication with Audit Committees) of the Auditing Standards Board of the American Institute of Certified Public Accountants to the extent applicable. As such, the Audit Committee implemented a procedure to monitor auditor independence, reviewed audit and non-audit services performed by Parente Randolph, LLC and discussed with the auditors their independence.

In reliance on these reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the Company's audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, for filing with the Securities and Exchange Commission. The Committee and the Board have also recommended, subject to shareholder ratification, the selection of Parente Randolph, LLC, as the Company's independent registered public accounting firm for the year ending December 31, 2007.

Members of the Audit Committee

Michael J. McDonald, Chairman
Samuel C. Cali
David L. Tressler, Sr.
Mary E. McDonald

BENEFICIAL OWNERSHIP OF THE COMPANY'S COMMON STOCK BY PRINCIPAL SHAREHOLDERS, DIRECTORS AND EXECUTIVE OFFICERS

As of March 10, 2007, we know of no shareholder who owned more than 5% of the Company's outstanding common stock, either on the Company's records or indirectly as a beneficial owner.

The following table provides information, as of March 10, 2007, with respect to the following beneficial owners of the Company's common stock:

- Each Director of the Company
- All named executive officers and directors of the Company, as a group.

We determined beneficial ownership by applying the General Rules and Regulations of the SEC, which state that a person may be credited with the ownership of common stock:

- Owned by or for the person's spouse, minor children or any other relative sharing the person's home;
- Of which the person shares voting power, which includes the power to vote or to direct the voting of the stock; and
- Of which the person has investment power, which includes the power to dispose of or direct the disposition of the stock.

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Also, a person who has the right to acquire shares within 60 days after March 10, 2007, will be considered to own the shares. As of March 10, 2007 the number of shares of common stock issued and outstanding was approximately 2,063,357. The calculation of percentages is based upon this number, plus 20,680 shares of common stock subject to exercisable options for a total of 2,084,037 shares.

Name of Individual and Position with Company	Amount and Nature of Beneficial Ownership of Company's Common Stock(1)	Percentage of Company's Common Stock Beneficially Owned
Paul A. Barrett Secretary & Director	42,367(2)	2.03%
Samuel C. Cali Chairman Emeritus & Director	62,880(3)	3.02%
Brian J. Cali Director & Nominee	83,720(4)	4.02%
John T. Cognetti Assistant Secretary & Director	10,522(5)	*
Patrick J. Dempsey Chairman of the Board, Director & Nominee	30,672(6)	1.47%
Mary E. McDonald Director	86,899(7)	4.17%
Michael J. McDonald Vice Chairman & Director	69,240(8)	3.32%
David L. Tressler, Sr. Director	11,728(9)	*
All Officers and Directors as a Group (8 Directors, 6 Officers, 13 persons in total)	411,424	19.74%

* Represents beneficial ownership of less than 1% of the Company's common stock.

- (1) Information furnished by the directors and the Company.
- (2) Figure includes 1,073 shares held solely by Mr. Barrett, 10,602 shares held solely for Mr. Barrett in an IRA, 2,205 shares held jointly by Mr. Barrett and his spouse, 2,422 shares held by Mr. Barrett's spouse, 23,865 shares held as Trustee and co-beneficiary of the Estate of Mildred Barrett and 2,200 exercisable stock options.
- (3) Figure includes 4,800 shares held in the S.C. Cali Revocable Trust, 55,880 shares held in Jane Cali's Revocable Trust and 2,200 exercisable stock options.
- (4) Figure includes 63,191 shares held solely by Mr. Cali, 11,344 held for Mr. Cali in a self-employed retirement trust, 4,276 shares held jointly by Mr. Cali and his children, 4,359 shares held by Mr. Cali's children and 550 exercisable stock options.

- (5) Figure includes 4,326 shares held solely for Mr. Cognetti in an IRA, 1,063 shares held jointly by Mr. Cognetti and his spouse, 453 shares held by Mr. Cognetti's spouse, 2,480 shares held by Mr. Cognetti's spouse and children and 2,200 exercisable stock options.
- (6) Figure includes 4,538 shares held solely by Mr. Dempsey, 23,934 shares held by Mr. Dempsey's spouse and 2,200 exercisable stock options.
- (7) Figure includes 85,799 shares held solely by Mrs. McDonald and 1,100 exercisable stock options.
- (8) Figure includes 54,065 shares held solely by Mr. McDonald, 10,684 shares held by Mr. McDonald's spouse, 1,026 shares held by Mr. McDonald's spouse and children, 1,265 shares held by Mr. McDonald's children and 2,200 exercisable stock options.
- (9) Figure includes 2,878 shares held solely by Mr. Tressler, 605 shares held jointly by Mr. Tressler and his spouse, 1,162 shares held in trust for Mr. Tressler's spouse and child, 4,415 shares held jointly for Mr. Tressler in trust with his son, 341 shares held jointly by Mr. Tressler and his daughter, 127 shares held jointly by Mr. Tressler and his grandchildren and 2,200 exercisable stock options.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 require the Company's officers and directors, and persons who own more than 10% of the registered class of the Company's equity securities to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish the Company with copies of all filed Section 16(a) forms. The Board of Directors knows of no persons who own greater than 10% of the Company's outstanding common stock.

Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons, the Company believes that during the period from January 1, 2006, through December 31, 2006, all officers and directors w