

SAUL CENTERS INC
Form DEF 14A
March 23, 2012

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.

(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):

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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 May 4, 2012

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 May 4, 2012, 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 2015, 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 2012.
3. To approve the right of The Saul Organization to convert certain limited partnership units into shares of Common Stock.
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 1, 2012 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 23, 2012

Bethesda, Maryland

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING
TO BE HELD ON MAY 4, 2012**

The 2012 Proxy Statement and 2011 Annual Report to Stockholders are available at www.saulcenters.com

7501 Wisconsin Avenue, Suite 1500

Bethesda, Maryland 20814-5522

(301) 986-6200

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

May 4, 2012

GENERAL

This Proxy Statement is furnished by the Board of Directors (which we sometimes refer to as the Board) 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 May 4, 2012, 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 1, 2012 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 Proposals 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. For Proposal 3, the affirmative vote of a majority of the votes cast on the proposal is required to approve the conversion right of limited partnership interests held by The Saul Organization. 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 or Proposal 3.

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. It is anticipated that this Proxy Statement and the enclosed proxy card first will be mailed to common stockholders on or about March 23, 2012. Proxy materials are also available at www.saulcenters.com.

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As of the record date, March 1, 2012, 19,225,398 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 41.1% of the issued and outstanding shares of Common Stock. 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 13, 2012, 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 First Amended and Restated Articles of Incorporation of the Company, as amended (Articles), and the Amended and Restated Bylaws of the Company as amended (Bylaws), 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 14 directors 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 the spring of each year. Each director elected at the annual meeting of stockholders in 2012 will serve until the annual meeting of stockholders in 2015 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:

Philip D. Caraci

Gilbert M. Grosvenor

Philip C. Jackson, Jr.

Mark Sullivan III

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 4. If any of the nominees cannot serve for any reason (which is not anticipated), the Board of Directors, upon recommendation of its 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 2012

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, 2012. Services provided to the Company by Ernst & Young LLP in 2011 are described under "2011 and 2010 Independent Registered Public Accounting Firm Fee Summary" on page 23.

Stockholder ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2012 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 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.

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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 2012.

3. Authorization of Right of The Saul Organization to Convert Units of Limited Partnership Interest in Saul Holdings Limited Partnership into Shares of Common Stock of the Company

In September 2011, in connection with the purchase by the Company of three shopping center properties, the Saul Holdings Limited Partnership (which we refer to as the Operating Partnership) sold to a member of The Saul Organization 1,497,814 units of limited partnership interest. Under the Operating Partnership's partnership agreement, units are generally convertible into shares of Common Stock of the Company on a one-for-one basis because each unit effectively represents the exact economic interest in the Company as a single share of Common Stock. Accordingly, conversion of a unit into a share of Common Stock has *no* dilutive economic effect on the holders of Common Stock, but it would allow the holder of a unit to convert to a security which is publicly traded on the NYSE and to vote in all matters in which holders of Common Stock are entitled to vote. New York Stock Exchange rules require shareholder approval before the units sold to The Saul Organization can be considered convertible into shares of Common Stock. At the time of the sale, the Company agreed to solicit such shareholder approval. The Board of Directors of the Company recommends that the shareholders vote FOR the proposal to approve the right of The Saul Organization to convert these units into shares of Common Stock on the terms set forth in the partnership agreement of the Operating Partnership.

THE BOARD OF DIRECTORS

The following table and biographical descriptions set forth for each nominee and director, the name, age, principal occupations and directorships held during at least the past five years for each nominee and director, directorships held within the last five years and the positions they currently hold with the Company. The biographical description below for each nominee includes the specific experience, qualifications, attributes and skills that led to the conclusion by the Board that such person should serve as a director of the Company. The biographical description of each director who is not standing for election includes the specific experience, qualifications, attributes and skills that the Board would expect to consider if it were making a conclusion currently as to whether such person should serve as a director. The information is as of March 1, 2012 unless otherwise indicated.

Name	Age	Principal Occupation and Directorships
<i>Class One Directors Term Ends at 2015 Annual Meeting (if elected)</i>		
Philip D. Caraci	73	<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*.
		Through these experiences, Mr. Caraci contributes real estate expertise and familiarity with the Company's business to the Board.
Gilbert M. Grosvenor	80	<i>Director since June 1993.</i> President (1980 through 1996), Trustee (1987 to present) and Board Chairman (1987 through 2010) of the National Geographic Society, with which he has been associated since 1954. Trustee of the B. F. Saul Real Estate Investment Trust*. Former director of Chevy Chase Bank, F.S.B.* Trustee of Chevy Chase Trust.
		Through these experiences, Mr. Grosvenor contributes leadership experience and real estate background to the Board.
Philip C. Jackson, Jr.	83	<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. Former director of Enterprise Products GP*.
		Through these experiences, Mr. Jackson contributes finance and public policy expertise to the Board.
Mark Sullivan III	70	<i>Director since April 2008, previously served as Director from 1997 through 2002.</i> U.S. Executive Director of the European Bank for Reconstruction and Development from 2002 to April 2008. Attorney representing financial service providers from 2000 to 2002. President of the Small Business Funding Corporation, a company providing a secondary market facility for the purchase and securitization of small business loans from 1996 to 1999. Practiced law in Washington, DC, advising senior management of financial institutions on legal and policy matters from 1989 to 1996. Director of The Baltic-American Enterprise Fund and Baltic American Freedom Foundation, where he is Chairman of the Audit Committee.

Through these experiences, Mr. Sullivan III contributes financial and legal expertise to the Board.

Name	Age	Principal Occupation and Directorships
<i>Class Three Directors Term Ends at 2014 Annual Meeting</i>		
B. Francis Saul II	79	<i>Chairman, Chief Executive Officer and Director since June 1993.</i> Chairman of the Board of Directors and Chief Executive Officer of the B. F. Saul Company since 1969. Chairman of the Board of Trustees and Chief Executive Officer of the B. F. Saul Real Estate Investment Trust* since 1969 and a Trustee since 1964. Chairman of the Board of Chevy Chase Trust Company and ASB Capital Management, LLC. Chairman of the Board and Chief Executive Officer of Chevy Chase Bank, F.S.B.* from 1969 to 2009. 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	75	<i>Director since October 2002.</i> Partner, Brown Investment Advisory since 2001. Partner in the law firm of Vinson & Elkins LLP from 1984 to 2000. Assistant Secretary of Treasury for Tax Policy 1981 to 1984. Former director of Stancorp Financial Group*.
H. Gregory Platts	64	<i>Director since March 2012.</i> Mr. Platts retired from the National Geographic Society in 2011 after a 31-year career. He had been Senior Vice President and Treasurer since 1991, responsible for all investment and banking activities. Prior to joining the National Geographic Society in 1980, Mr. Platts served as a trust investment officer with the First American Bank in Washington, DC from 1972 to 1978. Mr. Platts currently serves on the boards of ASB Capital Management, LLC, Chevy Chase Trust Company, the Center for the Study of the Presidency and Congress, the Walter A. Bloedorn Foundation and the Hattie M. Strong Foundation. He is an emeritus board member of Decatur House, a National Trust property. He has served as a director and president of the Washington Society of Investment Analysts and chairman of the American Red Cross Blood Services Mid-Atlantic Region.
James W. Symington	84	<i>Director since June 1993.</i> Of Counsel in the law firm of Nossaman, O Connor & Hannan LLP 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	78	<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 and Chevy Chase Property Company. Trustee of the B. F. Saul Real Estate Investment Trust*. Former director of Chevy Chase Bank, F.S.B.*

Through these experiences, Mr. Whitmore contributes finance and public company experience to the Board.

Name	Age	Principal Occupation and Directorships
<i>Class Two Directors Term Ends at 2013 Annual Meeting</i>		
George P. Clancy, Jr.	68	<i>Director since March 2012.</i> Mr. Clancy is a retired Executive Vice President and Mid-Atlantic Region Market President of Chevy Chase Bank, a division of Capital One, N.A.* Mr. Clancy has extensive experience in banking, which includes serving as President and Chief Operating Officer of the Riggs National Corporation* and President and Chief Executive Officer of Signet Bank, N.A.* He serves on the board of directors of ASB Capital Management, LLC, Chevy Chase Trust Company, Washington Gas Light Company and WGL Holdings.* Mr. Clancy also serves on the board of directors or trustees of the Catholic Charities Foundation, Catholic Charities, the Mary and Daniel Loughran Foundation, the University System of Maryland Foundation, Inc. and the University of Maryland College Park Foundation. Mr. Clancy also serves on the executive committee of the Washington D.C. Police Foundation.
		Through these experiences, Mr. Clancy contributes public company, real estate, finance and leadership experience to the Board.
General Paul X. Kelley	83	<i>Director since June 1993.</i> Member of the Advisory Board, J. F. Lehman & Company. 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. Former director of OAO Technology Solutions, Inc. and London Life Reinsurance Company.
		Through these experiences, General Kelley contributes leadership experience to the Board.
Charles R. Longworth	82	<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. Former director of Heritage Travel.
		Through these experiences, Mr. Longworth contributes leadership experience to the Board.
Patrick F. Noonan	69	<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 Nicholas Institute for Environmental Policy Solutions. Former Director of Ashland, Inc.* and International Paper.*
		Through these experiences, Mr. Noonan contributes leadership experience and environmental policy expertise to the Board.
B. Francis Saul III	50	<i>President since March 2003 and Director since June 1997.</i> Vice Chairman of the Company from 1997 to 2003. President and a Director of the B. F. Saul Company. Senior Vice President and a Trustee of the B. F. Saul Real Estate Investment Trust*. Director of Chevy Chase Trust Company and ASB Capital Management, LLC. Vice Chairman of Chevy Chase Bank, F.S.B.* from 2002 to 2009. Emeritus Chairman of the Boys & Girls Clubs of Greater Washington. Director of The Conservation Fund, the Federal City Council and the Economic Club of Washington, DC.

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Through these experiences, Mr. Saul III contributes leadership, real estate and financial experience, as well as familiarity with the Company's business, to the Board.

* *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 during all or part of the time such person was a director of such company.*

CORPORATE GOVERNANCE

Board of Directors

General. The Company is currently managed by a 14-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 them.

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, Clancy, Grosvenor, Jackson, Kelley, Longworth, Noonan, Platts, Sullivan III 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.

Leadership Structure. Currently, Mr. Saul II serves as the Chairman of the Board of Directors and Chief Executive Officer of the Company, and we do not have a lead independent director. At this time, the Board believes that the Company and its stockholders are best served by having Mr. Saul II serve as Chairman and Chief Executive Officer.

Mr. Saul II's tenure as Chief Executive Officer since the Company's formation, his more than 45 years of experience leading The Saul Organization and his significant ownership interest in the Company uniquely qualify him to serve as both Chairman and Chief Executive Officer. In addition, the Board believes that Mr. Saul II's combined role as Chairman and Chief Executive Officer promotes unified leadership and direction for the Board and executive management, and his knowledge of the Company's properties and business operations makes it appropriate for him to lead Board discussions.

The Company does not have a lead independent director because the Board believes that it is currently best served without designating a single lead independent director. Ten of the fourteen current members of our Board are independent under the NYSE listing standards and the Articles and, as required by the NYSE listing standards, the Audit, Compensation and Nominating and Corporate Governance Committees are composed solely of independent directors. In addition, the Board and each of these committees have complete and open access to any member of management and the authority to retain independent legal, financial and other advisors as they deem appropriate without consulting or obtaining the approval of any member of management. The Board also holds regularly scheduled executive sessions of only non-management directors in order to promote discussion among the non-management directors and assure independent oversight of management.

Meetings and Attendance. The Board of Directors met six times during the year ended December 31, 2011. Other than Messrs. Clancy and Platts, who were recently elected to the Board of Directors, all of the directors currently serving on the Board of Directors, including the nominees, attended at least 92% 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 and committee meetings on a consistent basis. All thirteen of the directors at such time were in attendance at the 2011 annual meeting of stockholders.

In addition, non-management members of the Board of Directors met in executive session twice in the year ended December 31, 2011. 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 2011, Mr. Grosvenor, as Chairman of the Nominating and Corporate Governance Committee, presided over both executive sessions.

Risk Oversight. The Board is involved in risk oversight through direct decision-making authority with respect to significant matters and the general oversight of management by the Board and its committees. In particular, the Board administers its risk oversight function through (1) the review and discussion of regular reports from management, as well as auditors and other outside consultants, to the Board and its committees on the Company's business, including risks that the Company faces in conducting its business, (2) the required approval by the Board (or a committee thereof) of significant transactions and other decisions and (3) the direct oversight of specific areas of the Company's business by the Compensation, Audit and Nominating and Corporate Governance Committees. The Board also relies on management to bring significant matters impacting the Company to its attention.

Pursuant to the Audit Committee's charter, the Audit Committee is specifically responsible for reviewing with management, the independent auditor and the Company's internal auditors any significant risks or exposures, discussing the guidelines and policies that govern the process by which the Company's exposure to risk is assessed and managed by management and assessing the steps management has taken to minimize such risks to the Company.

While the Board believes its current leadership structure enables it to effectively oversee the Company's management of risk, it was not the primary reason the Board of Directors selected its current leadership structure over other potential alternatives.

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. Messrs. Jackson, Kelley, Longworth, Noonan and Symington 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. Jackson is an audit committee financial expert as that term is defined in the Exchange Act.

Meetings. The Audit Committee met eight times in the year ended December 31, 2011.

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 Company's corporate governance guidelines provide that the Nominating and Corporate Governance Committee should, in determining the composition of the Board, include diversity as one of the many factors it considers. Both the Board and the Nominating and Corporate Governance Committee conduct annual self-evaluations, in the course of which compliance with the corporate governance guidelines is reviewed.

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 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 2012 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 shares of each class of the Company's stock which are owned beneficially and of record by the stockholder and the beneficial owner,

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

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

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 2011, 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 twice in the year ended December 31, 2011.

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 2011, 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 two times in the year ended December 31, 2011.

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 2011, 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, 2011.

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, Senior 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 them. 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 four 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 various committees of the Board of the National Geographic Society during 2011. Mr. Grosvenor, a director of the Company and a member of the Company's Compensation Committee during 2011, served as Trustee 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. In 2011, each director other than Messrs. Clancy and Platts, who did not serve as directors in 2011, was awarded options to purchase 2,500 shares of Common Stock at an exercise price of \$41.82 per share, representing the fair market value of the Company's Common Stock on May 13, 2011. 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 18, 2011 through March 1, 2012 (the 2011 Period), 15,421 shares were credited to the directors' deferred fee accounts.

Director Compensation Table for 2011

The following table sets forth the compensation received by non-officer directors for 2011.

Name	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 Compensation Earnings	All Other Compensation	Total
Philip D. Caraci	\$ 27,200	\$ 8,364	\$ 22,875	\$	\$	\$ 100,000(4)	\$ 158,439
John E. Chapoton	27,200	8,364	22,875				58,439
George P. Clancy, Jr. (5)							
Gilbert M. Grosvenor	32,000	8,364	22,875				63,239
Philip C. Jackson, Jr.	33,825	8,364	22,875				65,064
David B. Kay (6)	25,275	8,364	22,875			348,806(7)	405,320
General Paul X. Kelley	41,800	8,364	22,875			158,024(8)	231,063
Charles R. Longworth	39,300	8,364	22,875				70,539
Patrick F. Noonan	39,300	8,364					