NORTHWEST BANCORPORATION INC
Form 10QSB
November 08, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-QSB

(Mark One)

¨ Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended ______________________________.

x Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from 7/1/05 to 9/30/05.

Commission file number 000-24151

NORTHWEST BANCORPORATION, INC.
(Exact name of small business issuer as specified in its charter)

Washington (State or other jurisdiction of incorporation or organization)	91-1574174 (I.R.S. Employer identification No.)

421 West Riverside, Spokane, WA 99201-0403
(Address of principal executive offices)

(509) 456-8888
(Issuer's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨

APPLICABLE ONLY TO CORPORATE ISSUERS

The Registrant has a single class of common stock, of which there are 2,108,864 shares issued and outstanding as of September 30, 2005.

Transitional Small Business Disclosure Format:

Yes x No ¨

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Part I Financial Information

Item 1. Financial Statements

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CONDITION
Unaudited
September 30, 2005
(Dollars in thousands)

	September-30 2005	December-31 2004
Assets		
Cash and due from banks	$ 9,041	$ 7,736
Federal funds sold/FHLB interest bearing balances	209	3,503
Securities held-to-maturity (Note 2; fair value, $3,549 and $2,738, respectively)	3,546	2,706
Securities available-for-sale (Note 2; cost, $33,719 and $38,329, respectively)	33,463	38,261
Federal Home Loan Bank stock, at cost	646	643
Loans, net of allowance for loan losses of $2,273 in 2005 and $1,944 in 2004 (Notes 3 & 4)	183,479	157,438
Loans held for sale	1,431	623
Accrued interest receivable	1,005	831
Premises and equipment, net	5,380	4,358
Foreclosed real estate	535	723
Bank owned life insurance	3,284	3,193
Other assets	1,516	457
TOTAL ASSETS	$ 243,535	$ 220,472
Liabilities		
Noninterest bearing demand deposits	$ 50,016	$ 38,872
Money Market accounts	44,706	53,605
NOW accounts	16,052	14,233
Savings accounts	8,464	7,262
Time Certificates of Deposit, $100,000 and over	26,365	23,748
Time Certificates of Deposit, under $100,000	44,985	39,317
TOTAL DEPOSITS	190,588	177,037
Securities sold under agreement to repurchase	16,924	12,996
Borrowed funds (Note 5)	7,611	5,214
Borrowed funds, other (Note 5)	599	3,981
Junior subordinated debentures issued in connection with trust preferred securities (Note 6)	5,155	0
Accrued interest payable and other liabilities	1,452	1,283
TOTAL OTHER LIABILITIES	31,741	23,474
TOTAL DEPOSITS & LIABILITIES	222,329	200,511

Stockholders' Equity				
Common stock, no par, 5,000,000 shares authorized; issued and outstanding 2,108,864 on September 30, 2005 and 2,105,146 on December 31, 2004 (Note 7)		16,943		18,637
Retained earnings		2,738		3,063
Accumulated other comprehensive income, net of tax of ($87) for 2005 and ($23) for 2004		(169)		(45)
TOTAL STOCKHOLDERS' EQUITY		21,206		19,961
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	243,535	$	220,472

The accompanying Notes are an integral part of these condensed financial statements.

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NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Unaudited
Three months and nine months, year-to-date, ended September 30, 2005 and 2004
(Dollars in thousands, except number of shares and per share information)

	Three-months ended September 30		Nine-months, year-to-date, ended September 30	
	2005	2004	2005	2004
Interest Income				
Interest and fees on loans	$ 3,195	$ 2,431	$ 8,808	$ 7,179
Interest on securities	362	471	1,088	1,246
Interest on federal funds sold	93	26	136	74
TOTAL INTEREST INCOME	3,650	2,928	10,032	8,499
Interest Expense				
Interest on deposits	917	605	2,430	1,787
Interest on securities sold under agreement to repurchase	109	36	249	79
Interest on borrowed funds	176	80	373	

Name	Individual Grants: Number of Shares Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Year	Exercise or Base Price ($/Sh)	Expiration Date (1)	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term: 5% ($)(2)	10% ($)(2)
B. Francis Saul II Chairman and Chief Executive Officer						

B. Francis Saul III President	40,000	32.7%	$ 25.78	4/25/14	$ 648,516	$ 1,643,467
Christopher H. Netter Senior Vice President Leasing	15,000	12.2%	25.78	4/25/14	243,193	616,300
Scott V. Schneider Senior Vice President Chief Financial Officer	15,000	12.2%	25.78	4/25/14	243,193	616,300
John F. Collich Senior Vice President Retail Development	15,000	12.2%	25.78	4/25/14	243,193	616,300

(1) The expiration date of the options is ten years after the date of the grant.

(2) The potential realizable value is reported net of the option price, but before the income taxes associated with exercise. These amounts represent assumed compounded rates of appreciation at 5% and 10% from the date of the grant to the expiration date of the options. These assumed annual rates of stock price appreciation are specified by the SEC. No assurance can be given that such rates will be achieved.

Aggregated Options Exercised in Last Year, and Year-End Share Option Values

The following table provides information regarding option exercises during 2004 by the named executive officers and the value of such officers unexercised options at December 31, 2004.

Name	Shares/Units Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at Year-End (#) Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at Year-End ($) Exercisable/Unexercisable
B. Francis Saul II Chairman and Chief Executive Officer			2,500 /	$31,175 /
B. Francis Saul III President			22,500 / 100,000	280,575 / $ 1,299,200
Christopher H. Netter Senior Vice	7,500	$ 33,300	/ 37,500	/ 487,200

President Leasing		
Scott V. Schneider Senior Vice President Chief Financial Officer	7,500 / 37,500	100,050 / 487,200
John F. Collich Senior Vice President Retail Development	7,500 / 37,500	100,050 / 487,200

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EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of March 11, 2005 regarding equity compensation plans approved by the shareholders and equity compensation plans that were not approved by the shareholders.

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)	352,500(2)	$ 25.29	445,186
Equity compensation plans not approved by security holders	(3)	$ 19.69	

(1) Consists entirely of common shares authorized for issuance under the 1993 Stock Option Plan and the 2004 Stock Plan.

(2) Excludes 2,314 shares of Common Stock issued upon the deferral of directors compensation fees under the Company s 2004 Deferred Compensation 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.

(3) 170,000 shares of Common Stock were issued 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.

AUDIT COMMITTEE REPORT

The information contained in the report shall not be deemed to be soliciting material or to filed with the SEC, nor shall such information be incorporated by reference into any previous or future filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company incorporates it by specific reference.

Duties, Powers and Responsibilities. The Audit Committee is governed by a charter, a copy of which is available both on the Company s website at www.saulcenters.com and in print to any stockholder who requests it. The Audit Committee charter is designed to assist the

Audit Committee in complying with applicable provisions of the Exchange Act and the NYSE listing standards, all of which relate to corporate governance and many of which directly or indirectly affect the duties, powers and responsibilities of the Audit Committee. 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 audit 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 controls over financial reporting, and
- reviews accounting, auditing and financial reporting matters with the Company s independent registered public accounting firm and management.

Review and Discussion with Management and Independent Registered Public Accounting Firm. The Audit Committee has reviewed and discussed with management the Company s audited financial statements for the year ended December 31, 2004, management s assessment of the effectiveness of the Company s internal control over financial reporting and the independent registered public accounting firm s attestation of management s assessment.

The Audit Committee has also discussed with the independent registered public accounting firm those items required by SAS 61, which includes among other things, matters related to the conduct of the audit of the Company s financial statements. The Audit Committee has received a written report required by Independence Standards Board Standard No. 1 from the independent registered public accounting firm regarding their independence, and has discussed this report with them.

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2004 and 2003 Independent Registered Public Accounting Firm Fee Summary. During years 2004 and 2003, the Company retained Ernst & Young LLP to provide services in the following categories and amounts:

	Year 2004	Year 2003
Audit Fees (1)	$ 491,000	$ 296,900
Audit Related & Consultation Fees (2)	106,000	8,000
Tax Fees (3)	119,000	114,000
Other		
Total Fees	$ 716,000	$ 418,900

(1) Audit fees include the audit fee, fees incurred for attestation relating to management s assessment of the effectiveness of internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002, and fees for comfort letters, attest services, consents and assistance with and review of documents filed with the SEC.

(2) Audit related fees consist of fees incurred for audits related to the acquisition of operating real estate properties, fees for consultation concerning financial accounting and reporting standards, performance of agreed-upon procedures, and other audit or attest services not required by statute or regulation.

(3) Tax fees consist of fees for tax consultation and tax compliance services.

The Audit Committee has determined that the provision of audit related and tax services by Ernst & Young LLP during 2004 is compatible with maintaining Ernst & Young LLP s independence.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accountant. Consistent with SEC policies regarding registered public accountant independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent registered public accountant. In recognition of this responsibility, the Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent registered public accountant.

Prior to engagement of the independent registered public accountant for the next year s audit, management will submit to the Audit Committee for approval an aggregate of services expected to be rendered during that year for each of the categories of services listed in the table above.

Prior to engagement, the Audit Committee pre-approves these services by category of service. The fees are budgeted and the Audit Committee requires the independent registered public accountant and management to report actual fees versus the budget periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent registered public accountant for additional services not contemplated in the original pre-approval. In those instances, the Audit Committee requires specific pre-approval before engaging the independent registered public accountant.

Conclusion. Based on the review and discussions referred to above, the Committee recommended to the Board of Directors that the Company s audited financial statements be included in the Annual Report of the Company on Form 10-K for the year ended December 31, 2004 for filing with the SEC.

General Paul X. Kelley, Committee Chairman
David B. Kay
Charles R. Longsworth
Patrick F. Noonan
James W. Symington

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PERFORMANCE GRAPH

Rules promulgated under the Exchange Act require the Company to present a graph comparing the cumulative total stockholder return on its Common Stock with the cumulative total stockholder return of (i) a broad equity market index, and (ii) a published industry index or peer group. The graph compares the cumulative total stockholder return of the Company s Common Stock, based on the market price of the Common Stock and assuming reinvestment of dividends, with the National Association of Real Estate Investment Trust Equity Index (NAREIT Equity), the S&P 500 Index (S&P 500) and the Russell 2000 Index (Russell 2000). The graph assumes the investment of $100 on January 1, 2000.

	Jan. 1, 2000	Dec. 2000	Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2004
Saul Centers	$ 100	$ 147	$ 184	$ 219	$ 282	$ 397
Russell 2000	100	126	144	149	205	270
NAREIT Equity	100	97	100	79	119	141
S&P 500	100	91	80	62	80	89

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, (the Exchange Act) requires the Company s officers and directors, and persons who own more than 10% of a registered class of the Company s equity securities, to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the SEC and the NYSE. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish the Company with copies of all Forms 3, 4 and 5 which they file.

To the best of the Company s knowledge, based upon copies of forms furnished to it and written representations from officers, directors and 10% beneficial holders, the following persons were late in filing SEC Forms 3, 4 or 5 during the year ended December 31, 2004: (1) on February 20, 2004, B. Francis Saul III reported one business day later than required on Form 4 the purchase of 400 shares of Common Stock on February 17, 2004; (2) on February 24, 2004, Philip D. Caraci reported five business days later than required the sale of 650 depositary shares, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock; (3) on April 12, 2004, Philip D. Caraci reported two business days later than required the purchase of 1,000 shares of Common Stock; (4) on May 6, 2004, Kenneth D. Shoop filed his initial Form 3 approximately five months after his initial appointment as an officer of the Company. At the time of his appointment, Mr. Shoop did not own any capital stock of the Company and thus, incorrectly believed that a Form 3 was not required; and (5) on May 6, 2004, Kenneth D. Shoop reported six business days later than required the grant of 2,500 options to purchase shares of Common Stock.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of March 11, 2005, concerning shares of Common Stock beneficially owned by all persons (if any) known by the Company to own more than 5% of the Company s outstanding Common Stock, by each director and nominee, by each named executive officer and by all directors and executive officers as a group, according to information provided to the Company by each such person. Unless otherwise noted, each person named has sole voting and sole investment power with respect to all shares beneficially owned by such person. For purposes of this table, beneficially owned includes securities redeemable or exercisable for Common Stock that are currently redeemable or exercisable or that will become redeemable or exercisable within 60 days of March 11, 2005. As a result, the number of shares set forth below includes the number of shares of Common Stock the person holds and shares of Common Stock the person could receive on exercise of options for shares held by the person that are exercisable within 60 days of March 11, 2005.

Name of Beneficial Owner (1)	Aggregate Number of Shares Beneficially Owned (2)	Percent of Class (2)
B. Francis Saul II	5,234,128 (3)	31.7%
Philip D. Caraci	150,117 (4)	*
John E. Chapoton	5,069 (5)	
Gilbert Grosvenor	28,708 (6)	
Philip C. Jackson, Jr.	64,659 (7)	*
David B. Kay	7,538 (8)	
General Paul X. Kelley	24,380 (9)	
Charles R. Longsworth	32,466 (10)	
Patrick F. Noonan	35,170 (11)	*
B. Francis Saul III	48,845 (12)	*
James W. Symington	13,197 (13)	
John R. Whitmore	29,943 (14)	*
John F. Collich	12,059 (15)	*
Christopher H. Netter	468 (16)	
Scott V. Schneider	11,558 (17)	*
All directors and officers as a group (20 persons)	5,699,311	34.4%

* *Less than 1 percent*

(1) The address of each beneficial owner listed is c/o Saul Centers, Inc., 7501 Wisconsin Avenue, Suite 1500, Bethesda, MD 20814-6522.

(2) Beneficial ownership and percent of class are calculated pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, as amended. Includes 172,314 shares earned by directors in the Directors Plan. (See page 13, Deferred Compensation Plan)

(3) Includes 4,015,854 shares owned by the B. F. Saul Real Estate Investment Trust, 300,141 shares owned by Dearborn LLC, 233,655 shares owned by B. F. Saul Property Co., 207,658 shares owned by the B. F. Saul Company, 374,030 shares owned by Westminster Investing Corporation, 111 shares owned by Van Ness Square

Corporation, 23,014 shares owned by various family trusts for which Mr. Saul II is either the sole trustee or sole custodian for a child, and 63,965 shares owned by Mr. Saul II s spouse. Mr. Saul II disclaims beneficial ownership of 63,965 shares owned by his spouse. Pursuant to Rule 13d-3, the Common Stock described above is considered to be beneficially owned by Mr. Saul II because he has or may be deemed to have sole or shared voting and/or investment power in respect thereof. Includes 2,500 shares subject to currently exercisable options held by Mr. Saul II. Excludes 1,334,914 shares owned by the B. F. Saul Company Employees Profit Sharing Retirement Trust, (the Employee Trust). Mr. Saul II is one of four Trustees for the Employee Trust and has an interest in the Employee Trust as one of the participating employees. Excludes 2,437,859 units in Saul Holdings Limited Partnership (the Partnership) owned by B. F. Saul Real Estate Investment Trust, 1,735,475 units in the Partnership owned by Dearborn LLC, 214,552 units in the Partnership owned by the B. F. Saul Property Company, 574,111 units in the Partnership owned by Van Ness Square Corporation, 229,420 units in the Partnership owned by Westminister Investing Corporation, and 10,483 units in the Partnership owned by Avenel Executive Park Phase II, LLC. In general, these units are convertible into shares of Common Stock on a one-for-one basis. However, under the terms of the limited partnership agreement of the Partnership, at the current time, these units may not be converted into shares of Common Stock because the conversion would cause Mr. Saul II and his affiliates to beneficially own collectively greater than 24.9% of the outstanding shares of Common Stock.

(4) Includes 50,716 shares owned by Mr. Caraci s spouse in an individual retirement account. Mr. Caraci disclaims beneficial ownership of 50,716 shares owned by his spouse. Includes 2,500 shares subject to currently exercisable options held by Mr. Caraci. Excludes 1,334,914 shares owned by the Employee Trust. Mr. Caraci is one of four Trustees for the Employee Trust.

(5) Includes 2,500 shares subject to currently exercisable options held by Mr. Chapoton.

(6) Includes 2,500 shares subject to currently exercisable options held by Mr. Grosvenor

(7) Includes 2,500 shares subject to currently exercisable options held by Mr. Jackson. Includes 2,800 shares owned by Mr. Jackson s spouse. Mr. Jackson disclaims beneficial ownership of 2,800 shares owned by his spouse.

(8) Includes 2,500 shares subject to currently exercisable options held by Mr. Kay.

(9) Includes 2,500 shares subject to currently exercisable options held by Mr. Kelley.

(10) Includes 2,500 shares subject to currently exercisable options held by Mr. Longsworth.

(11) Includes 2,500 shares subject to currently exercisable options held by Mr. Noonan. Includes 6,016 shares owned by Mr. Noonan s spouse. Mr. Noonan disclaims beneficial ownership of 6,016 shares owned by his spouse.

(12) Includes 22,500 shares subject to currently exercisable options held by Mr. Saul III.

(13) Includes 2,500 shares subject to currently exercisable options held by Mr. Symington.

(14) Includes 2,500 shares subject to currently exercisable options held by Mr. Whitmore.

(15) Includes 7,500 shares subject to currently exercisable options.

(16) Includes 329 shares owned by Mr. Netter s spouse. Mr. Netter disclaims beneficial ownership of the 329 shares owned by his spouse.

(17) Includes 7,500 shares subject to currently exercisable options and 1,375 shares owned by Mr. Schneider s children.

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CERTAIN RELATIONSHIPS AND TRANSACTIONS

Certain relationships existing between (i) the Company and its subsidiaries, including Saul Holdings Limited Partnership (the Partnership) and two subsidiary limited partnerships (the Subsidiary Partnerships , and collectively with the Partnership, the Partnerships), and (ii) B.F. Saul Real Estate Investment Trust, the B.F. Saul Company, Chevy Chase Bank, F.S.B. and certain other affiliated entities, each of which is controlled by B. Francis Saul II and his family members (collectively, The Saul Organization) are discussed below.

Management of the Current Portfolio Properties. The Company and its subsidiaries entered into a shared services agreement (the agreement) with The Saul Organization that provides for the sharing of certain personnel and ancillary functions, such as computer hardware, software and support services, payroll services, benefits administration, in-house legal services and other direct and indirect administrative personnel. The method of determining the cost of the shared services is provided in the Agreement and, depending on the service, is based upon head count, estimates of usage or estimates of time incurred, as applicable. The Saul Organization also subleases office space to the Company (see below for description of terms of corporate headquarters lease). The terms of all sharing arrangements, including payments related thereto, are deemed reasonable by management and are approved annually by the Audit Committee of the Company, which consists entirely of independent directors under the Company s Articles and NYSE rules. Billings by The Saul Organization for the Company s share of these ancillary costs and expenses, which included $621,000 of rental payments for the Company s headquarters lease, for the year ended December 31, 2004 totaled $3,139,000. At December 31, 2004, $259,000 was owed to The Saul Organization. Although the Company believes that the amounts allocated to it for such shared services represent a fair allocation between it and The Saul Organization, the Company has not obtained a third party appraisal of the value of these services.

Related Party Rents. Chevy Chase Bank leases space in 14 of the shopping centers owned by the Company and its subsidiaries. The total rental income from Chevy Chase Bank from January 1, 2004 through December 31, 2004 was $1,733,000. Although the Company believes that these leases have comparable terms to leases it has entered into with third-party tenants, the terms of these leases were not set as a result of arm s-length negotiation. The terms of any lease with Chevy Chase Bank are approved in advance by the Audit Committee, which is comprised solely of independent directors.

The Company s corporate headquarters lease commenced in March 2002. The Company leases space from a member of The Saul Organization. The 10-year lease provides for an annual rental payment for the year ended December 31, 2004 of $621,000, escalated at 3% per year, with payment of a pro-rata share of operating expenses over a base year amount. The lease also provides for annual adjustments of rent based on the square footage used by the Company during the year. Although the Company believes that this lease has comparable terms to what would have been obtained from a third party landlord, it did not seek bid proposals from any independent third parties when entering into its new corporate headquarters lease.

Management Personnel. The Company s Chief Executive Officer, Chief Accounting Officer and President are also officers of various members of The Saul Organization. Although the Company believes that these officers spend sufficient management time to meet their responsibilities as its officers, the amount of management time devoted to the Company will depend on its specific circumstances at any given point in time. As a result, in a given period, these officers may spend less than a majority of their management time on the Company s matters. Over extended periods of time, the Company believes that its Chief Executive Officer will spend less than a majority of his management time on Company matters, while the Chief Accounting Officer and President may or may not spend less than a majority of their management time on the Company s matters.

Exclusivity and Right of First Refusal Agreements. The Company will acquire, develop, own and manage shopping center properties and will own and manage other commercial properties subject to certain exclusivity agreements and rights of first refusal to which it is a party. The Saul Organization will continue to develop, acquire, own and manage commercial properties and own land suitable for development as, among other things, shopping centers and other commercial properties. The agreement relating to exclusivity and the right of first refusal between the Company and The Saul Organization (other than Chevy Chase Bank, F.S.B.) (the Exclusivity and Right of First Refusal Agreement) generally requires The Saul Organization to conduct its shopping center business exclusively through the Company and to grant the Company a right of first refusal to purchase commercial properties and development sites in certain market areas that become available to The Saul Organization. The Saul Organization has granted the right of first refusal to the Company, acting through the Company s independent directors, in order to minimize potential conflicts with respect to commercial properties and development sites. The Company and The Saul Organization have entered into this agreement in order to minimize conflicts with respect to shopping centers and certain of the Company s commercial properties.

Reimbursement Agreement. Pursuant to a reimbursement agreement among the partners in the Partnerships, The Saul Organization and those of its subsidiaries that are partners in the Partnerships have agreed to reimburse the Company and the other partners in the event the Partnerships fail to make payments with respect to certain portions of the Partnerships debt obligations and the Company or any such other partners personally make payments with respect to such debt obligations. As of December 31, 2004, the maximum potential obligation of The Saul Organization and its subsidiaries under the agreement was $163,022,000. The Company believes that the Partnerships will be able to make all payments due with respect to their debt obligations.

OTHER MATTERS

The Board of Directors does not know of any matters to be presented at the annual meeting other than those stated above. If any other business should come before the annual meeting, the persons named in the enclosed proxy will vote thereon as they determine to be in the best interests of the Company.

PROPOSALS FOR NEXT ANNUAL MEETING

It is presently contemplated that the 2006 annual meeting of stockholders will be held in mid-April 2006. Any stockholder proposal to be considered for inclusion in the Company s proxy statement and form of proxy for the annual meeting of stockholders to be held in 2006, including a proposal relating to director nominations, must be received at the Company s office at 7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814-6522, no later than December 7, 2005.

Please note that proposals must comply with all of the requirements of Rule 14a-8 under the Exchange Act, as well as the requirements of the Company s Bylaws, which are described under the section captioned Board of Directors Corporate Governance Nominating and Corporate Governance Committee - Selection of Director Nominees. As a result, assuming that our 2006 annual meeting of stockholders is held within 30 days of the anniversary of the Company s 2005 annual meeting of stockholders, the Company must receive any proposals for consideration at the 2006 annual meeting of stockholders no earlier than January 26, 2006 and no later than February 25, 2006. In addition, the form of proxy that the Board of Directors will solicit in connection with the Company s 2006 annual meeting of stockholders will confer discretionary authority to vote on any proposal received between December 7, 2005 and January 26, 2006, or after February 25, 2006.

ANNUAL REPORT

A copy of the Company s Annual Report to Stockholders for the year ended December 31, 2004 accompanies this Proxy Statement.

By order of the Board of Directors

Scott V. Schneider
Chief Financial Officer and
Secretary

April 6, 2005

Bethesda, Maryland

7501 Wisconsin Avenue, Suite 1500

Bethesda, Maryland 20814-6522

The Annual Meeting of Shareholders

will be held at 11:00 a.m., local time,

on May 6, 2005, 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.)

SAUL CENTERS, INC.

A Proxy for Annual Meeting of Stockholders

May 6, 2005

This Proxy is solicited by the Board of Directors

The undersigned hereby appoints B. Francis Saul II and B. Francis Saul III, and each of them, as proxies, with full power of substitution in each, to vote all shares of the common stock of Saul Centers, Inc. (the Company) which the undersigned is entitled to vote, at the Annual Meeting of Stockholders of the Company to be held on May 6, 2005 at 11:00 a.m. local time, and at any adjournment thereof, on all matters set forth in the Notice of Meeting and Proxy Statement, dated April 6, 2005, a copy of which has been received by the undersigned as follows:

This Proxy will be voted as directed or, if no directions given, will be voted for the matters stated.

(Continued, and to be marked, dated and signed, on the other side)

PROXY

THIS PROXY WILL BE VOTED AS DIRECTED, OR IF NO DIRECTION IS INDICATED, WILL BE VOTED FOR THE PROPOSALS. THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

Please mark your votes like this X

1. Election of four directors to serve until the annual meeting of stockholders in 2008:

   (To withhold authority to vote for any individual nominee, strike a line through that nominee s name in the list below)

   1 B. Francis Saul II 2 John E. Chapoton

   3 James W. Symington 4 John R. Whitmore

   ¨ FOR ¨ WITHHOLD AUTHORITY

2. Ratification of Appointment of Ernst & Young LLP as the Company s Independent Registered Public Accounting Firm for 2005.

   ¨ FOR ¨ AGAINST ¨ ABSTAIN

3. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

   ¨ FOR ¨ AGAINST ¨ ABSTAIN

COMPANY ID:

PROXY NUMBER:

ACCOUNT NUMBER:

Signature	Signature	Date

NOTE: Please sign exactly as name appears hereon. When shares are held by joint owners, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give title as such. If a corporation, please sign full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.