

SAUL CENTERS INC
Form DEF 14A
March 21, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

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:

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.

Saul Centers, Inc.

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(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.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

7501 Wisconsin Avenue, Suite 1500

Bethesda, Maryland 20814-6522

(301) 986-6200

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held April 25, 2008

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of SAUL CENTERS, INC., a Maryland corporation (the Company), will be held at 11:00 a.m. local time, on April 25, 2008, at the Hyatt Regency Bethesda, One Bethesda Metro Center, Bethesda, MD (at the southwest corner of the Wisconsin Avenue and Old Georgetown Road intersection, adjacent to the Bethesda Metro Stop on the Metro Red Line), for the following purposes:

1. To elect four directors to serve until the annual meeting of stockholders in 2011, or until their successors are duly elected and qualified.
2. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2008.
3. To approve amendments to the Company's 2004 Stock Plan.
4. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Common stockholders of record at the close of business on March 7, 2008 will be entitled to notice of and to vote at the annual meeting or at any adjournment thereof. Holders of depositary shares representing interests in preferred stock are not entitled to receive notice of, and to vote at, the annual meeting.

Stockholders are cordially invited to attend the meeting in person. WHETHER OR NOT YOU NOW PLAN TO ATTEND THE MEETING, YOU ARE ASKED TO COMPLETE, DATE, SIGN AND MAIL PROMPTLY THE ENCLOSED PROXY CARD FOR WHICH A POSTAGE PAID RETURN ENVELOPE IS PROVIDED. If you decide to attend the meeting, you may revoke your proxy and vote your shares in person. It is important that your shares be voted.

By Order of the Board of Directors

Scott V. Schneider
Senior Vice President, Chief Financial Officer, Treasurer
and Secretary

March 24, 2008

Bethesda, Maryland

7501 Wisconsin Avenue, Suite 1500

Bethesda, Maryland 20814-5522

(301) 986-6200

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

April 25, 2008

GENERAL

This Proxy Statement is furnished by the Board of Directors of Saul Centers, Inc. (the Company) in connection with the solicitation by the Board of Directors of proxies to be voted at the annual meeting of stockholders to be held on April 25, 2008, and at any adjournment or adjournments thereof, for the purposes set forth in the accompanying notice of such meeting. All common stockholders of record at the close of business on March 7, 2008 will be entitled to vote.

Any proxy, if received in time, properly signed and not revoked, will be voted at such meeting in accordance with the directions of the stockholder. If no directions are specified, the proxy will be voted for the Proposal set forth in this Proxy Statement. Any stockholder giving a proxy has the power to revoke it at any time before it is exercised. A proxy may be revoked (i) by delivery of a written statement to the Secretary of the Company stating that the proxy is revoked, (ii) by presentation at the annual meeting of a subsequent proxy executed by the person executing the prior proxy, or (iii) by attendance at the annual meeting and voting in person.

Votes cast in person or by proxy at the annual meeting will be tabulated and a determination will be made as to whether or not a quorum is present. The Company will treat abstentions as shares that are present for purposes of determining the presence or absence of a quorum, but as unvoted for purposes of determining the approval of any matter submitted to the stockholders. If a broker submits a proxy indicating that it does not have discretionary authority as to certain shares to vote on a particular matter (broker non-votes), those shares will be considered as present for purposes of determining the presence or absence of a quorum.

For Proposal 1, the four nominees for director who receive the most votes will be elected. If a stockholder indicates withhold authority to vote for a particular nominee on the stockholder's proxy card, the stockholder's vote will not count either for or against the nominee. Any shares not voted as a result of an abstention or a broker non-vote will have no impact on the vote for Proposal 1. For Proposal 2, the affirmative vote of a majority of the votes cast on the proposal is required to ratify the appointment of the Company's independent registered public accounting firm. As a result, any shares not voted as a result of an abstention or a broker non-vote will have no impact on the vote for Proposal 2. For Proposal 3, the affirmative vote of a majority of the votes cast on the proposal is required to approve the amendments to the 2004 Stock Plan, provided that the total vote cast on the proposal represents a majority of the shares of Common Stock outstanding as of the record date. For Proposal 3, any shares not voted as a result of an abstention or a broker non-vote will effectively be treated as a vote against the proposal, unless holders of a majority of the shares of Common Stock outstanding as of the record date cast votes, in which event a broker non-vote will have no impact on the vote.

Solicitation of proxies will be primarily by mail. However, directors and officers of the Company also may solicit proxies by telephone or telegram or in person. All of the expenses of preparing, assembling, printing and mailing the materials used in the solicitation of proxies will be paid by the Company. Arrangements may be made with brokering houses and other custodians, nominees and fiduciaries to forward soliciting materials, at the expense of the Company, to the beneficial owners of shares held of record by such persons. In addition, the Company has engaged Georgeson Shareholder to assist in the solicitation of proxies. The Company anticipates that it will incur total fees of \$7,000 plus \$5.00

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per phone call plus out-of-pocket expenses. Neither the number of phone calls nor the out-of-pocket expenses can be estimated at this time. It is anticipated that this Proxy Statement and the enclosed proxy card first will be mailed to common stockholders on or about March 27, 2008.

As of the record date, March 7, 2008, 17,555,975 shares of common stock of the Company, \$0.01 par value per share (Common Stock), were issued, outstanding and eligible to vote. Each share of Common Stock entitles the holder thereof to

one vote on each of the matters to be voted upon at the annual meeting. Holders of depositary shares representing interests in preferred stock are not entitled to receive notice of, and to vote at, the annual meeting. As of the record date, officers and directors of the Company had the power to vote approximately 37.8% of the issued and outstanding shares of Common Stock, excluding 8.2% of the outstanding Common Stock held by the B. F. Saul Company Employees Profit Sharing Retirement Trust, two of four trustees of which are officers and/or directors of the Company. The Company's officers and directors have advised the Company that they intend to vote their shares of Common Stock in favor of the Proposals set forth in this Proxy Statement.

PROPOSALS TO BE PRESENTED AT THE ANNUAL MEETING

The Company will present the following proposals at the annual meeting. The Company has described in this proxy statement all the proposals that it expects will be made at the annual meeting. If a stockholder or the Company properly presents any other proposal to the meeting after March 7, 2008, the Company will, to the extent permitted by applicable law, use the stockholder's proxies to vote shares on the proposal in the Company's best judgment.

1. Election of Directors

The Articles and the Amended and Restated Bylaws (Bylaws) of the Company provide that there shall be no fewer than three, nor more than 15 directors, as determined from time to time by the directors in office. The Board of Directors of the Company currently consists of 12 directors. The Board of Directors is divided into three classes with staggered three-year terms. The term of each class expires at the annual meeting of stockholders, which is expected to be held in April of each year. The directors elected at the annual meeting of stockholders in 2008 will serve until the annual meeting of stockholders in 2011 or until his replacement is elected and qualifies or until his earlier resignation or removal.

The nominees for election to the Board of Directors are:

B. Francis Saul II

John E. Chapoton

James W. Symington

John R. Whitmore

Each of the nominees is presently a member of the Board of Directors and has consented to serve as a director if re-elected. More detailed information about each of the nominees is available in the section of this proxy statement titled "The Board of Directors," which begins on page 10. If any of the nominees cannot serve for any reason (which is not anticipated), the Board of Directors, upon recommendation of the Nominating and Corporate Governance Committee, may designate a substitute nominee or nominees. If a substitute is nominated, the Company will vote all valid proxies for the election of the substitute nominee or nominees. The Board of Directors, upon recommendation of the Nominating and Corporate Governance Committee, may also decide to leave the board seat or seats open until a suitable candidate or candidates are located, or it may decide to reduce the size of the Board. Proxies for the annual meeting may not be voted for more than four nominees.

The Board of Directors, upon recommendation of the Nominating and Corporate Governance Committee, unanimously recommends that you vote **FOR** these directors.

2. Ratification of Appointment of Ernst & Young LLP as the Company's Independent Registered Public Accounting Firm for 2008

The Audit Committee of the Board has appointed Ernst & Young LLP as the Company's independent registered public accounting firm for the year ending December 31, 2008. Services provided to the Company by Ernst & Young LLP in 2007 are described under "2007 and 2006 Independent Registered Public Accounting Firm Fee Summary" on page 25.

Stockholder ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2008 is not required by the Articles, Bylaws or otherwise. However, the Board of Directors is submitting the appointment of Ernst & Young LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders do not ratify the selection, the Audit Committee will reconsider whether or not to retain the firm. In such event, the Audit Committee may retain Ernst & Young LLP, notwithstanding the fact that the stockholders did not ratify the selection, or select another accounting firm without re-submitting the matter to the stockholders. Even if the selection is ratified, the Audit Committee reserves the right at its discretion to select a different accounting firm at any time during the year if it

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determines that such a change would be in the best interests of the Company and its stockholders.

Representatives of Ernst & Young LLP will be present at the annual meeting to respond to appropriate questions and to make such statements as they may desire.

The Board of Directors, upon recommendation of the Audit Committee, unanimously recommends that you vote **FOR** the ratification of Ernst & Young LLP as the Company's independent registered public accounting firm for 2008.

3. Approval of Amendments to 2004 Stock Plan

General. Our Board of Directors adopted amendments to the Company's 2004 Stock Plan, which we refer to as the Plan, on March 6, 2008 subject to the approval of our stockholders. The Board of Directors is recommending the amendments to the Plan to our stockholders for approval.

The amendments to the Plan requiring stockholder approval are as follows:

Increasing the number of shares of Common Stock that are issuable under the Plan pursuant to stock options to 1,000,000 from 500,000 and the number of shares of Common Stock that may be issued under the Plan pursuant to stock awards to 200,000 from 100,000;

Consistent with the increase in shares available, the maximum number of options which may be granted during a single calendar year to a participant is increased to 100,000 shares; and

Extending the termination date of the Plan from 2014 to 2018.

Historical Information. The Plan was originally adopted by the Board of Directors on March 3, 2004 and approved by the Company's stockholders on April 23, 2004. Since inception of the Plan, we have made equity awards under the Plan to our employees, directors and consultants, ranging from vice presidents to our Chairman and Chief Executive Officer. Through the date of this proxy statement, options to purchase a total of 491,250 shares of Common Stock (net of options forfeited) have been issued under the Plan to our employees, directors and consultants, of which options to purchase 455,675 shares of Common Stock are outstanding as of the date of this proxy statement. In addition, since the inception of the Plan, we have made awards of 64,945 shares of Common Stock to our directors as stock awards pursuant to the Plan.

The last reported sale price on the NYSE on March 7, 2008 for the Common Stock was \$46.05 per share.

Reasons for Amending the Plan

The Compensation Committee considers the Plan an important element of compensation for our employees, directors and consultants and believes that the Plan aligns the personal interests of employees, directors and consultants to those of the Company's stockholders. As of the date of this proxy statement, the Company has issued nearly all of the options and stock awards permitted by the Plan, with only 8,750 shares available under the Plan for options and 35,055 shares available for stock awards. Unless the Plan is amended to increase the number of shares that may be issued pursuant to options and stock awards, the Company will no longer be able to utilize the Plan to further its compensation goals. In addition to increasing the number of shares subject to the Plan, the amendments will extend the Plan's termination date to 2018.

Summary of Plan

What is the Company's 2004 Stock Plan?

The purpose of the Plan is to promote the growth and success of the Company by aligning the personal interests of employees, directors and consultants to those of the Company's stockholders.

Section 162(m) of the Internal Revenue Code, which we refer to as the Code, limits a corporation's tax deduction for compensation paid to executive officers unless the compensation qualifies as performance-based compensation. Qualification of options granted under the Plan depends upon obtaining approval of the Plan by the Company's stockholders.

Additionally, Section 421 of the Code permits a corporation to grant incentive stock options to an employee of the corporation or an employee of a parent or subsidiary corporation. Incentive stock options are subject to favorable tax rules for the recipient-employee if certain conditions are met. Qualification of options granted under the Plan as incentive stock options depends upon obtaining approval of the Plan by the Company's

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stockholders.

Set forth below is a summary of some of the material terms of the Plan as amended. For a more complete description of such terms, however, you should read a copy of the Plan and the amendments thereto, a copy of which is attached hereto as Annex A.

Who administers the Plan?

The Compensation Committee of the Board of Directors is responsible for administering the Plan and taking all action authorized by the Plan or reasonably necessary to carry out its purposes. The Compensation Committee has sole authority to select employees, directors and consultants to whom awards are granted, to determine the size and type of award and to determine the terms and conditions of such awards in a manner consistent with the Plan. The Compensation Committee is authorized to interpret the Plan and its decisions, determinations and interpretations are final and binding.

Who is eligible to receive an award under the Plan?

Under the Plan, all directors, consultants, and employees of the Company or an affiliate are eligible to receive option awards under the Plan. We estimate that there are currently approximately twelve directors and approximately twelve employees potentially eligible to receive option awards under the Plan. An affiliate is (i) any subsidiary corporation or parent corporation of the Company, or (ii) an entity in which the Company or any of its affiliates have a material equity interest. The employees, consultants and directors of an entity that becomes an affiliate after the adoption of the Plan are eligible to receive awards under the Plan. A subsidiary corporation is any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations (other than the last in the chain) owns stock possessing at least fifty percent (50%) of the total combined voting power of all classes of stock in one of the other corporations in the chain. A parent corporation is any corporation (other than the Company) in an unbroken chain of corporations ending with the Company that owns at least fifty percent (50%) of the total combined voting power of classes of stock in one of the other corporations in the chain. Additionally, directors of the Company are eligible to receive stock awards under the Plan.

How many shares of Common Stock are available under the Plan?

The maximum number of shares of Common Stock that may be issued under the Plan as amended pursuant to awards of stock options will be 1,000,000 shares. No individual may receive awards of stock options representing more than 100,000 shares of Common Stock in any one calendar year. The maximum number of shares of Common Stock that may be issued under the Plan to directors of the Company pursuant to stock awards will be 200,000 shares. The number of shares available and the calendar year award limit are subject to adjustment without stockholder approval in the event of a change in corporate capitalization, such as a reorganization, reclassification, stock split, stock dividend, or merger. If a stock award terminates or an option terminates, expires or becomes unexercisable prior to exercise, the shares subject to such option or stock award are available respectively under the first and third sentences of this paragraph for future awards under the Plan. In addition, shares issued under an option or stock award that are withheld or surrendered to pay withholding taxes or in full or partial payment of the exercise price of an option are added to the aggregate shares of Common Stock available for issuance under the Plan, provided that in no event will more than 1,000,000 shares be issued upon exercise of incentive stock options.

What type of awards can be made under the Plan?

Awards under the Plan consist of options to purchase Common Stock. Additionally, directors of the Company may receive stock awards under the Plan. The recipient of an award is referred to as a participant.

What are the terms of the awards under the Plan?

Stock Awards. Stock awards consist of either a grant of shares of Common Stock or shares of phantom stock. Each share of phantom stock is equivalent in value to a share of Common Stock. The Compensation Committee has absolute discretion to determine the terms and conditions of stock awards. The Compensation Committee has also established a deferred compensation program under which fees payable by the Company to directors may be deferred in the form of a stock award under the Plan.

Options. The terms and conditions of each option award, including the exercise price, are established at the time of the award. The options that may be granted under the Plan may either be incentive stock options intended to qualify under Section 422 of the Code or non-qualified stock options. Incentive stock options may only be granted to an employee of the Company or an employee of a subsidiary or parent corporation. Options granted under the Plan will have an exercise price of not less than the fair market value on the date of grant, except that in the case of an incentive stock option granted to a participant who is deemed to be a ten percent (10%) owner of the Company (or a ten percent (10%) owner of a subsidiary or parent corporation), the exercise price of such option cannot be less than 110% of the common stock's fair market value on the date of grant. No participant may be granted incentive stock options that are exercisable for the first time in any calendar year for common stock having a total fair market value (determined as of the option grant) in excess of \$100,000. Without approval

of the stockholders of the Company, the Compensation Committee may not cancel an outstanding option with an option price above the then fair market value of shares covered by the option and issue replacement options. This limitation, however, does not prevent adjustments resulting from stock dividends, stock splits, reclassifications of stock or similar events. Options granted under the Plan may not expire any later than ten (10) years after the date of grant, provided that an incentive stock option granted to a participant who is deemed to be a ten percent (10%) owner of the Company (or a ten percent (10%) owner of a subsidiary or parent corporation) may not expire any later than five (5) years after the date of grant.

Options vest as determined by the Compensation Committee. Options are only exercisable to the extent vested. If a participant ceases continuous service as an employee, director or consultant while holding an exercisable option, other than by reason of death or disability or a termination for cause, the option will generally terminate if not exercised within the ninety (90) day period following such termination (or if earlier, the expiration date of the option under the terms of the option agreement). The right to exercise an option will expire immediately upon termination if the termination is for cause (as defined under the Plan or in an applicable employment or services agreement). Upon death or disability, the option exercise period is extended to the earlier of (i) one year from the participant's termination of service or (ii) the expiration date under the terms of the stock option agreement. The Plan permits the Compensation Committee to provide for alternative option exercise periods in an eligible person's option agreement.

Except as determined by the Compensation Committee and set forth in an option agreement, accelerated vesting automatically occurs in the case of a change in control of the Company. Subject to certain exceptions, a change in control occurs when (i) a person acquires beneficial ownership of 20% or more of the outstanding Common Stock or the combined voting power of then outstanding voting securities, (ii) a change in the composition of the Board compared to its composition as of the date of the adoption of the Plan, (iii) approval by the stockholders of the Company of a merger, reorganization or sale of, or other disposition of all or substantially all the assets of, the Company; or (iv) the approval of the stockholders of the Company of a complete dissolution or liquidation of the Company.

Unless provision is made for the continuation of the Plan or the assumption or substitution of options outstanding under the Plan, if the Company is merged or consolidated and the Company is not the surviving corporation, or if the Company is liquidated or sells substantially all of its assets to another corporation (a corporate event), all outstanding options under the Plan are automatically canceled as of the date of the corporate event, subject, however, to the condition that thirty days prior to the corporate event all outstanding options are immediately vested and participants are provided a thirty day period in which to exercise such options. If the exercise of options during the before-described thirty day exercise period would result in a violation of federal securities laws, each participant is to be paid a cash amount equal to the difference between the fair market value of the common stock underlying the option and the exercise price. The Compensation Committee has discretion to cancel an option if the foregoing acceleration of vesting (or the cash payment in settlement of the option) would result in an excess parachute payment for purposes of the Code.

Full payment for shares purchased upon exercise of any option, along with payment of any required tax withholding, must be made at the time of such exercise. In the discretion of the Compensation Committee, payment may be made (i) in cash, (ii) through the surrender of previously-acquired shares or through withholding by the Company of shares otherwise issuable upon exercise of the option upon attestation of ownership of previously-acquired shares, or (iii) through a broker-assisted sale of shares issuable upon exercise of the option. A participant may satisfy his or her tax withholding obligations by (i) cash payment, (ii) surrendering shares previously acquired by the participant, (iii) by having the Company withhold shares of Common Stock otherwise deliverable under the Plan, or (iv) by having funds withheld from payments of wages, salary or other cash compensation due the participant. The Compensation Committee is authorized to establish a default form of payment for tax withholding purposes.

No participant shall have any rights as a stockholder with respect to shares subject to an option until the participant exercises the option and the certificate for the shares has been issued by the Company.

Have employees received awards under the Plan?

Since inception of the Plan, the Compensation Committee has made grants of options to purchase 491,250 shares of Common Stock to our employees, directors and consultants (net of options forfeited) and 64,945 shares of Common Stock pursuant to stock awards to our directors. Set forth below are amounts of options granted under the 2004 Stock Plan to:

Name	Number of Options
B. Francis Saul II, Chairman and Chief Executive Officer, Director Nominee	10,000
B. Francis Saul III, President	130,000
Christopher H. Netter, Senior Vice President - Leasing	45,000
Scott V. Schneider, Senior Vice President - Chief Financial Officer	45,000

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John F. Collich, Senior Vice President - Retail Development	45,000
Charles W. Sherren Jr., Senior Vice President - Management	30,000
All other current executive officers as a group	53,750
All current directors who are not executive officers nor a Director Nominee, as a group	70,000
John E. Chapoton, Director Nominee	10,000
James W. Symington, Director Nominee	10,000
John R. Whitmore, Director Nominee	10,000
All employees, including all current officers who are not executive officers, as a group	32,500

All future awards under the Plan will be discretionary and therefore are not determinable at this time.

Under what circumstances will the Plan terminate?

The Plan shall automatically terminate ten years after the date the Plan as amended is adopted by the Board. Prior to such time, the Board may terminate the Plan at any time and for any reason or for no reason, except that such termination may not impair any right of a holder of an outstanding award.

Who can amend the plan?

The Board can amend the Plan, provided, however, that stockholder approval is required in the case of (i) an amendment that increases the aggregate number of shares of Common Stock which may be issued under the Plan, (ii) a change in the class of employees eligible to receive incentive stock options, and (iii) to the extent stockholder approval is required for any amendment by the terms of any applicable law, regulation or rule, including without limitation, the NYSE.

Are the rights awarded under the Plan transferable?

Awards granted under the Plan are generally not transferable, except by will or the laws of descent and distribution. The Compensation Committee in its discretion may authorize the assignment or transfer of nonqualified stock options and stock awards.

Federal Income Tax Consequences

The tax consequences of options granted under the Plan depend upon the type of option granted and, if the option is to an executive officer, whether the option qualifies as performance-based compensation under Section 162(m) of the Code.

Non-Qualified Stock Options. The recipient of non-qualified stock options generally will not be taxed upon the grant of the option. Federal income taxes are generally due from a recipient of non-qualified stock options when the stock options are exercised. The difference between the exercise price of the option and the fair market value of the stock purchased on the exercise date is taxed as ordinary income. Thereafter, the tax basis for the acquired stock is equal to the amount paid for the stock plus the amount of income recognized by the recipient upon exercise. The Company will take a tax deduction equal to the amount of income realized by the option recipient on the exercise date.

Incentive Stock Options. Federal regular income taxes are generally not imposed upon either the grant or the exercise of incentive stock options; taxes are imposed only when the shares of stock from exercised options are disposed of, by sale or otherwise. The amount by which the fair market value of the stock on the date of exercise exceeds the exercise price is, however, included in determining the option recipient's liability for the alternative minimum tax. If the incentive stock option recipient does not sell or dispose of the stock until more than one year after the receipt of the stock and two years after the option was granted, then, upon sale or disposition of the stock, the difference between the exercise price and the market value of the stock as of the date of exercise will be treated as a capital gain, and not ordinary income. If a recipient fails to hold the stock for the minimum required time, at the time of the sale or disposition of the stock, taxes will be assessed on the gain as ordinary income. The Company will not receive a tax deduction for incentive stock options which are taxed to a recipient as capital gains; however, the Company will receive a tax deduction if the sale of the stock does not qualify for capital gains tax treatment.

Section 162(m). Section 162(m) of the Code would render non-deductible to the Company certain compensation in excess of \$1,000,000 in any year to certain executive officers of the Company unless such excess compensation is performance-based (as defined in the Code) or is otherwise exempt from Section 162(m) of the Code. Options granted under the plan are designed to qualify as performance-based compensation.

Stock awards granted to directors generally result in taxable income equal to the fair market value of the stock when it is delivered by the Company. The Company will take a tax deduction equal to the amount of income realized.

The Board of Directors unanimously recommends that you vote **FOR** the adoption of the amendments to the 2004 Stock Plan.

Equity Compensation Plan Information

The following table provides information as of December 31, 2007 regarding equity compensation plans approved by the stockholders and equity compensation plans that were not approved by the stockholders.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1)	586,753(2)	\$ 36.15	16,250(3)
Equity compensation plans not approved by security holders (2)	(4)		
Total	586,753	\$ 36.15	16,250

(1) Consists entirely of common shares authorized for issuance under the Company's 1993 Stock Option Plan and the Company's 2004 Stock Plan, both of which were approved by stockholders.

(2) Excludes 55,345 shares of Common Stock awarded upon the deferral of directors' compensation fees under the Company's 2004 Deferred Compensation Plan for Directors and 9,600 shares granted to directors (200 shares per director, annually, for the period 2004-2007). Such shares were awarded at the market value of the Common Stock on the day the deferred director's fees were earned or shares were granted.

(3) Includes 8,750 shares that may be issued as stock awards to our directors under the 2004 Stock Plan.

(4) 170,000 shares of Common Stock were awarded upon deferral of directors' compensation fees under the Company's prior Deferred Compensation and Stock Plan for Directors. Such shares were issued at the market value of the Common Stock on the day the deferred director's fees were earned.

THE BOARD OF DIRECTORS

The following table and biographical descriptions set forth the name, age and principal occupations during the past five years for each nominee and director, current directorships held and the positions they currently hold with the Company. The information is as of March 7, 2008 unless otherwise indicated.

Name	Age	Principal Occupation and Current Directorships
<i>Class Three Directors Term Ends at 2011 Annual Meeting (if elected)</i>		
B. Francis Saul II	75	<i>Chairman, Chief Executive Officer and Director since June 1993.</i> Chairman of the Board of Directors of the B. F. Saul Company since 1969. Chairman of the Board of Trustees of the B. F. Saul Real Estate Investment Trust* since 1969 and a Trustee since 1964. Chairman of the Board and Chief Executive Officer of Chevy Chase Bank, F.S.B.* since 1969. Member of National Gallery of Art Trustees Council. Trustee of the National Geographic Society, Trustee of the Johns Hopkins Medicine Board and an Honorary Trustee of the Brookings Institution.
John E. Chapoton	71	<i>Director since October 2002.</i> Partner, Brown Investment Advisory since 2001. Partner in the law firm of Vinson & Elkins L.L.P. from 1984 to 2000. Director of Stancorp Financial Group*.
James W. Symington	80	<i>Director since June 1993.</i> Of Counsel in the law firm of O Connor & Hannan since 1986. Member of Congress from 1969 to 1977. U.S. Chief of Protocol from 1966 to 1968. Chairman Emeritus of National Rehabilitation Hospital.
John R. Whitmore	74	<i>Director since June 1993.</i> Financial Consultant. Senior Advisor to the Bessemer Group, Inc. from 1999 to 2002. Formerly President and Chief Executive Officer of the Bessemer Group and its Bessemer Trust Company subsidiaries (a financial management and banking group) and director of Bessemer Securities Corporation from 1975 to 1998. Director of Old Westbury Funds, Inc.*, the B. F. Saul Company, Chevy Chase Bank, F.S.B.* and Chevy Chase Property Company. Trustee of the B. F. Saul Real Estate Investment Trust*. Chairman of the Board of Directors of ASB Capital Management, Inc. and Chevy Chase Trust Company.
<i>Class One Directors Term Ends at 2009 Annual Meeting</i>		
Philip D. Caraci	69	<i>Vice Chairman since March 2003, Director since June 1993.</i> President from 1993 to March 2003. Senior Vice President and Secretary of the B. F. Saul Real Estate Investment Trust from 1987 to 2003. Executive Vice President of the B. F. Saul Company from 1987 to 2003, with which he had been associated since 1972. President of B. F. Saul Property Company from 1986 to 2003. Trustee of the B. F. Saul Real Estate Investment Trust*.
Gilbert M. Grosvenor	76	<i>Director since June 1993.</i> President (1980 through 1996) and Chairman of the Board of Trustees since 1987 of the National Geographic Society, with which he has been associated since 1954. Director of Chevy Chase Bank, F.S.B.*, and a Trustee of the B. F. Saul Real Estate Investment Trust*.
Philip C. Jackson, Jr.	79	<i>Director since June 1993.</i> Adjunct Professor Emeritus at Birmingham-Southern College from 1989 to 1999. Member of the Thrift Depositors Protection Oversight Board from 1990 until 1993. Vice Chairman and a Director of Central Bancshares of the South (Compass Bancshares, Inc.) from 1980 to 1989. Member of the Board of Governors of the Federal Reserve System from 1975 to 1978.
David B. Kay	51	<i>Director since October 2002.</i> Chief Financial Officer for Municipal Mortgage & Equity, LLC, (MMA) a publicly traded real estate investment company specializing in arranging debt and equity financing for real estate and clean energy projects. Managing Director of Navigant Consulting, Inc. from September 2005 to November 2007. Chief Financial Officer of J.E. Robert Companies from 2002 to 2005. Partner with Arthur Andersen LLP from 1990 to 2002. Director of Chevy Chase Bank, F.S.B.* and Union Street Acquisition Corporation.*

Class Two Directors Term Ends at 2010 Annual Meeting

General Paul X. Kelley	79	<i>Director since June 1993.</i> Partner, J. F. Lehman & Company since 1998. Chairman of American Battle Monuments Commission from 2001 to 2005. Commandant of the Marine Corps and member of the Joint Chiefs of Staff from 1983 to 1987. Director of OAO Technology Solutions, Inc. and London Life Reinsurance Company.
Charles R. Longsworth	78	<i>Director since June 1993.</i> Chairman Emeritus of Colonial Williamsburg Foundation. President and Trustee of Colonial Williamsburg Foundation from 1977 through 1994. President Emeritus, Hampshire College. Chairman Emeritus, Trustees of Amherst College.
Patrick F. Noonan	65	<i>Director since June 1993.</i> Chairman Emeritus of The Conservation Fund. Chairman of The Conservation Fund from 1985 through 2003. Trustee of the National Geographic Society and Vice-Chairman of the National Geographic Education Foundation. Member of the Board of Advisors of Duke University School of the Environment. Member of the President's Commission on White House Fellows.
B. Francis Saul III	46	<i>President and Director since June 1997.</i> Vice Chairman of the Company from 1997 to 2003. President of the B. F. Saul Company. President of the B. F. Saul Property Company. Senior Vice President and a Trustee of the B. F. Saul Real Estate Investment Trust*. Vice Chairman of Chevy Chase Bank, F.S.B.*, Emeritus Chairman of the Boys & Girls Clubs of Greater Washington. Director of The Conservation Fund and the Economic Club of Washington, DC.

* Directorship in a publicly held company (i.e., a company with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 (the Exchange Act), or subject to the requirements of Section 15(d) of the Exchange Act) or a company registered as an investment company under the Investment Company Act of 1940.

CORPORATE GOVERNANCE

Board of Directors

General. The Company is currently managed by a 12-member Board of Directors. The Board has adopted a set of corporate governance guidelines, which, along with the written charters for the Board committees described below, provide the framework for the Board's governance of the Company. The corporate governance guidelines are available both on the Company's website at www.saulcenters.com and in print free of charge to any stockholder who requests it.

Independence and Composition. The Articles and the New York Stock Exchange (NYSE) listing standards each require that a majority of the Board of Directors be independent directors, as defined in the Articles and the NYSE listing standards.

The Board of Directors, upon the unanimous recommendation of the Nominating and Corporate Governance Committee, has determined that Messrs. Chapoton, Grosvenor, Jackson, Kay, Kelley, Longsworth, Noonan and Symington, representing a majority of the Board of Directors, are independent directors as defined in the NYSE listing standards and the Articles. The Board made its determination based on information furnished by all directors regarding their relationships with the Company and research conducted by management. In addition, the Board consulted with the Company's counsel to ensure that the Board's determination would be consistent with all relevant securities laws and regulations as well as the NYSE listing standards.

Meetings and Attendance. The Board of Directors met five times in the year ended December 31, 2007. All of the directors currently serving on the Board of Directors, including the nominees, attended at least 75% of the aggregate total number of meetings of (i) the Board of Directors and (ii) the committees of the Board of Directors that he was eligible to attend. The corporate governance guidelines provide that it is the responsibility of individual directors to make themselves available to attend scheduled and special Board meetings on a consistent basis. All twelve of the directors were in attendance for the 2007 annual meeting of stockholders.

In addition, non-management members of the Board of Directors met in executive session two times in the year ended December 31, 2007. Pursuant to our corporate governance guidelines, if the Chairman of the Board is not an officer of the Company, the Chairman of the Board presides at all executive sessions of the Board of Directors, except for executive sessions to discuss the compensation of the Company's chief executive officer, which are chaired by the chairman of the Compensation Committee. If the Chairman is an officer of the Company, all executive sessions of the Board should be chaired by the chairman of the Nominating and Corporate Governance Committee. In 2007, Mr. Grosvenor, as Chairman of the Nominating and Corporate Governance Committee, presided over both executive sessions.

Interested Party Communications. The Board of Directors has adopted a process whereby interested parties can send communications directly to the directors. Any interested party wishing to communicate directly with the presiding director or with the non-management directors as a group, or with one or more directors may do so in writing, by addressing their communication to the director or directors, c/o Saul Centers, Inc., 7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814-6522. All correspondence will be reviewed by the Company and forwarded to the director or directors.

Audit Committee

General. The Board of Directors has established an Audit Committee, which is governed by a written charter, a copy of which is available both on the Company's website at www.saulcenters.com and in print free of charge to any stockholder who requests it. Among the duties, powers and responsibilities of the Audit Committee as provided in the Audit Committee charter, the Audit Committee:

has sole power and authority concerning the engagement and fees of the independent registered public accounting firm,

reviews with the independent registered public accounting firm the plans and results of the audit engagement,

pre-approves all audit services and permitted non-audit services provided by the independent registered public accounting firm,

reviews the independence of the independent registered public accounting firm,

reviews the adequacy of the Company's internal control over financial reporting, and

reviews accounting, auditing and financial reporting matters with the Company's independent registered public accounting firm and management.

Independence and Composition. The composition of the Audit Committee is subject to the independence and other requirements of the Securities Exchange Act of 1934 and the rules and regulations promulgated by the SEC thereunder, which is referred to as the Exchange Act, and the NYSE listing standards. In 2007, Messrs. Kelley, Kay, Longsworth, Noonan and Symington, were, and they currently are, the members of the Audit Committee, with General Kelley serving as chairman.

The Board of Directors, upon the unanimous recommendation of the Nominating and Corporate Governance Committee, has determined that all current members of the Audit Committee meet the audit committee composition requirements of the Exchange Act and the NYSE listing standards and that Mr. Kay is an audit committee financial expert as that term is defined in the Exchange Act.

Meetings. The Audit Committee met eleven times in the year ended December 31, 2007.

Nominating and Corporate Governance Committee

General. The Board of Directors has established a Nominating and Corporate Governance Committee, which is governed by a written charter, a copy of which is available both on the Company's website at www.saulcenters.com and in print free of charge to any stockholder who requests it. As provided in the Nominating and Corporate Governance Committee charter, the Nominating and Corporate Governance Committee:

identifies and recommends to the Board of Directors individuals to stand for election and reelection to the Board at the annual meeting of stockholders and to fill vacancies that may arise from time to time,

develops and makes recommendations to the Board for the creation and ongoing review and revision of a set of effective corporate governance guidelines that promote the competent and ethical operation of the Company and any policies governing ethical business conduct of the Company's employees or directors, and

makes recommendations to the Board of Directors as to the structure and membership of committees of the Board of Directors.

Selection of Director Nominees. The corporate governance guidelines provide that the Nominating and Corporate Governance Committee endeavor to identify individuals to serve on the Board who have expertise that is useful to the Company and complementary to the background, skills and experience of other Board members. The Nominating and Corporate Governance Committee's assessment of the composition of the Board includes: (a) skills—knowledge of corporate governance, business and management experience and background, real estate experience and background, accounting experience and background, finance experience and background, and an understanding of regulation and public policy matters, (b) characteristics—ethical and moral standards, leadership abilities, sound business judgment, independence and innovative thought, and (c) composition—diversity, age and public company experience. The principal qualification for a director is the ability to act in the best interests of the Company and its stockholders.

The Nominating and Corporate Governance Committee also considers director nominees recommended by stockholders. In accordance with the Company's Bylaws, and the Exchange Act, any proposal from stockholders regarding possible director candidates to be elected at a future annual meeting or proposals for any other matters must be received by the Company at 7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814-6522, Attn: Secretary not less than 60 nor more than 90 calendar days before the first anniversary of the Company's previous year's annual meeting, provided, that in the event that the date of the upcoming annual meeting is advanced by more than 30 days or delayed by more than 60 days from the first anniversary date, to be timely delivered, the proposal must be received not earlier than the 90th day prior to the upcoming annual meeting and not later than the close of business on the later of the 60th day prior to the upcoming annual meeting or the 10th day following the day on which public announcement of the date of the upcoming annual meeting is first made. The deadline for submissions of proposals for the 2009 annual meeting can be found under the section captioned "Proposals for Next Annual Meeting."

Please note that proposals must comply with all of the requirements of Rule 14a-8 under the Exchange Act. In addition, any proposals must include the following:

the name and address of the stockholder submitting the proposal, as it appears on the Company's stock transfer records, and of the beneficial owner thereof,

the number of each class of the Company's stock which is owned beneficially and of record by the stockholder and the beneficial owner,

the date or dates upon which the stockholder acquired the stock,

the reasons for submitting the proposal and a description of any material interest the stockholder or beneficial owner has in submitting the proposal, and

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all information relating to the director nominee that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act (including such person's written consent to being named in the proxy statement as a director nominee and to serving as a director if elected). The Chairman of the Annual Meeting shall have the power to declare that any proposal not meeting these requirements is defective and shall be discarded.

The Nominating and Corporate Governance Committee evaluates director candidates recommended by stockholders in the same manner that it evaluates director candidates recommended by the directors or management.

Independence and Composition. The NYSE listing standards require that the Nominating and Corporate Governance Committee consist solely of independent directors. In 2007, Messrs. Grosvenor and Jackson were, and they currently are, the members of the Nominating and Corporate Governance Committee with Mr. Grosvenor serving as chairman.

The Board of Directors, upon the unanimous recommendation of the Nominating and Corporate Governance Committee, has determined that all current members of the Nominating and Corporate Committee are independent directors, as defined in the NYSE listing standards.

Meetings. The Nominating and Corporate Governance Committee met once in the year ended December 31, 2007.

Compensation Committee

General. The Board of Directors has established a Compensation Committee, which is governed by a written charter, a copy of which is available both on the Company's website at www.saulcenters.com and in print free of charge to any stockholder who requests it.

Processes and Procedures for Executive and Director Compensation Determinations.

Role of Compensation Committee. The Compensation Committee is responsible for:

approving and evaluating the compensation plans, policies and programs for the Company's officers,

making recommendations to the Board with respect to the compensation of directors, and

approving all awards to any officer under the Company's stock option and equity incentive plans.

The Compensation Committee also serves as the administrator of the Company's 2004 Stock Plan.

Role of Others in Compensation Determinations. The Compensation Committee considers the recommendations of the Chairman and Chief Executive Officer when determining the compensation of the directors and executive officers other than the Chairman and Chief Executive Officer. Neither the Compensation Committee nor the Company retains compensation consultants.

Delegation of Authority by the Committee. Although the Chairman and Chief Executive Officer may recommend to the Compensation Committee equity compensation awards for the executive officers other than the Chairman and Chief Executive Officer, the Compensation Committee approves the grant of all such awards to executive officers under the Company's 2004 Stock Plan.

The Company's executive compensation programs and philosophy are described in greater detail under the section entitled "Compensation Discussion and Analysis."

Independence and Composition. The NYSE listing standards require that the Compensation Committee consist solely of independent directors. In 2007, Messrs. Grosvenor and Jackson were, and they currently are, the members of the Compensation Committee with Mr. Grosvenor serving as chairman.

The Board of Directors, upon the unanimous recommendation of the Nominating and Corporate Governance Committee, has determined that all current members of the Compensation Committee are independent directors, as defined in the NYSE listing standards.

Meetings. The Compensation Committee met twice in the year ended December 31, 2007.

Executive Committee

General. The Board of Directors has established an Executive Committee. The Executive Committee, which is not governed by a written charter, has such authority as it is delegated by the Board of Directors and advises the Board of Directors from time to time with respect to such matters as the Board of Directors directs.

Independence and Composition. The Exchange Act and the NYSE listing standards do not require that the Executive Committee consist of any independent directors. In year 2007, Messrs. Caraci, Jackson, Saul II and Saul III, were, and they currently are, the members of the Executive Committee, with Mr. Saul II serving as chairman.

Meetings. The Executive Committee did not meet during the year ended December 31, 2007.

Ethical Conduct Policy and Senior Financial Officer Code of Ethics

The directors, officers and employees of the Company are governed by the Company's Ethical Conduct Policy. The Company's Chairman and Chief Executive Officer, Senior Vice President Chief Financial Officer, Treasurer and Secretary, Vice President-Chief Accounting Officer, and Vice President-Controller are also governed by the Code of Ethics for senior financial officers. The Ethical Conduct Policy and the Code of Ethics are available both on the Company's website at www.saulcenters.com and in print free of charge to any stockholder who requests it. Amendments to, or waivers from, a provision of the Ethical Conduct Policy or the Code of Ethics will be posted to the Company's website within five business days following the date of the amendment or waiver.

Compensation Committee Interlocks and Insider Participation

Mr. Saul II, the Company's Chairman and Chief Executive Officer, served on the Board of Trustees and the Compensation Committee of the National Geographic Society during 2007. Mr. Grosvenor, a director of the Company and a member of the Company's Compensation Committee during 2007, serves as Chairman of the Board of Trustees of the National Geographic Society.

Compensation of Directors

Directors of the Company are currently paid an annual retainer of \$20,000 and a fee of \$1,200 for each Board or Committee meeting attended, and are annually awarded 200 shares of the Company's Common Stock. The shares are issued on the date of each annual meeting of stockholders to each director serving on the Board of Directors as of the record date of such meeting. In 2004, the Compensation Committee approved the automatic grant of options to purchase 2,500 shares of Common Stock to each of the directors of the Company, as of the date of each annual meeting of the Company's stockholders beginning with the 2004 annual meeting. The options are immediately exercisable with an exercise price determined using the closing market price of the Company's Common Stock on the date of award. For 2007 the directors were awarded options to purchase 2,500 shares of Common Stock at an exercise price of \$54.17 per share, representing the fair market value of the Company's Common Stock on April 27, 2007. Directors from outside the Washington, D.C. area also are reimbursed for out-of-pocket expenses in connection with their attendance at meetings.

In addition, directors may elect to participate in the Deferred Compensation and Stock Plan discussed below. For the period March 10, 2007 through March 7, 2008 (the 2007 Period), 13,933 shares were credited to the directors' deferred fee accounts.

Director Compensation Table for 2007

The following table sets forth the compensation received by non-officer directors for 2007.

Name	Year	Fees Earned or Paid in Cash (1)	Stock Awards (2)	Option Awards (3)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-Qualified Deferred	All Other Compensation	Total
						Compensation Earnings		
Philip D. Caraci	2007	\$ 26,000	\$ 10,834	\$ 23,775	\$	\$	\$ 100,000 ⁽⁴⁾	\$ 160,609
John E. Chapoton	2007	24,800	10,834	23,775				59,409
Gilbert M. Grosvenor	2007	29,600	10,834	23,775				64,209
Philip C. Jackson, Jr.	2007	29,600	10,834	23,775				64,209
David B. Kay	2007	39,300	10,834	23,775				73,909
General Paul X. Kelley	2007	44,200	10,834	23,775				78,809
Charles R. Longsworth	2007	41,700	10,834	23,775				76,309
Patrick F. Noonan	2007	36,900	10,834	23,775				71,509
James W. Symington	2007	41,700	10,834	23,775				76,309
John R. Whitmore	2007	26,000	10,834	23,775				60,609

⁽¹⁾ - With the exception of fees paid in cash of \$82,720 to three Directors in 2007, all fees were deferred into shares of Common Stock pursuant to the Directors Plan described below.

⁽²⁾ - 200 shares common stock awarded annually, without restriction, April 27, 2007 at a value of \$54.17 per share.

⁽³⁾ - The amounts in this column represent the aggregate amount recognized for financial reporting purposes in accordance with FAS 123(R) for stock options that immediately vested upon grant during 2007 and 2006. 2,500 non-qualified stock options awarded April 27, 2007 at \$9.51 per option. See note 10 to the consolidated financial statements in the Company's 2007 annual report to shareholders for the assumptions used to value these awards.

⁽⁴⁾ - Upon his resignation as President in March 2003, Philip D. Caraci entered into a consulting arrangement with the Company. The arrangement, which is terminable by either party at any time, provides that Mr. Caraci shall receive \$100,000 per annum for consulting services provided to the Company.

Deferred Compensation Plan

A Deferred Compensation and Stock Plan for Directors, which we refer to as the Directors Plan, was established by the Company, for the benefit of its directors and their beneficiaries. Before the beginning of any calendar year, a director may elect to defer all or part of his or her director's fees to be earned in that year and the following years. At the option of the director, the fees will be deferred into a cash account, a share account or both. If the director elects to defer fees into the share account, fees earned during a calendar quarter are aggregated and divided by the Common Stock's closing market price on the first trading day of the following quarter to determine the number of shares to be allocated to the director. When the director is eligible to receive payments from the deferred fee accounts, amounts credited to the cash account shall be paid in cash and amounts credited to the share account shall be paid by the delivery by the Company of certificates representing a like number of shares of Common Stock. For financial reporting purposes, the deferred fee shares are included in the calculation of outstanding common stock, however Directors are not eligible to vote the shares until they are issued. Through March 7, 2008, 219,745 of the 270,000 shares the Company has authorized and reserved for issuance have been credited to the directors' deferred fee accounts.

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The following table sets forth fees deferred into shares of Common Stock by directors under the Directors Plan.

Name	Number of Shares Credited to Stock Deferred Fee Account	
	2007 Period	Total
Philip D. Caraci	1,097	16,438
John E. Chapoton	635	4,396
Gilbert M. Grosvenor	1,701	31,030
Philip C. Jackson, Jr.	674	18,436
David B. Kay	954	5,648
General Paul X. Kelley	1,218	10,281
Charles R. Longsworth	1,643	33,567
Patrick F. Noonan	1,633	25,381
B. Francis Saul II	1,078	15,889
B. Francis Saul III	1,070	15,665
James W. Symington	629	12,835
John R. Whitmore	1,601	30,179
Total	13,933	219,745

EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS

The following list sets forth the name, age, position with the Company, present principal occupation or employment and material occupations, positions, offices or employment during the past 10 years of each executive officer who is not a director of the Company. With the exception of Kenneth D. Shoop and Thomas H. McCormick, who joined the Company in 2003 and 2005, respectively, each listed individual has held an office with the Company since its inception in June 1993.

Name	Age	Position and Background
Christopher H. Netter	53	<i>Senior Vice President Leasing since 1998.</i> Vice President Leasing of the Company from 1993 to 1998. Vice President of the B. F. Saul Company and B. F. Saul Property Company and Assistant Vice President of the B. F. Saul Real Estate Investment Trust from 1987 to 1993.
Scott V. Schneider	50	<i>Senior Vice President Chief Financial Officer, Treasurer and Secretary since 1998.</i> Vice President Chief Financial Officer, Treasurer and Secretary of the Company from 1993 to 1998. Vice President of the B. F. Saul Company and B. F. Saul Property Company and Assistant Vice President of the B. F. Saul Real Estate Investment Trust from 1985 to 1993.
Charles W. Sherren, Jr.	54	<i>Senior Vice President Management since 2000.</i> Vice President Management of the Company from 1993 to 2000. Vice President of the B. F. Saul Company and B. F. Saul Property Company and Assistant Vice President of the B. F. Saul Real Estate Investment Trust from 1981 to 1993.
John F. Collich	48	<i>Senior Vice President Retail Development since 2000.</i> Vice President Retail Development of the Company from 1993 to 2000. Vice President of the B. F. Saul Company and B. F. Saul Property Company in 1993.
Kenneth D. Shoop	48	<i>Vice President Chief Accounting Officer since December 2003.</i> Vice President, Treasurer and Chief Accounting Officer of the B. F. Saul Real Estate Investment Trust since January 2004. Vice President of the B. F. Saul Company and B. F. Saul Property Company since September 2003. Vice President and Controller of Federal Realty Investment Trust from 2000 to September 2003. Assistant Controller of Federal Realty Investment Trust from 1992 to 2000.
Thomas H. McCormick	57	<i>Senior Vice President General Counsel since February 2005.</i> Executive Vice President and General Counsel of Chevy Chase Bank, F.S.B. Senior Vice President and General Counsel of the B. F. Saul Company. Vice President and General Counsel of the B. F. Saul Real Estate Investment Trust. Partner with Shaw Pittman LLP from 1985 to 2005.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

References in this Compensation Discussion and Analysis to *we*, *our*, *ours* and *us* refers to Saul Centers, Inc.

Compensation Philosophy. Our goal is to design and administer a compensation program to (i) attract and retain qualified officers, (ii) reward officers for superior performance in achieving our business objectives and enhancing stockholder value and (iii) provide incentives for the creation of long-term stockholder value. Historically, the key elements of executive compensation have been base salary, annual bonuses and incentive stock options. The Compensation Committee reviews and approves our policies and practices regarding executive compensation, including (a) base salary levels, (b) annual bonuses, and (c) if applicable, long-term incentives, including awards of stock options. We select and implement the elements of compensation for their ability to help us achieve the objectives of our compensation program and this program is not based on any unique or preferential financial accounting or tax treatment.

Base Salary and Bonus Awards. As part of its review of base salary and bonus compensation, the Compensation Committee considers a variety of factors, including each individual's tenure, level and scope of responsibility and performance, contribution to the achievement of our long-term goals, as well as factors relating to our overall performance and management's recommendations regarding compensation. The Compensation Committee also considers whether the executive officers spend a portion of their time to managing other related entities.

Base salary determinations are made by the Compensation Committee annually and are effective as of May 1 of each year. In April 2007, the Compensation Committee approved base salary increases for the named executive officers ranging from 0.0% to 11.6% as provided below.

Name	Base Salary Beginning May 1, 2007	Base Salary (May 1, 2006 through April 30, 2007)	Percentage Change
B. Francis Saul II <i>Chairman and Chief Executive Officer</i>	\$ 125,000	\$ 125,000	0.0%
B. Francis Saul III <i>President</i>	480,000	430,000	11.6
Christopher H. Netter <i>Senior Vice President Leasing</i>	338,000	313,000	8.0
Scott V. Schneider <i>Senior Vice President Chief Financial Officer</i>	338,000	313,000	8.0
John F. Collich <i>Senior Vice President Retail Development</i>	300,000	275,000	9.1

Bonus determinations are made by the Compensation Committee annually and are typically awarded in December of each year. Bonus awards are typically calculated as a percentage of the employee's base salary. In November 2007, the Compensation Committee approved bonuses for the named executive officers ranging in amounts from 8% to 20% of the named executive officer's base salary as provided below.

Name	Base Salary Beginning May 1, 2007	Bonus	Bonus as a Percentage of Base Salary
B. Francis Saul II	\$ 125,000	\$ 10,000	8.0%
B. Francis Saul III	480,000	96,000	20.0
Christopher H. Netter	338,000	50,700	15.0
Scott V. Schneider	338,000	50,700	15.0
John F. Collich	300,000	45,000	15.0

The base salary and bonus paid to the Chairman and Chief Executive Officer was less than the compensation paid to other executive officers because the Compensation Committee also considered that the Chairman and Chief Executive Officer devotes a portion of his time to managing other related entities. We believe that the current base salary levels and annual bonus awards of the Company's officers take into account the unique talents and skills of its officers.

Stock Option Grants. While not a key element in compensation, the Compensation Committee believes that the prudent use of equity incentives aligns the interest of officers with those of stockholders and promotes long-term stockholder value. The 2004 Stock Plan provides for grants of nonqualified and incentive stock options to employees, including officers. The Compensation Committee administers the plan and determines the participants who receive stock option grants, the terms of the grants, the schedule for exercisability or nonforfeitability, and the time and conditions for expiration of the grants. The Compensation Committee will continue to look at the total compensation package for each officer, and the policies underlying the Company's long-term compensation goals when granting awards under the plan. At present, the Board of Directors does not prescribe any stock ownership guidelines for our executive officers.

We do not time, nor have we ever timed, the grant of stock options in coordination with the release of material non-public information and we have never back-dated any awards of stock options. We expect that awards to executive officers in the future will be made at regularly scheduled Compensation Committee meetings. For corporate and accounting measurement purposes, the date of grant of an award to our executive officers under the 2004 Stock Plan is the date the Compensation Committee approves the award or such later date as the Compensation Committee specifies. In addition, the fair market value for an award is established as the closing price of the stock on the date of grant.

The Compensation Committee granted 135,000 options to officers of the Company during 2007 of which 85,000 were granted to named executive officers.

Benefits and Other Perquisites. We provide benefits to our executive officers under the B. F. Saul Company Employees Profit Sharing Retirement Plan and the B. F. Saul Company Employees 401(k) Retirement Plan (the "Tax Qualified Plans"). Our executive officers are eligible to receive, on the same basis as other employees, employer matching contributions under the Tax Qualified Plans. This allows our executive officers to save for their retirement on a tax-deferred basis through the Section 401(k) savings feature of the plan, with the Company-funded portion of these benefits based on matching the contributions of the executive officers. Additional information on these Company-funded retirement contributions can be found in footnote 3(b) of the Summary Compensation Table below. We also provide benefits to our executive officers under the B. F. Saul Company Supplemental Executive Retirement Plan (the "SERP"). The SERP, which is not available to all employees, allows the executive officers and other highly compensated employees to receive benefits they would have received under the Tax Qualified Plans, but for statutory limits. We do not sponsor a defined benefit pension plan for our executive officers or any other employees. Matching contributions under the Tax Qualified Plans and the SERP made to the named executive officers for the years ended December 31, 2007 and 2006 are shown in the "Other Compensation" column of the Summary Compensation Table below. Additional information on the SERP can be found in the Nonqualified Deferred Compensation Table below.

Our executive officers are also eligible to participate in the other employee benefit and welfare plans that the Company maintains on similar terms as employees who meet applicable eligibility criteria, subject to any legal limitations on the amounts that may be contributed or the benefits that may be payable under such plans.

We do not consider perquisites to be a principal component of our executive officers' compensation. We believe that our executive officer benefit and perquisite programs provided are reasonable and competitive with benefits and perquisites provided to executive officers of other REITs, and are necessary to sustain a fully competitive executive compensation program.

Summary Compensation Table

The following Summary Compensation Table sets forth the compensation paid to or earned by the Company's Chief Executive Officer, Chief Financial Officer and each of its three other most highly compensated executive officers who were serving as of December 31, 2007, (named executive officers) for, or with respect to, the years ended December 31, 2007 and 2006.

Name	Year	Salary	Bonus	Stock Awards	Option Awards (1)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-Qualified Deferred Compensation Earnings (2)	All Other Compensation (3)	Total
B. Francis Saul II <i>Chairman and Chief Executive Officer</i>	2007	\$ 125,000	\$ 10,000				\$ 19,767	\$ 90,393	\$ 245,160
	2006	125,000	10,000				16,906	75,804	227,710
Scott V. Schneider <i>Senior Vice President- Chief Financial Officer</i>	2007	329,346	50,700		\$ 48,693		6,227	36,225	471,191
	2006	305,038	46,950		31,988		4,688	33,719	422,383
B. Francis Saul III <i>President</i>	2007	462,692	96,000		129,849		24,734	94,131	807,406
	2006	412,692	86,000		85,300		18,803	75,942	678,737
Christopher H. Netter <i>Senior Vice President- Leasing</i>	2007	329,346	50,700		48,693		6,911	30,284	465,934
	2006	305,038	46,950		31,988		5,304	24,233	413,513
John F. Collich <i>Senior Vice President- Retail Development</i>	2007	291,346	45,000		48,693		4,096	32,781	421,916
	2006	266,346	41,250		31,988		3,067	31,056	373,707

(1) - The amounts in this column include the aggregate amount recognized for financial reporting purposes in accordance with FAS 123R for stock options that vested during 2007 and 2006. See note 10 to the consolidated financial statements in the Company's 2007 annual report to shareholders for the assumptions used in valuing the awards included in this column.

(2) - Aggregate earnings from nonqualified deferred compensation plan, which exceed 120% of the long-term applicable federal rate for 2007 and 2006. Earnings are calculated at the last day of each month and credited to each account with an amount equal to the product of (i) one-twelfth of the current yield to worst reported for the Lehman Brothers High Yield Bond Index and (ii) the sum of (a) the deferred compensation account balance as of the last day of the preceding month and (b) amounts deferred for the current month.

(3) - The following table sets forth the components of All Other Compensation paid to the named executive officers for 2007 and 2006.

All Other Compensation

Name	Year	Directors Compensation (a)	Tax-Qualified Plan Contribution (b)	SERP Contribution (c)	Auto Allowance	Group Term Life Insurance	Total
B. Francis Saul II	2007	\$ 60,609	\$	8,100 ^(d)	\$	\$ 21,684	\$ 90,393
	2006	46,020		8,100		21,684	75,804
Scott V. Schneider	2007		13,500	9,303	12,600	822	36,225
	2006		13,200	7,919	12,600		33,719
B. Francis Saul III	2007	60,609		33,522 ^(d)			94,131
	2006	46,020		29,922			75,942
Christopher H. Netter	2007		13,500	9,303	6,659	822	30,284
	2006		13,200	7,919	2,292	822	24,233
John F. Collich	2007		13,500	6,681	12,600		32,781
	2006		13,200	5,256	12,600		31,056

^(a) - Directors compensation for 2007 and 2006 includes fees earned of \$26,000 for each year, a 200 share common stock award valued at \$10,834 and \$8,070, respectively, and 2,500 non-qualified stock options each year valued at \$9.51 and \$4.78 per option, respectively. The value of the stock and option awards represent the aggregate amount recognized for financial reporting purposes in accordance with FAS 123(R). See note 10 to the consolidated financial statements in the Company's 2007 annual report to shareholders for the assumptions used to value the options.

^(b) - Value of employer's contribution for 2007 and 2006, calculated as three times the officer's retirement plan contribution. Employer's contribution is subject to a cap of 6% of eligible compensation up to \$225,000 and \$220,000, respectively.

^(c) - Value of employer's contribution for 2007 and 2006, calculated as three times the officer's retirement plan contribution. Employer's contribution is subject to a cap of 6% of eligible compensation in excess of \$225,000 and \$220,000, respectively.

^(d) - Because Mr. Saul II and Mr. Saul III receive compensation from other affiliated companies, all Saul Centers retirement plan contributions are made to the SERP.

Grants of Plan-Based Awards

No grants of plan-based awards were awarded to named executive officers during 2007 for their service as executive officers of the Company. See Corporate Governance Compensation of Directors for grants awarded to directors.

Outstanding Equity Awards

The following table sets forth certain information with respect to option awards outstanding as of December 31, 2007 for each of the named executive officers.

Name	Option Grant Date	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Un-exercisable	Option Exercise Price	Option Expiration Date
B. Francis Saul II	4/26/2004	2,500 ⁽¹⁾		\$ 25.78	4/25/2014
	5/6/2005	2,500 ⁽¹⁾		33.22	5/5/2015
	5/1/2006	2,500 ⁽¹⁾		40.35	4/30/2016
	4/27/2007	2,500 ⁽¹⁾		54.17	4/26/2017
B. Francis Saul III	5/23/2003	80,000 ⁽²⁾		\$ 24.91	5/22/2013
	4/26/2004	30,000 ⁽²⁾	10,000	25.78	4/25/2014
	4/26/2004	2,500 ⁽¹⁾		25.78	4/25/2014
	5/6/2005	20,000 ⁽²⁾	20,000	33.22	5/5/2015
	5/6/2005	2,500 ⁽¹⁾		33.22	5/5/2015
	5/1/2006&				