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SUSSEX BANCORP
Form DEF 14A
March 21, 2002

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

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:

- | | |
|--|---|
| <input type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Soliciting Material Under Rule |
| <input type="checkbox"/> Confidential, For Use of the
Commission Only (as permitted
by Rule 14a-6(e)(2)) | 14a-12 |
| <input checked="" type="checkbox"/> Definitive Proxy Statement | |
| <input type="checkbox"/> Definitive Additional Materials | |

SUSSEX BANCORP

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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1) Title of each class of securities to which transaction applies:

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3) Filing Party:

4) Date Filed:

SUSSEX BANCORP
399 State Highway 23
P.O. Box 353
Franklin, NJ 07416

March 21, 2002

To Our Stockholders:

You are cordially invited to attend the Annual Meeting of Stockholders (the "Annual Meeting") of Sussex Bancorp (the "Company"), the holding company for Sussex Bank (the "Bank"), to be held on April 24, 2002, at 10:30 a.m. at the Bank's Augusta office, 100 Route 206, Augusta, New Jersey.

At the Annual Meeting stockholders will be asked to consider and vote upon the election of Richard Scott and Joseph Zitone to the Company's Board of Directors to each serve for a term of three years.

The Board of Directors of the Company believes that the election of its nominees to the Board of Directors is in the best interests of the Company and its stockholders and unanimously recommends that you vote "FOR" each of the Board's nominees.

Your cooperation is appreciated since a majority of the Common Stock of the Company must be represented, either in person or by proxy, to constitute a quorum for the conduct of business. Whether or not you expect to attend, please sign, date and return the enclosed proxy card promptly in the postage-paid envelope provided so that your shares will be represented.

Very truly yours,

/s/William E. Kulsar

William E. Kulsar
Secretary

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SUSSEX BANCORP
399 State Highway 23
P.O. Box 353
Franklin, NJ 07416

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD April 24, 2002

Notice is hereby given that the Annual Meeting of Stockholders (the "Annual Meeting") of Sussex Bancorp (the "Company") will be held at Sussex Bank's Augusta office, 100 Route 206, Augusta, New Jersey, on April 24, 2002, at 10:30 a.m. for the purpose of considering and voting upon the following matters:

1. The election of Richard Scott and Joseph Zitone to serve as directors of the Company, each for a term of three years and until his successor is elected and duly qualified; and
2. Such other business as shall properly come before the Annual Meeting.

Stockholders of record at the close of business on March 4, 2002 are entitled to notice of and to vote at the Annual Meeting. Whether or not you contemplate attending the Annual Meeting, it is suggested that the enclosed proxy be executed and returned to the Company. You may revoke your proxy at any time prior to the exercise of the proxy by delivering to the Company a later proxy or by delivering a written notice of revocation to the Company.

By Order of the Board of Directors

/s/William E. Kulsar

William E. Kulsar
Secretary

Franklin, New Jersey
March 21, 2002

IMPORTANT---PLEASE MAIL YOUR PROXY PROMPTLY

SUSSEX BANCORP
399 State Highway 23
P.O. Box 353
Franklin, NJ 07416

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS
April 24, 2002

GENERAL PROXY STATEMENT INFORMATION

This Proxy Statement is being furnished to stockholders of Sussex Bancorp (the "Company") in connection with the solicitation by the Board of Directors of proxies to be used at the annual meeting of stockholders (the "Annual Meeting"), to be held on April 24, 2002, at 10:30 a.m., at Sussex Bank's Augusta office, 100 Route 206, Augusta, New Jersey and at any adjournments thereof. The 2001 Annual Report to Stockholders, including consolidated financial statements for the fiscal year ended December 31, 2001, and a proxy card, accompanies this Proxy Statement, which is first being mailed to record holders on or about March 21, 2002.

Solicitation and Voting of Proxies

Regardless of the number of shares of common stock, no par value, of the Company ("Common Stock") owned, it is important that you vote by completing the enclosed proxy card and returning it signed and dated in the enclosed postage-paid envelope. Stockholders are urged to indicate their vote in the spaces provided on the proxy card. Proxies solicited by the Board of Directors of the Company will be voted in accordance with the directions given therein. Where no instructions are indicated, signed proxy cards will be voted "FOR" the election of each of the nominees for director named in this Proxy Statement.

Other than the matters set forth on the attached Notice of Annual Meeting of Stockholders, the Board of Directors knows of no additional matters that may be presented for consideration at the Annual Meeting. Execution of a proxy, however, confers on the designated proxy holders discretionary authority to vote the shares in accordance with their best judgment on such other business, if any, that may properly come before the Annual Meeting and at any adjournments thereof, including whether or not to adjourn the Annual Meeting.

A proxy may be revoked at any time prior to its exercise by sending a written notice of revocation to the Company, 399 State Highway 23, P.O. Box 353, Franklin, New Jersey 07416, Attn: Candace A. Leatham. A proxy filed prior to the Annual Meeting may be revoked by delivering to the Company a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person. However, if you are a stockholder whose shares are not registered in your own name, you will need appropriate documentation from your record holder to vote personally at the Annual Meeting.

The cost of solicitation of proxies on behalf of the Board of Directors will be borne by the Company. Proxies may also be solicited personally or by mail or telephone by directors, officers and other employees of the Company and Sussex Bank (the "Bank"), its wholly owned subsidiary, without additional compensation therefor. The Company will also request persons, firms and corporations holding shares in their names, or in the name of their nominees, which are beneficially owned by others, to send proxy material to and obtain proxies from such beneficial owners, and will reimburse such holders for their reasonable expenses in doing so.

Voting Securities

The securities which may be voted at the Annual Meeting consist of shares of the Company's Common Stock, with each share entitling its owner to one vote on all matters to be voted on at the Annual Meeting, except as described below.

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There is no cumulative voting for the election of directors.

The close of business on March 4, 2002, has been fixed by the Board of Directors as the record date (the "Record Date") for the determination of stockholders of record entitled to notice of and to vote at the Annual Meeting and at any adjournments thereof. The total number of shares of Common Stock outstanding on the Record Date was 1,660,147 shares.

The presence, in person or by proxy, of the holders of at least a majority of the total number of shares of Common Stock entitled to vote is necessary to constitute a quorum at the Annual Meeting. In the event that there are not sufficient votes for a quorum, or to approve or ratify any matter being presented at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit the further solicitation of proxies.

The proxy card being provided by the Board of Directors enables a stockholder to vote "FOR" the election of the nominees proposed by the Board of Directors, or to "WITHHOLD AUTHORITY" to vote for one or more of the nominees being proposed. Under New Jersey law and the Company's Bylaws, directors are elected by a plurality of votes cast, without regard to broker non-votes or abstentions.

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ELECTION OF DIRECTORS

The Company's Certificate of Incorporation and its Bylaws authorize a minimum of five (5) and a maximum of twenty-five (25) directors but leave the exact number to be fixed by resolution of the Board of Directors. The Board has fixed the number of directors at eight (8).

Directors are elected to serve for staggered terms of three years each, with the term of certain directors expiring each year. Directors serve until their successors are duly elected and qualified.

If, for any reason, any of the nominees become unavailable for election, the proxy solicited by the Board of Directors will be voted for a substitute nominee selected by the Board of Directors. The Board has no reason to believe that any of the named nominees is not available or will not serve if elected. Unless authority to vote for the nominee is withheld, it is intended that the shares represented by the enclosed proxy card, if executed and returned, will be voted "FOR" the election of the nominees proposed by the Board of Directors.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF
THE NOMINEES NAMED IN THIS PROXY STATEMENT.

Information with respect to the Nominees

The following tables set forth, as of the Record Date, the names of the nominees for election and those directors whose terms continue beyond the Annual Meeting, their ages, a brief description of their recent business experience, including present occupations, and the year in which each became a director of the Company or the Bank. No nominee is a director of another company registered pursuant to Section 12 of the Securities Exchange Act of 1934 or subject to the requirements of Section 15(d) of such Act or any company registered as an

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investment company under the Investment Company Act of 1940.

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Table I
Nominees for 2000 Annual Meeting

Name, Age and Position With the Company	Principal Occupations During Past Five Years	Director Since (1)	Term Expires
Richard Scott, 66 Director	Dentist, Richard Scott, DDS Franklin, New Jersey	1976	2002
Joseph Zitone, 70 Director	General Contractor, Zitone Construction Montague, New Jersey	1984	2002

(1) Includes prior service on Board of Directors of the Bank prior to formation of the Company.

Table II
Directors of the Company whose Terms Continue Beyond this Annual Meeting

Name, Age and Position With the Company	Principal Occupations During Past Five Years	Director Since (1)	Term Expires
Mark J. Hontz, 35 Director	Partner Hollander Hontz Weaver & Hinkes, L.L.C. Newton, New Jersey	1998	2003
Donald L. Kovach, 67 Chairman of the Board, CEO and President	Chairman, CEO and President of the Company and the Bank and Attorney at Law Franklin, New Jersey	1976	2003
Joel D. Marvil, 66 Director	Chairman of Manufacturing Co. Ames Rubber Corporation Hamburg, New Jersey	1989	2003
Irvin Ackerson, 79 Director	Excavating Contractor Ackerson Contracting Co. Oak Ridge, New Jersey	1976	2004
William E. Kulser, 65 Secretary and Director	Certified Public Accountant Caristia, Kulsar & Wade, P.A. Sparta, New Jersey	1976	2004

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Terry Thompson, 55 Director	Executive Vice President and Chief Operations Officer of the Bank	2001	2004
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(1) Includes prior service on Board of Directors of the Bank prior to formation of the Company.

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Board of Directors' Meetings

Pursuant to the New Jersey Business Corporation Act and the Company's by-laws, the Company's business and affairs are managed under the direction of the Board of Directors. The Board of Directors of the Company held five meetings during 2001. The Board of Directors holds regularly scheduled meetings each month and special meetings as circumstances require. All of the directors of the Company attended at least 75% of the total number of Board meetings held and committee meetings held during 2001.

Committees of the Board

During 2001, the Board of Directors maintained an Audit Committee and a Compensation Committee. The Company does not maintain a separate Nominating Committee. The full Board acts as a Nominating Committee.

Audit Committee. The Company's Audit Committee consisted during 2001 of -----
Directors William E. Kulsar (Chairman), Richard Scott, and Mark J. Hontz. The Audit Committee met four times during 2001.

Audit Committee Report

The Audit Committee meets periodically to consider the adequacy of the Company's financial controls and the objectivity of its financial reporting. The Audit Committee meets with the Company's independent auditors and the Company's internal auditors, both whom have unrestricted access to the Audit Committee.

All Directors who serve on the Audit Committee are "independent" for purposes of the American Stock Exchange listing standards. The Board has adopted a written charter for the Audit Committee setting forth the audit related functions the Audit Committee is to perform. This Charter was filed with the SEC as an exhibit to last year's proxy statement.

In connection with this year's financial statements, the Audit Committee has reviewed and discussed the Company's audited financial statements with the Company's officers and Arthur Andersen, LLP, our independent auditors. We have discussed with Arthur Andersen, LLP, the matters required to be discussed by Statement on Auditing Standards 61 (Communication with Audit Committees). We also have received the written disclosures and letters from Arthur Andersen, LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and have discussed with representatives of Arthur Andersen, LLP their independence.

Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on form 10-KSB for the fiscal year 2001 for filing with the U.S. Securities and Exchange Commission.

William E. Kulsar (Chairman)
Mark J. Hontz.

Compensation Committee. The Company maintains a Compensation Committee which ----- sets the compensation for the executive officers of the Company. In 2001, the Compensation Committee consisted of Directors Joel D. Marvil (Chairman), Irvin Ackerson, Joseph Zitone and Mark J. Hontz and met three times.

Compensation of Directors

During 2001, Directors of the Bank who were not full-time employees of the Bank received a fee of \$500 for each regular monthly Board meeting or special Board meeting attended, and \$100 for each committee meeting attended. In addition, each Director who undertook a special project at the request of the Bank and with Board of Directors' approval was paid at an hourly rate of \$100 per hour for their time spent on the project. Directors of the Company did not receive any additional compensation for their service on the Bank's Board of Directors during 2001. During 2001, Directors of the Company received an annual retainer of \$4,000 each.

The Company maintains the 1995 Stock Option Plan for Non-Employee Directors (the "Non-Employee Plan), the purpose of which is to assist the Company in attracting and retaining qualified persons to serve as members of the Board of Directors. Under the Non-Employee Plan, options to purchase up to a total of 32,000 shares of Common Stock may be granted at exercise prices which may not be less than the fair market value of the Common Stock on the date of grant. Under the Non-Employee Plan, each non-employee director elected at the 1995 Annual Meeting was granted an option to purchase 3,000 shares at \$11.25 per share. In addition, each non-employee director who is elected or re-elected to serve on the Board of Directors at succeeding annual meetings will be granted an option to purchase 500 shares of Common Stock at the time of such re-election. The exercise price for options granted in connection with the 2001 annual meeting was \$10.25.

In addition, members of the Board of Directors are eligible to participate in the 2001 Stock Option Plan, which was approved by shareholders last year. Under the 2001 Stock Option Plan, options to purchase up to a total of 165,000 shares of Common Stock may be granted. Pursuant to the terms of the 2001 Stock Option Plan, options which qualify as incentive stock options under the Internal Revenue Code of 1986 must be granted at an exercise price of no less than 100% of the then current fair market value of the Common Stock, and options which are non-statutory options may be granted at an exercise price no less than 85% of the then current fair market value of the Common Stock.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information concerning the beneficial ownership of shares of Common Stock as of February 28, 2002, by (i) each person who is known by the Company to own beneficially more than five percent (5%) of the issued and outstanding Common Stock, (ii) each director and nominee for director of the Company, (iii) each executive officer of the Company described in this Proxy Statement under the caption "Executive Compensation" and (iv) all directors and executive officers of the Company as a group. Other than as set forth in this table, the Company is not aware of any individual or group which holds in excess of 5% of the outstanding Common Stock.

Name of Beneficial Owner	Number of Shares Beneficially Owned (1)	Percent of Class
-----		1.93%
Irvin Ackerson	32,028 (2)	
-----		0.17%
Mark J. Hontz	2,893 (3)	
-----		7.27%
Donald L. Kovach	0,742 (4) (5)	
-----	27,706 (6)	1.67%
William E. Kulsar		
-----		2.68%
Joel D. Marvil	44,440 (7)	
-----		3.23%
Richard Scott	53,551 (8)	
-----		1.14%
Terry Thompson	18,993 (9)	
-----		5.13%
Joseph Zitone	85,156 (10)	
-----	385,509	23.22%
Directors & Principal Officers as a Group (8persons)		

Beneficial Owners of more than 5% of Common Stock:		
-----		9.79%
Ambrose Hamm P.O. Box E Branchville, NJ 07826	162,481	
-----		9.84%
	163,391	
Lakeland Bancorp, Inc.		

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250 Oak Ridge Road
Oak Ridge, NJ 07438

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- (1) Beneficially owned shares include shares over which the named person exercises either sole or shared voting power or sole or shared investment power. It also includes shares owned (i) by a spouse, minor children or by relatives sharing the same home, (ii) by entities owned or controlled by the named person, and (iii) by other persons if the named person has the right to acquire such shares within 60 days by the exercise of any right or option. Unless otherwise noted, all shares are owned of record and beneficially by the named person, either directly or through the dividend reinvestment plan.
- (2) Includes 10,875 shares owned by Mr. Ackerson's wife. Also includes 9,253 shares purchasable upon the exercise of immediately exercisable stock options.
- (3) Also includes 1,788 purchasable upon the exercise of immediately exercisable stock options.
- (4) Includes 15,727 shares owned by Mr. Kovach's wife, 5,731 shares in the name of Merrill Lynch Pierce Fenner & Smith, FBO Donald L. Kovach and 3,458 shares in the name of Merrill Lynch Pierce Fenner & Smith, FBO Betty J. Kovach, 1,260 shares in the name of IBAA Financial Services FBO Donald L. Kovach, 1,365 shares in the name of IBAA Financial Services FBO Betty J. Kovach. Also includes 5,967 shares purchasable upon the exercise of stock options.
- (5) Includes 39,387 shares over which Mr. Kovach has voting authority as administrator for The Sussex County State Bank Employee Stock Ownership Plan.
- (6) Includes 15,523 shares in the name of Merrill Lynch Pierce Fenner & Smith FBO William E. Kulsar IRA and 1,596 shares in the name of Merrill Lynch Pierce Fenner & Smith FBO William E. Kulsar. Also includes 9,719 shares purchasable upon the exercise of immediately exercisable stock options.
- (7) Also includes 10,790 shares purchasable upon the exercise of immediately exercisable stock options.
- (8) Also includes 10,769 shares purchasable upon the exercise of immediately exercisable stock options.
- (9) Also includes 3,600 shares purchasable upon the exercise of stock options
- (10) Includes 11,237 shares owned by the Zitone Construction & Supply Co., Inc. Profit Sharing Plan Trust and 15,300 shares in the name of Smith Barney FBO Joseph Zitone. Also includes 1,525 shares purchasable upon the exercise of immediately exercisable stock options.

Annual Executive Compensation and All Other Compensation

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The following table sets forth a summary for the last three (3) fiscal years of the cash and non-cash compensation awarded to, earned by, or paid to, the Chief Executive Officer of the Company. Our CEO is the only executive officer whose remuneration exceeded \$100,000 for the last fiscal year.

SUMMARY COMPENSATION TABLE

Cash and Cash Equivalent Forms
of Remuneration

Name and Principal Position	Year	Annual Compensation			Award	Payout
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Securities Underlying Options/SARs (#)	LTIP Payouts (\$)
Donald L. Kovach, Chairman of the Board and CEO	2001	\$177,234	-0-	(1)	1,080	None
	2000	\$168,618	-0-	(1)	315	None
	1999	\$159,723	-0-	(1)	720	None

(1) During the fiscal years presented, the Company provided additional life insurance and an automobile and provided a match to Mr. Kovach's 401(k) plan account membership for Mr. Kovach. The use made thereof for personal purposes did not exceed 10% of the total cash compensation to such persons which is the sum of base salary and bonus and therefore is not included in the above table.

Employment Agreements

The Company and the Bank are parties to an Employment Agreement with Mr. Donald L. Kovach pursuant to which he serves as President and Chief Executive Officer of the Company and the Bank (the "Employment Agreement"). The Employment Agreement provides for a term ending on August 31, 2002, although it will be automatically extended on each anniversary date for up to two (2) additional one-year periods unless either party provides notice of their intention not to extend the contract. No such notice was given for the August 31, 2001 anniversary. The Employment Agreement provides that Mr. Kovach will receive a base salary of \$160,200, subject to increase or decrease, and may be granted a discretionary bonus as determined by the Board of Directors. The Employment Agreement permits the Company to terminate Mr. Kovach's employment for cause at any time. The Employment Agreement defines cause to mean personal dishonesty,

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willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of law, rule or regulation, other than traffic violations or similar offenses, or violation of a final cease and desist order, or a material breach of any provision of the Agreement. In the event Mr. Kovach is terminated for any reason other than cause, or in the event Mr. Kovach resigns his employment because he is reassigned to a position of lesser rank or status than President and Chief Executive Officer, his place of employment is

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relocated by more than 30 miles from its location on the date of the Agreement, or his compensation or other benefits are reduced, Mr. Kovach, or in the event of his death, his beneficiary, will be entitled to receive his base salary at the time of such termination or resignation for the remaining term of the Agreement. In addition, the Company will continue to provide Mr. Kovach with certain insurance and other benefits through the end of the term of the Agreement. Mr. Kovach's Employment Agreement further provides that upon the occurrence of a change in control of the Company, as defined in the Employment Agreement, and in the event Mr. Kovach is terminated for reasons other than cause or in the event Mr. Kovach, within 18 months of the change in control, resigns his employment for the reasons discussed above, he shall be entitled to receive a severance payment based upon his then current base salary. Under the Agreement, in the event the change in control occurs, Mr. Kovach is entitled to a severance payment equal to 2.99 times his then current base salary. The Employment Agreement also prohibits Mr. Kovach from competing with the Bank and the Company for a period of one year following termination of his employment.

Retirement Plans

The Bank maintains a salary continuation plan for Mr. Kovach. Under this plan, Mr. Kovach will receive a retirement benefit equal to 35% of his average final compensation determined by his last five years of employment. Mr. Kovach will receive this benefit in the event that he works to age 70, or he is involuntarily discharged prior to age 70 for any reason other than "cause". For purposes of the Salary Continuation Agreement, cause is defined in the same manner as under Mr. Kovach's Employment Agreement. Annual retirement payments are to be made for fifteen years under the Salary Continuation Agreement to Mr. Kovach or, in the event of his death, to his spouse.

1995 Incentive Stock Option Plan and 2001 Stock Option Plan

The Company maintains the 1995 Incentive Stock Option Plan which provides for options to purchase shares of Common Stock to be issued to key employees of the Company, the Bank and any other subsidiaries which the Company may acquire or incorporate in the future. The Company also maintains the 2001 Stock Option Plan, under which options to purchase shares of Common Stock may be issued to employees, officers and directors of the Company, the Bank and any other subsidiaries which the Company may acquire or incorporate in the future. Recipients of options granted under the Plans are selected by the Stock Option Committee of the Board of Directors. The Stock Option Committee has the authority to determine the terms and conditions of options granted under the Plans and the exercise price therefore. The exercise price for options granted under the 1995 Incentive Stock Option Plan, and for Incentive Stock Options under the 2001 Stock Option Plan may be no less than the fair market value of the Common Stock. The exercise price for non-statutory options granted under the 2001 Stock Option Plan may be no less than 85% of the fair market value of the

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Common Stock.

The following table sets forth information regarding stock option grants to the individuals named in the table above:

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OPTION/SAR GRANTS IN LAST FISCAL YEAR

INDIVIDUAL GRANTS

Name	Number of Securities Underlying Options/SARs Granted (#) (1)	% of Total Option/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/SH)	Expi
Donald L. Kovach	1,080	14%	\$10.50	01

(1) As of December 31, 2001, none of these options were immediately exercisable.

(2) The present value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 1.98%, expected volatility of 22.5%, risk free interest rate of 4.88%, and an expected life of five (5) years.

The following table sets forth information concerning the fiscal year-end value of unexercised options held by the executive officers of the Company named in the table above. No stock options were exercised by such executive officers during 2001.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUES

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at FY-End (#) Exercisable/Unexercisable
------	---------------------------------	---------------------	--

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Donald L. Kovach

2,122

\$7,993

6,453/1,266

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Interest of Management and Others in Certain Transactions

The Bank has made in the past and, assuming continued satisfaction of generally applicable credit standards, expects to continue to make loans to directors, executive officers and their associates (i.e. corporations or organizations for which they serve as officers or directors or in which they have beneficial ownership interests of ten percent or more). These loans have all been made in the ordinary course of the Bank's business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectibility or present other unfavorable features.

The Bank paid \$12,943 to Kovach and Vanderwiele, Attorneys at Law, at which Donald L. Kovach, Chairman of the Board and Chief Executive Officer, is a member, for legal services rendered to the Bank during fiscal 2001. Said firm renders legal services to the Bank on a continuing basis.

The Bank paid \$ 13,450 during fiscal 2001 to Caristia, Kulsar & Wade, P.A., Certified Public Accountants, at which William E. Kulsar, Secretary and a Director of the Company and the Bank is a member, for accounting services rendered to the Bank for IRS filing purposes and other accounting services beyond those provided by the annually retained independent public accountants. Caristia, Kulsar, & Wade, P.A. continues to render accounting services to the Bank. Mr. Kulsar was also paid \$8,625 in consulting fees.

The Bank paid \$15,895 to Irvin Ackerson for appraisal services rendered to the Bank during fiscal 2001. Irvin Ackerson continues to render appraisal services to the Bank.

The Bank leases its Montague branch office from Montague Mini Mall, Inc. under a lease covering 1,200 square feet. The lease agreement was renewed as of April 1, 1997. As renewed, the lease will terminate on March 31, 2002, and provides for a monthly rent of \$1,650. Mr. Joseph Zitone, a Director of the Company, is a majority stockholder of Montague Mini Mall, Inc. The Company considers the lease terms to be comparable to those which exist with unaffiliated third parties.

Recommendation and Vote Required

Nominees will be elected by a plurality of the shares voting at the Annual Meeting.

THE BOARD UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" ITS NOMINEES FOR THE BOARD OF DIRECTORS.

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INDEPENDENT AUDITORS

The Company's independent auditors for the fiscal year ended December 31, 2001 were Arthur Andersen, LLP ("Arthur Andersen"). Arthur Andersen has advised the Company that one or more of its representatives will be present at the Annual Meeting to make a statement if they so desire and to respond to appropriate questions.

Audit Fees

The Company was billed the aggregate amount of \$74,500 for fiscal year 2001 for professional services rendered by Arthur Andersen for audit of the Company's annual financial statements for 2001 and review of the financial statements included in the Company's forms 10-QSB during 2001.

Financial Information System Design and Implemental Fees

The Company was not billed any amount for financial information system design and implementation services rendered by Arthur Andersen during 2001.

All Other Fees

In addition to the audit fees described above, Arthur Andersen billed the Company \$35,500 in other fees related to consultation on acquisitions. Other than these fees and the fees set forth above under Audit Fees, the Company was not billed for any services by Arthur Andersen for fiscal year 2001.

Change in Auditors

In 2001 the Company changed independent auditors. The Company replaced Radics & Co., LLC with Arthur Andersen to serve as its independent auditors. The decision to change auditors was recommended by the Company's Audit Committee. For the fiscal years ended December 31, 2000 and 1999, the Company had retained the services of Radics & Co., LLC as its independent auditors. There have been no disagreements with Radics & Co., LLC on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of Radics & Co., LLC, would have caused it to make reference to the subject matter of the disagreement in connection with their reports. The independent auditor's report on the consolidated financial statements for the fiscal years ended December 31, 2000 and 1999 did not contain an adverse opinion or disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or auditing principles.

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COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than ten percent stockholders are required by regulation of the Securities and Exchange Commission to furnish the Company with copies of all Section 16(a) forms they file.

The Company believes that, during the fiscal year ended December 31, 2001, all persons subject to Section 16(a) have made all required filings for the fiscal year 2001.

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STOCKHOLDER PROPOSALS

Proposals of stockholders to be included in the Company's 2003 proxy material must be received by the Secretary of the Company no later than November 22, 2002.

OTHER MATTERS

The Board of Directors is not aware of any other matters which may come before the Annual Meeting. However, in the event such other matters come before the meeting, it is the intention of the persons named in the proxy to vote on any such matters in accordance with the recommendation of the Board of Directors.

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SUSSEX BANCORP

REVOCABLE PROXY FOR ANNUAL MEETING OF SHAREHOLDERS APRIL 24, 2002

Solicited on Behalf of the Board of Directors

The undersigned hereby appoints Candace A. Leatham and Terry H. Thompson and each of them, with full power of substitution, to vote all of the shares of Sussex Bancorp (the "Company") standing in the undersigned's name at the Annual Meeting of Shareholders of the Company, to be held at the Augusta office of Sussex Bank (the "Bank"), 100 Route 206, Augusta, New Jersey, on Wednesday, April 24, 2002, at 10:30 A.M., and at any adjournment thereof. The undersigned hereby revokes any and all proxies heretofore given with respect to such meeting.

This proxy will be voted as specified below. If no choice is specified, the proxy will be voted "FOR" Management's nominees to the Board of Directors.

The Board of Directors recommends a vote for its nominees.

1. Election of the following two (2) nominees to each serve on the Board of Directors for a term of three (3) years and until their successors are elected and duly qualified: Richard Scott, Joseph Zitone

[] FOR ALL NOMINEES

TO WITHHOLD AUTHORITY FOR ANY OF THE ABOVE NAMED NOMINEES, PRINT THE NOMINEE'S NAME ON THE LINE BELOW:

[] WITHHOLD AUTHORITY FOR ALL NOMINEES

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2. In their discretion, such other business as may properly come before the meeting.

Dated: _____, 2002.

Signature

Signature

(Please sign exactly as your name appears. When signing as an executor, administrator, guardian, trustee or attorney, please give your title as such. If signer is a corporation, please sign the full corporate name and then an authorized officer should sign his name and print his name and title below his signature. If the shares are held in joint name, all joint owners should sign.)

PLEASE DATE, SIGN AND RETURN THIS PROXY IN THE ENCLOSED RETURN ENVELOPE.