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SAUL CENTERS INC  
Form PRE 14A  
March 24, 2004

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

SCHEDULE 14A

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY  
(AS PERMITTED BY RULE 14a-6(E) (2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to (S) 240.14a-11(c) or (S) 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):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i) (4) and 0-11.

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

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

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(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):

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(4) Proposed maximum aggregate value of transaction:  
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(5) Total fee paid:  
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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:  
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(2) Form, Schedule or Registration Statement No.:  
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(3) Filing Party:  
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(4) Date Filed:  
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Notes:

Reg. (S) 240.14a-101.  
SEC 1913 (3-99)

[LOGO OF SAUL CENTERS, INC.]

7501 Wisconsin Avenue, Suite 1500  
Bethesda, Maryland 20814-6522  
(301) 986-6200

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To Be Held April 23, 2004

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of SAUL CENTERS, INC., a Maryland corporation, will be held at 11:00 a.m. local time, on April 23, 2004, 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 2007, or until their successors are duly elected and qualified.

2. To approve the amendment to the First Amended and Restated Articles of Incorporation of Saul Centers, Inc. to conform the definition of "independent" directors to recent developments in applicable law, rules and regulations relating to independence requirements for the composition of the Board and any committee thereof.

3. To approve the 2004 Stock Plan.

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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 February 27, 2004 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

/s/ Scott V. Schneider

-----  
Scott V. Schneider  
Chief Financial Officer and Secretary

March 26, 2004  
Bethesda, Maryland

[LOGO] Saul Centers

7501 Wisconsin Avenue, Suite 1500  
Bethesda, Maryland 20814-5522  
(301) 986-6200

PROXY STATEMENT  
ANNUAL MEETING OF STOCKHOLDERS  
APRIL 23, 2004

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 23, 2004, 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 February 27, 2004 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

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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. For Proposal 2, the affirmative vote of the holders of two-thirds of the common shares outstanding as of the record date is required to approve the amendment to the First Amended and Restated Articles of Incorporation. For Proposal 3, the affirmative vote of a majority of the votes cast on the proposal is required to approve the 2004 Stock Plan, provided that the total vote cast on the proposal represents common shares outstanding as of the record date.

For Proposal 1, 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, 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. 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 common shares 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 and Company to assist in the solicitation of proxies. The Company anticipates that it will incur total fees of \$6,000 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 26, 2004.

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As of the record date, February 27, 2004, 15,988,877 shares of common stock of the Company, \$0.01 par value per share ("Common Stock"), were outstanding. 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 depository 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 30.8% of the outstanding shares of Common Stock, excluding 7.9% 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

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presents any other proposal to the meeting after March 24, 2004, 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 and the Amended and Restated 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 2004 will serve until the annual meeting of stockholders in 2007 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:

General Paul X. Kelley  
Charles R. Longworth  
Patrick F. Noonan  
B. Francis Saul III

Each of the directors 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 8. If any of the nominees cannot serve for any reason (which is not anticipated), the Board of Directors 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 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 unanimously recommends that you vote FOR these directors.

### 2. Approval of Amendment to the First Amended and Restated Articles of Incorporation to Require that the Composition of the Board of Directors and any Committee Thereof Satisfy all Independence Requirements of the Federal Securities Laws and the Rules and Regulations of any Stock Exchange or Automated Interdealer Quotation System on which the Company's Stock is Listed

#### Background

In the wake of the corporate scandals that have impacted Wall Street over the past few years, President Bush, the U.S. Congress, the Securities and Exchange Commission, the New York Stock Exchange and the National Association of Securities Dealers have adopted various corporate governance reforms, including the passage of the Sarbanes-Oxley Act in July 2002. The Act requires that all members of the Audit Committee of a public company be "independent" as defined in the Act and the rules promulgated by the SEC thereunder. In addition, both the NYSE and NASD have issued rules that would require a majority of the board of directors of a listed or quoted company to be "independent," as defined in the respective rules of the NYSE and NASD. The rules of the NYSE and NASD contain independence requirements for Audit Committee membership in addition to those adopted by the SEC.

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In response to these developments, the Company has adopted a series of "best practice" corporate governance procedures and documents, consisting of:

- . the adoption of disclosure controls and procedures,
- . the formation of a Nominating and Corporate Governance Committee and the adoption of a charter for such committee,
- . the adoption of an amended Audit Committee charter,
- . the adoption of a Compensation Committee charter,
- . the adoption of corporate governance guidelines,
- . the adoption of a whistleblower procedure for the reporting of accounting-related concerns, and
- . the adoption of a code of ethics covering the Company's senior financial officers, including B. Francis Saul II, the Company's Chairman and Chief Executive Officer.

In keeping with new SEC, NYSE and NASD rules, these documents provide that a majority of the Company's directors be "independent" and that all of the members of the Compensation Committee, Audit Committee and Nominating and Corporate Governance Committee be "independent" directors. When defining the term "independent," in order to conform with current "best practices," the Company referred to the definition of that term in the federal securities laws, the NYSE Listed Company Manual and the rules and regulations of the NYSE, which are referred to as the NYSE listing standards, and other laws and regulations applicable to the Company.

The Company also reviewed the definition of "independent" contained in the Company's First Amended and Restated Articles of Incorporation, which is referred to as the Articles. That definition, which was adopted in 1993 in connection with the Company's initial public offering, is inconsistent with the newly adopted NYSE and SEC guidelines and requirements and, as a result, is not consistent with current "best practices."

Under the Articles, a director is not independent if the director is affiliated with Mr. Saul II or his family members or is affiliated with various entities that are controlled by Mr. Saul II. This definition is inconsistent with the approach taken by the NYSE regarding the role and responsibility of the Board of Directors in reviewing the independence of each director. Currently, the Board of Directors is obligated by the Articles to determine whether or not any of the directors would fail to satisfy a specific objective test set forth in the Articles. If a director satisfies the specified tests, the director must be classified as "independent." The Board has no obligation to make additional inquiries or to take into account other relationships with the Company in order to classify a director as "independent." In contrast, the NYSE listing standards specifically require the Board of Directors to make an affirmative determination that each "independent" director does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of the director.

In addition, the NYSE listing standards, which have been incorporated into the Company's recently adopted governance documents, require that the members of specified committees of the Board of Directors qualify as "independent." As indicated, the Company has complied with these listing standards in defining "independent" in the governance documents. The current definition in the Articles does not apply to the determination of independence of a director in his capacity as a member of a committee. As a result, a director who is not

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"independent" under the Articles may still qualify as an "independent" member of a committee.

After careful consideration of the definitions contained in the Articles, the recently adopted SEC rules and the recently adopted NYSE listing standards, and the purposes for each definition, the Board of Directors has determined that it is advisable and in the best interest of the stockholders of the Company that a single, consistent definition of "independent" be used to determine the independence of a director. The Board believes that it would be, at best, confusing, and possibly unworkable, to have different definitions of independence governing its directors. The Board of Directors also determined that the definitions recently adopted by the SEC and the NYSE are more appropriate than the definition in the Articles because they require, before a director may be considered to be "independent," an in-depth analysis by the full Board of Directors of all relationships between that director and the Company and the Board's determination that these relationships are unlikely to affect the director's ability to exercise independent judgment in acting as one of the Company's directors.

Accordingly, the Board of Directors is recommending that the Articles be amended, as set forth below under "Proposed Amendment," to eliminate any conflict between the definition of "independent" and the definition used in the governance documents that the Board recently adopted in order to comply with current "best practices" and the laws and regulations currently applicable to the Company.

Please note that, regardless of whether the amendment to the Articles is adopted, the Company currently satisfies all applicable independence requirements, including those established by the SEC, the NYSE and the Articles.

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### Proposed Amendment

The Board of Directors, for the reasons described above under "Background," believes it is in the best interests of the Company and its stockholders to amend the First Amended and Restated Articles of Incorporation to require that the composition of the Board and any committee thereof satisfy all independence requirements of the federal securities laws and the rules and regulations of any stock exchange or automated interdealer quotation system on which the Company's stock is listed. The Board of Directors has unanimously approved an amendment to the First Amended and Restated Articles of Incorporation deleting in its entirety Article V. Section 3. thereof and substituting as Article V. Section 3. the following:

Section 3. Independent Directors. Notwithstanding anything herein to the contrary, at all times (except during a period of vacancy or vacancies on the Board of Directors), the Board of Directors and any committee thereof shall have such number of directors with such characteristics as may be necessary to satisfy all independence requirements set forth in the Securities Exchange Act of 1934 and the rules and regulations promulgated by the Securities and Exchange Commission thereunder, and the rules and regulations of any stock exchange or automated interdealer quotation system on which any equity securities of the Company are listed or quoted.

The Board of Directors unanimously recommends that you vote FOR the amendment to the First Amended and Restated Articles of Incorporation.

### 3. Approval of 2004 Stock Plan

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What is the Company's 2004 Stock Plan?

The Company's 2004 Stock Plan, which we refer to as the Plan, was originally adopted by the Board of Directors on March 3, 2004.

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 stockholders.

We are asking you to approve the Plan, as described below. The purpose of the Plan is to promote the growth and success of the Company by aligning the personal interests of directors, employees and consultants to those of the Company's stockholders. The closing price of the Common Stock on the NYSE as of February 27, 2004 was \$27.88.

Set forth below is a summary of some of the material terms of the Plan. For a more complete description of such terms, however, you should read a copy of the Plan, 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, consultants and directors 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. 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.



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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 pursuant to awards of stock options is 500,000 shares. No individual may receive awards of stock options representing more than 500,000 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 is 100,000 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.

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 may also establish a deferred compensation program under which fees payable by the Company to directors may be deferred in the form of a stock award.

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

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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

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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, (iii) through withholding by the Company of shares otherwise issuable upon exercise of the option, (iv) through sale on the open market through a broker-dealer of shares issuable upon exercise of the option, or (v) any other manner permitted by the Compensation Committee in its discretion. 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.

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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?

The Compensation Committee has not yet made awards under the Plan. 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 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.

What are the Federal income tax consequences of the Plan?

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

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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.

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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.

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

### 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 1, 2004 unless otherwise indicated.

Name ----	Age ---	Principal Occupation and Current Director -----
Class Two Directors-Term Ends at 2007 Annual Meeting (if elected)		
General Paul X. Kelley	75	Director since June 1993. Chairman of American Commission since 2001. Partner of J.F. LeComandant of the Marine Corps and member Staff from 1983 to 1987. Director of Stur OAO Technology Solutions, Inc. and London
Charles R. Longworth	74	Director since June 1993. Chairman Emerit Williamsburg Foundation. President and Tr Williamsburg Foundation from 1977 through Hampshire College. Chairman Emeritus, Tr Director of the Center for Public Resourc
Patrick F. Noonan	61	Director since June 1993. Chairman Emerit Fund. Chairman of The Conservation Fund f Trustee of the National Geographic Societ Advisors of Duke University School of the Ashland Inc.* Member of the President's C Fellows.
B. Francis Saul III	42	President and Director since June 1997. V Company from 1997 to 2003. Senior Vice Pr Company. President of the B.F. Saul Prope President and a Trustee of the B.F. Saul Trust*. Vice Chairman of Chevy Chase Bank Chairman of the Boys & Girls Clubs of Gre Chairman and Director of Children's Natio

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Director of The Conservation Fund.

Class Three Directors-Term Ends at 2005 Annual Meeting

B. Francis Saul II	71	Chairman, Chief Executive and Director since 1969 and Chairman of the Board of Directors of the B.F. Saul Real Estate Investment Trust* since 1969 and a Chairman of the Board and Chief Executive Officer of the B.F. Saul Bank, F.S.B.* since 1969. Member of National Board of Trustees Council. Trustee of the National Endowment for the Arts. Trustee of the Johns Hopkins Medicine Board of Trustees. Trustee of the Brookings Institution.
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Name	Age	Principal Occupation and Current Directorships
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Class Three Directors-Term Ends at 2005 Annual Meeting (continued)

John E. Chapoton	67	Director since October 2002. Partner, Brodsky, Glickman & Associates, P.C. since 2001. Partner in the law firm of Venable, Van Nostrand & Kariwa, P.C. from 1994 to 2000. Director of Stancorp Financial Services, Inc. since 1994.
James W. Symington	76	Director since June 1993. Of Counsel in the law firm of Hannan, Kline & Handberg, P.C. since 1986. Member of Congress from 1966 to 1986. Chairman of the Board of Directors of the Rehabilitation Hospital of the University of Maryland from 1966 to 1968. Chairman of the Board of Directors of the Rehabilitation Hospital of the University of Maryland from 1966 to 1968.
John R. Whitmore	70	Director since June 1993. Senior Advisor to the Board of Directors of the Bessemer Trust since 1998. Formerly President and Chairman of the Board of Directors of the Bessemer Group and its Bessemer Trust (a financial management and banking group) and Chairman of the Board of Directors of the Bessemer Securities Corporation from 1975 to 1998. Chairman of the Board of Directors of Bessemer Funds, Inc.*, the B.F. Saul Company, Chevy Chase Property Company. Trustee of the B.F. Saul Real Estate Investment Trust*. Chairman of the Board of Directors of Capital Management, Inc. and Chevy Chase Bank, F.S.B.*.

Class One Directors-Term Ends at 2006 Annual Meeting

Philip D. Caraci	65	Vice Chairman since March 2003, Director of the B.F. Saul Real Estate Investment Trust from 1993 to March 2003. Senior Vice President of the B.F. Saul Real Estate Investment Trust from 1993 to March 2003. Vice President of the B.F. Saul Company from 1972 to 1993. Chairman of the Board of Directors of the Chevy Chase Property Company from 1986 to 2003. Trustee of the B.F. Saul Real Estate Investment Trust*.
Gilbert M. Grosvenor	72	Director since June 1993. President (1980-1993) and Chairman of the Board of Trustees (1980-1993) of the Geographic Society, with which he has been associated since 1972. Director of Chevy Chase Bank, F.S.B.*, Metropolitan Bank, F.S.B.*, and a Trustee of the B.F. Saul Real Estate Investment Trust*.

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Trust\*.

Philip C. Jackson, Jr.	75	Director since June 1993. Adjunct Professor at Birmingham-Southern College from 1989 to 1993. Chairman of the Depositors' Protection Oversight Board for Bancshares, Inc. (now Bancshares Bancshares, Inc.) from 1980 to 1989. Member of the Governors of the Federal Reserve System and Chairman of International Realty Corp*.
David B. Kay	47	Director since October 2002. Chief Financial Officer of Bancshares Companies from 2002 to present. Partner at Bancshares from 1990 to 2002. Director of Chevy Chase Bancshares.

\* 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.

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### Compensation Committee Interlocks and Insider Participation

B. Francis Saul II, Chairman of the Board and Chief Executive Officer of the Company, served on the Board of Trustees and the Compensation Committee of the National Geographic Society during 2003. Gilbert M. Grosvenor, a director of the Company and a member of the Company's Compensation Committee during 2003, serves as Chairman of the Board of Trustees of the National Geographic Society.

### 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 on the Company's website at [www.saulcenters.com](http://www.saulcenters.com).

Independence and Composition. As discussed in Proposal 2 above, the Articles and the NYSE listing standards each require that a majority of the Board of Directors be "independent" directors, as that term is 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, Jackson, Kay, Kelley, Longworth, Noonan and Symington, representing a majority of the Board of Directors, are "independent" as that term is defined in the NASD listing standards and the Articles, and as that term is proposed to be defined in the amendment to the Articles described in Proposal 2 above.

Meetings and Attendance. The Board of Directors met five times in the year ended December 31, 2003. Each of the directors currently serving on the Board of Directors, including the nominees, attended at least 79% of the aggregate of the 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

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directors to make themselves available to attend scheduled and special Board meetings on a consistent basis. All of the 12 directors as of the date of the 2003 annual meeting were in attendance for the 2003 annual meeting.

**Shareholder Communications.** The Board of Directors has adopted a process whereby its stockholders can send communications directly to the directors. Any stockholder wishing to communicate directly with one or more directors may do so in writing addressed to the director or directors, c/o Saul Centers, Inc., 7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20815-6522. 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 attached hereto as Annex B and is also available on the Company's website at [www.saulcenters.com](http://www.saulcenters.com). 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 independent public accountants,
- . reviews with the independent accountants the plans and results of the audit engagement,
- . pre-approves all audit services and permitted non-audit services provided by the independent public accountants,
- . reviews the independence of the independent public accountants,
- . 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 accountants 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 2003, Messrs. Kelley, Longworth, Noonan and Symington, were, and they currently are, the members of the Audit Committee, with General Kelley serving as chairman. Mr. Kay was appointed to the committee in April 2003.

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 nine times in the year ended December 31, 2003.

### 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 on the Company's website at [www.saulcenters.com](http://www.saulcenters.com). As provided in the

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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 Amended and Restated Bylaws, which is referred to as the Bylaws, and the Exchange Act, any proposal from stockholders regarding possible director candidates to be elected at a future annual meeting must be received by the Company at 7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20815-6522, 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 2005 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,



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- . 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
- . 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, management or employees.

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Independence and Composition. The NYSE listing standards require that the Nominating and Corporate Governance Committee consist solely of independent directors. From January 1, 2003 through December 4, 2003, Messrs. Grosvenor, Whitmore and Jackson were the members of the Nominating and Corporate Governance Committee. On December 4, 2003, upon making a determination that Mr. Whitmore was not an "independent" director of the Company under the Exchange Act and the NYSE listing standards, the Nominating and Corporate Governance Committee recommended, and the Board of Directors approved, the removal of Mr. Whitmore from the Nominating and Corporate Governance Committee. Messrs. Grosvenor and Jackson are the current 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" as that term is defined in the NASD listing standards.

Meetings. The Nominating and Corporate Governance Committee met once in the year ended December 31, 2003.

### 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 on the Company's website at [www.saulcenters.com](http://www.saulcenters.com). 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.

Independence and Composition. The NYSE listing standards require that the Compensation Committee consist solely of independent directors. From January 1,

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2003 through December 4, 2003, Messrs. Grosvenor and Whitmore were the members of the Compensation Committee. On December 4, 2003, upon making a determination that Mr. Whitmore was not an "independent" director of the Company under the Exchange Act and the NYSE listing standards, the Nominating and Corporate Governance Committee recommended, and the Board of Directors approved, the removal of Mr. Whitmore from the Compensation Committee and the appointment of Mr. Jackson as a member of the Compensation Committee. Messrs. Grosvenor and Jackson are the current 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" as that term is defined in the NYSE listing standards.

Meetings. The Compensation Committee met two times in the year ended December 31, 2003.

### 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 2003, Messrs. Caraci, Jackson and Saul II, were, and they currently are, the members of the Executive Committee, with Mr. Saul II serving as chairman. Mr. Saul III was appointed to the committee in June 2003.

Meetings. The Executive Committee met once in the year ended December 31, 2003.

### Code of Ethics

The Company's Chairman and Chief Executive Officer, Senior Vice President-Chief Financial Officer, Treasurer and Secretary, Vice President and Chief Accounting Officer and Controller are also governed by the recently adopted code of ethics for senior financial officers. The code of ethics is available on the Company's website at [www.saulcenters.com](http://www.saulcenters.com). Amendments to, or waivers from, a provision of 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 of Directors

Directors of the Company are currently paid an annual retainer of \$18,000 and a fee of \$1,000 for each Board or Committee meeting attended, and are annually awarded 100 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, and their issuance may not be deferred and transfer of the shares is restricted for a period of 12 months following the date of issue. Directors from outside the Washington, D.C. area also are reimbursed for out-of-pocket expenses in connection with their attendance at meetings. For the year ended December 31, 2003, the Company paid its directors total compensation of \$350,280, of which \$47,750 was paid in cash, \$273,250 was paid in deferred stock compensation (as described below), and

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\$29,280 was paid through annual Common Stock awards.

In addition, directors may elect to participate in the Deferred Compensation and Stock Plan discussed below. For the year ended December 31, 2003, 19,769 shares were credited to the directors' deferred fee accounts.

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. In 2003, Mr. Caraci received \$75,886 in consulting fees pursuant to this arrangement.

### 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. A director has the option to have deferred fees paid in cash, in shares of Common Stock or in a combination of cash and Common Stock. If the director elects to have the deferred fees paid in stock, the number of shares allocated to the director is determined based on the market value of the Common Stock on the day the deferred director's fees were earned.

In connection with the Company's initial public offering of its Common Stock in 1993, 20,000 shares of Common Stock were authorized for the Directors Plan and were reserved for listing with the New York Stock Exchange upon issuance. Between 1996 and 2001, the Company authorized and reserved for listing with the New York Stock Exchange an additional 150,000 shares of Common Stock in connection with the Directors Plan. Through February 27, 2004, 153,420 of these 170,000 shares have been credited to the directors' deferred fee accounts.

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	
	2003 -----	Total -----
Philip D. Caraci	1,609	11,375
John E. Chapoton	963	1,379
Gilbert Grosvenor	2,409	23,281
Philip C. Jackson, Jr.	908	14,843
David B. Kay	1,135	1,345
General Paul X. Kelley	1,520	4,916
Charles R. Longworth	2,708	25,023
Patrick F. Noonan	1,952	18,476
B. Francis Saul II	1,581	10,913
B. Francis Saul III	1,569	10,725
James W. Symington	1,094	8,213
John R. Whitmore	2,321	22,931
	-----	-----
Total	19,769	153,420
	=====	=====

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### REPORT OF THE COMPENSATION COMMITTEE

Compensation Philosophy. The goal of the Compensation Committee (the "Compensation Committee") is to design and administer a compensation program to (i) attract and retain qualified officers, (ii) reward officers for superior performance in achieving Company business objectives and enhancing stockholder value and (iii) provide incentives for the creation of long-term stockholder value. The key elements of executive compensation are base salary, annual performance bonuses and incentive stock options. The Compensation Committee reviews and approves the Company's policies and practices regarding executive compensation, including (a) base salary levels, (b) annual performance bonuses, and (c) long-term incentives, including awards of stock options.

Base Salary and Bonus Awards. As part of its review of compensation, the Committee considers a variety of factors, including each individual's tenure, level and scope of responsibility and performance, contribution to the Company's achievement of its long-term goals, as well as factors relating to the overall performance of the Company and management's recommendations regarding compensation.

The Committee believes that base salary levels and annual bonus awards are reasonably related to the base salary levels and annual bonus awards of officers of comparable real estate investment trusts and other real estate companies. The Committee also believes 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 1993 Stock Option Plan, which expired in 2003 provided for, and the 2004 Stock Plan if approved by the Company's stockholders, will provide for grants of nonqualified and incentive stock options to employees, including officers. The Compensation Committee administers the plans 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 plans.

On May 23, 2003, the Compensation Committee awarded 220,000 stock options to officers of the Company. Of the 220,000 stock options, 80,000 were incentive stock options and 140,000 were nonqualified stock options. The options vest 25% per year over a four-year period and are exercisable at \$24.91 per share, representing that fair market value of the Company's Common Stock on the date of grant.

Compensation of the Chief Executive Officer. The Compensation Committee uses the same procedures described above in setting the annual salary, bonus and stock option awards of the Chief Executive Officer. In 2003, Mr. Saul received a base salary of \$125,000 and a bonus award of \$10,000. In doing so, the Compensation Committee considered the Company's 2003 performance and additional subjective factors such as Mr. Saul's continued success in maintaining a stable and creditworthy tenant base and income stream, retaining a team of highly-qualified professionals, as well as maintaining overall stockholder confidence.

Members of the Compensation Committee  
Gilbert M. Grosvenor, Chair

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Philip C. Jackson, Jr.

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### 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 M. Laurence Millspaugh and Kenneth D. Shoop, who joined the Company in 1996 and 2003, 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	49	Senior Vice President - Leasing since 1998. Vice President - of the Company from 1993 to 1998. Vice President of the B.F. Company and B.F. Saul Property Company and Assistant Vice Pre the B.F. Saul Real Estate Investment Trust from 1987 to 1993.
Scott V. Schneider	46	Senior Vice President - Chief Financial Officer, Treasurer and Secretary since 1998. Vice President - Chief Financial Office Treasurer and Secretary of the Company from 1993 to 1998. Vi President of the B.F. Saul Company and B.F. Saul Property Com and Assistant Vice President of the B.F. Saul Real Estate Inv Trust from 1985 to 1993.
Charles W. Sherren, Jr.	50	Senior Vice President - Management since 2000. Vice President Management of the Company from 1993 to 2000. Vice President o B.F. Saul Company and B.F. Saul Property Company and Assistan President of the B.F. Saul Real Estate Investment Trust from 1993.
John F. Collich	44	Senior Vice President - Retail Development since 2000. Vice P - Retail Development of the Company from 1993 to 2000. Vice P of the B.F. Saul Company and B.F. Saul Property Company in 19
M. Laurence Millspaugh	46	Senior Vice President - Acquisitions and Development since 20 Vice President - Acquisitions and Development of the B.F. Sau from 2002 to present. Vice President of Development of the C the B.F. Saul Company from 1996 to 2002. Senior Vice Presiden Buchanan Companies from 1989 to 1996.
Kenneth D. Shoop	44	Vice President and Chief Accounting Officer since December 20 President, Treasurer and Chief Accounting Officer of the B.F. Estate Investment Trust since January 2004. Vice President of Saul Company and B.F. Saul Property Company since September 2 President and Controller of Federal Realty Investment Trust f to September 2003. Assistant Controller of Federal Realty Inv Trust from 1992 to 2000.

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## EXECUTIVE COMPENSATION

### Annual Compensation

The Company pays compensation to its executive officers for their services in such capacity. The following Summary Compensation Table sets forth the annual and long-term compensation paid by the Company to the Company's Chief Executive Officer and each of its four other most highly compensated executive officers who were serving as of December 31, 2003, ("named executive officers") for, or with respect to, the periods ended December 31, 2003, 2002, and 2001.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation	All
		Salary	Bonus	Stock Option Awards (Shs)	Other Compensation (1)
B. Francis Saul II Chairman and Chief Executive Officer	2003	\$ 125,000	\$ 10,000	--	--
	2002	125,000	10,000	--	--
	2001	125,000	10,000	--	--
B. Francis Saul III President (2)	2003	286,462	24,000	--	--
	2002	260,000	18,200	--	--
	2001	226,667	16,450	--	--
Christopher H. Netter Senior Vice President Leasing	2003	251,108	17,897	--	\$ 20,048
	2002	243,500	17,045	--	23,114
	2001	226,667	16,100	--	15,615
Scott V. Schneider Senior Vice President Chief Financial Officer	2003	246,400	17,724	--	20,720
	2002	233,500	16,345	--	19,767
	2001	216,667	15,400	--	15,415
John F. Collich Senior Vice President Retail Development	2003	213,615	32,603	--	17,386
	2002	202,985	31,050	--	14,818
	2001	198,807	13,650	--	20,727

(1) Amounts paid represent Company's contribution to Employees' Profit Sharing Retirement Trust and Company's payment of life insurance premiums for the benefit of the named executive officers.

(2) Served as Vice Chairman until March 20, 2003.

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### Stock Option Grants in Last Year

The following table sets forth the options to purchase Common Stock granted to the named executive officers in 2003.

Individual Grants	Potential R at Assumed
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Name	Number of Shares Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Year	Exercise or Base Price (\$/Sh)	Expiration Date (1)	of Stock Appreciation T 5% (\$) (2)
B. Francis Saul II Chairman and Chief Executive Officer	--	--	--	--	--
B. Francis Saul III President	80,000	57.1%	24.91	5/23/13	1,253,600
Christopher H. Netter Senior Vice President Leasing	30,000	21.4%	24.91	5/23/13	470,100
Scott V. Schneider Senior Vice President Chief Financial Officer	30,000	21.4%	24.91	5/23/13	470,100
John F. Collich Senior Vice President Retail Development	30,000	21.4%	24.91	5/23/13	470,100

(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 2003 by the named executive officers and the value of such officers' unexercised options at December 31, 2003.

Name	Shares/Units Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at Year-End (#) Exercisable/Unexercisable	Value of In-the-Money Year-End Exercisable
B. Francis Saul II Chairman and Chief Executive Officer	--	--	--/--	
B. Francis Saul III President	--	--	--/80,000	
Christopher H. Netter Senior Vice President Leasing	5,000	14,830	--/30,000	

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Scott V. Schneider	15,100	40,479	--/30,000
Senior Vice President			
Chief Financial Officer			
John F. Collich	--	--	--/30,000
Senior Vice President			
Retail Development			

- (1) None of the unexercised options are vested. All of the unexercised options have an exercise price of \$24.91 per share and expire on May 23, 2013, with earlier expiration to occur at employment termination.

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### EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of February 27, 2004 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)
Equity compensation plans approved by security holders (1)	220,000	\$ 24.91
Equity compensation plans not approved by security holders (2)	153,000 (3)	\$ 18.44
Total		

- (1) Consists entirely of common shares authorized for issuance under the 1993 Stock Option Plan.
- (2) Consists entirely of common shares authorized for issuance under the Directors Plan.
- (3) Shares are issued upon deferral of directors' compensation fees, at the time directors' fee are earned. Shares may not be transferred or sold until the director no longer serves on the Company's Board of Directors.

### 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 attached hereto as Annex B and which is also



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available on the Company's website at [www.saulcenters.com](http://www.saulcenters.com). 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 independent public accountants,
- . reviews with the independent accountants the plans and results of the audit engagement,
- . pre-approves audit and permitted non-audit services provided by the independent public accountants,
- . reviews the independence of the independent public accountants,
- . reviews the adequacy of the Company's internal accounting controls, and
- . reviews accounting, auditing and financial reporting matters with the Company's independent accountants and management.

Review and Discussion with Management. The Audit Committee has reviewed and discussed the Company's financial statements for the year ended December 31, 2003 with management.

Review and Discussion with Independent Auditors. The Audit Committee has discussed with the independent auditors 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 auditors regarding their independence, and has discussed this report with the auditors.

Change in Auditor. On June 21, 2002, the Board of Directors, following the recommendation of the Audit Committee, approved the dismissal of Arthur Andersen LLP as the Company's principal independent accountant. On the same date, the Board approved, in accordance with the Audit Committee's recommendation, the engagement of Ernst & Young LLP to serve as the Company's principal independent accountant to audit the Company's financial statements for the year ended December 31, 2002.

Arthur Andersen LLP did not report on the Company's consolidated financial statements for either of the Company's two most recent years ended December 31, 2003 and 2002. Between January 1, 2002 and June 21, 2002, there were no disagreements with Arthur Andersen LLP on any matter of accounting principles or practices, financial statement disclosure, or

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auditing scope or procedure which, if not resolved to Arthur Andersen LLP's satisfaction, would have caused them to make reference to the subject matter in connection with their reports. During that period and through the date hereof, there were no "reportable events," as defined in Item 304(a)(1)(v) of Regulation S-K.

Prior to Ernst & Young LLP's engagement on June 21, 2002, the Company did not consult Ernst & Young LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type

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of audit opinion that might be rendered on the Company's consolidated financial statements, or any other matters or reportable events required to be disclosed under Items 304(a) (2) (i) and (ii) of Regulation S-K.

The Audit Committee currently believes that the Company should continue its relationship with Ernst & Young LLP and has appointed Ernst & Young LLP to continue as its independent accountants for the year ending December 31, 2004.

One or more representatives of Ernst & Young LLP will be available at the annual meeting to answer questions and make a statement if they desire.

2003 and 2002 Audit Firm Fee Summary. During years 2003 and 2002, the Company retained Ernst & Young LLP and Arthur Andersen LLP to provide services in the following categories and amounts:

	Year 2003		Year 2002	
	Ernst & Young LLP		Ernst & Young LLP	Arthur Andersen
Audit Fees (1)	\$ 296,900		\$ 155,750	-
Audit Related & Consultation Fees (2)	8,000		2,500	\$ 9,080
Tax Fees (3)	114,000		108,500	-
Other	--		--	-
Total Fees	\$ 418,900		\$ 266,750	\$ 9,080
	=====		=====	=====

- (1) Audit fees include the audit fee 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 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 2003 is compatible with maintaining Ernst & Young LLP's independence.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor. Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent auditor. 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 auditor.

Prior to engagement of the independent auditor 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 auditor and management to report actual fees versus the budget

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periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services not contemplated in the original pre-approval. In those instances, the Audit Committee requires specific pre-approval before engaging the independent auditor.

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, 2003 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, 1998.

#### Comparison of Cumulative Total Return

[GRAPH]

	Dec. 1998	Dec. 1999	Dec. 2000	Dec. 2001	Dec. 2002	Dec. 2003
Saul Centers	\$100	\$101	\$149	\$186	\$222	\$286
Russell 2000	\$100	\$121	\$110	\$ 97	\$ 76	\$ 97
NAREIT Equity	\$100	\$ 95	\$121	\$137	\$143	\$196
S&P 500	\$100	\$121	\$118	\$121	\$ 96	\$144

#### 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, no person was late filing SEC Forms 3, 4 or 5 during the year ended December 31, 2003, except on May 15, 2003, Charles W. Sherren Jr., Senior Vice President - Management, reported one day later than required, that

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he sold 100 shares of Saul Centers common stock on May 12, 2003 at a price of \$24.62 per share and sold 1,100 shares of Saul Centers common stock on May 12, 2003 at a price of \$24.50 per share.

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### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of February 27, 2004, 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 February 27, 2004. 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 February 27, 2004.

Name of Beneficial Owner (1)	Aggregate Number of Shares Beneficially Owned (2)	Percent of Class (2)
B. Francis Saul II	4,587,438 (3)	28.7%
Philip D. Caraci	106,931 (4)	*
John E. Chapoton	1,483	*
Gilbert Grosvenor	23,781	*
Philip C. Jackson, Jr.	61,143 (5)	*
David B. Kay	3,536	*
General Paul X. Kelley	19,671	*
Charles R. Longsworth	27,223	*
Patrick F. Noonan	30,597 (6)	*
B. Francis Saul III	23,884 (7)	*
James W. Symington	8,965	*
John R. Whitmore	25,181	*
John F. Collich	3,640 (8)	*
Christopher H. Netter	468 (9)	*
Scott V. Schneider	3,893 (10)	*
All directors and officers as a group (20 persons)	4,928,831	30.8%

\* 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 153,420 shares earned by directors in the Directors Plan. (See page 13, Deferred Compensation Plan.)
- (3) Includes 3,612,157 shares owned by the B. F. Saul Real Estate Investment Trust, 284,497 shares owned by Dearborn LLC, 221,476 shares owned by B. F. Saul Property Co., 374,030 shares owned by Westminster Investing Corporation, 105 shares owned by Van Ness Square Corporation, 23,014 shares

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owned by various family trusts for which Mr. Saul II is either the sole trustee or sole custodian for a child, and 60,631 shares owned by Mr. Saul II's spouse. Mr. Saul II disclaims beneficial ownership of 60,631 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. Excludes 1,265,337 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, 200,443 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 49,615 shares owned in trust by Mr. Caraci's spouse for which Mr. Caraci is a co-trustee with his spouse and 2,570 shares owned by Mr. Caraci's spouse in an individual retirement account. Mr. Caraci disclaims beneficial ownership of 52,185 shares owned by his spouse. Excludes 1,265,337 shares owned by the Employee Trust. Mr. Caraci is one of four Trustees for the Employee Trust.
- (5) Mr. Jackson disclaims beneficial ownership of 2,800 shares owned by his spouse.
- (6) Mr. Noonan disclaims beneficial ownership of 6,016 shares owned by his spouse.
- (7) Excludes 80,000 shares subject to options held by Mr. Saul III, but not currently exercisable.
- (8) Excludes 30,000 shares subject to options held by Mr. Collich, but not currently exercisable.
- (9) Excludes 30,000 shares subject to options held by Mr. Netter, but not currently exercisable, and includes 329 shares owned by his spouse. Mr. Netter disclaims beneficial ownership of the 329 shares owned by his spouse.
- (10) Excludes 30,000 shares subject to options held by Mr. Schneider, but not currently exercisable, and includes 1,319 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 share with The Saul Organization certain ancillary functions, such

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as computer and payroll services, benefits administration and in-house legal services. 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 reviewed periodically 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 for the year ended December 31, 2003 totaled \$2,628,000, of which \$2,313,000 was paid prior to December 31, 2003. 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 15 of the shopping centers owned by the Company and its subsidiaries. The total rental income from Chevy Chase Bank from January 1, 2003 through December 31, 2003 was \$1,495,000. 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, 2003 of \$526,000, 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. The total rental expense reflected in the Company's financial statements, in accordance with generally accepted accounting principles, for the year ended December 31, 2003 was \$584,000. 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

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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.

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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, 2003, the maximum potential obligation of The Saul Organization and its subsidiaries under the agreement was \$166,876,000. 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 2005 annual meeting of stockholders will be held in mid-April 2005. 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 2005, 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 November 20, 2004.

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. In addition, proposals relating to director nominations must comply with the policy of the Nominating and Corporate Governance Committee set forth under the section captioned "Board of Directors - Corporate Governance - Nominating and Corporate Governance Committee - Selection of Director Nominees."

In addition, the form of proxy that the Board of Directors will solicit in connection with the Company's 2005 annual meeting of stockholders will confer discretionary authority to vote on any proposal, unless the Secretary of the Company receives notice of that proposal no earlier than January 26, 2005 and no later than February 25, 2005, and the notice complies with the other requirements described in the preceding paragraph.

### ANNUAL REPORT

A copy of the Company's Annual Report to Stockholders for the year ended December 31, 2003 accompanies this Proxy Statement.

By order of the Board of Directors

/s/ Scott V. Schneider

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Scott V. Schneider  
Chief Financial Officer and Secretary

March 26, 2004  
Bethesda, Maryland

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## ANNEX A

### THE SAUL CENTERS, INC. 2004 STOCK PLAN

#### SECTION 1. PURPOSE.

The purpose of the Plan, as hereinafter set forth, is to enable the Company to attract, retain and reward corporate officers, managerial and other significant employees, directors, and non-employees who have an ongoing consultant or advisor relationship with the Company, by offering such individuals an opportunity to have a greater proprietary interest in and a closer identity with the Company and its financial success.

#### SECTION 2. DEFINITIONS.

(a) Affiliate. An entity that qualifies as a Subsidiary Corporation with respect to the Company, or a "parent corporation" with respect to the Company within the meaning of Section 424(e) of the Code, whether such entity qualifies as a parent corporation or a subsidiary corporation as of the initial adoption of the plan or thereafter. Except for purposes of determining a Participant's eligibility to receive an Incentive Stock Option, the term "Affiliate" shall also include any other entity in which the Company or any of its Affiliates has a material equity interest.

(b) Board. The Board of Directors of the Company.

(c) Code. The Internal Revenue Code of 1986, as amended from time to time.

(d) Committee. The Compensation Committee of the Board (or subcommittee thereof) or such other committee (or subcommittee thereof) as shall be appointed by the Board to administer the Plan pursuant to Section 3. The Committee shall consist solely of two (2) or more directors who are (i) "non-employee directors" (within the meaning of Rule 16b-3 under the Exchange Act) for purposes of exercising administrative authority with respect to Options granted to Participants who are subject to Section 16 of the Exchange Act; (ii) to the extent required by the rules of the New York Stock Exchange or any national stock exchange or automated quotation system on which the Common Stock is then listed or quoted, "independent" within the meaning of such rules; and (iii) at such times as an Option granted under the Plan by the Company is subject to Section 162(m) of the Code (to the extent relief from the limitation of Section 162(m) of the Code is sought with respect to Options and administration of the Options by a committee of "outside directors" is required to receive such relief) "outside directors" within the meaning of Section 162(m) of the Code.

(e) Common Stock. The common stock, \$0.01 par value, of the Company or such other class of shares or other securities as may be applicable pursuant to the provisions of Section 8.

(f) Company. Saul Centers, Inc., a Maryland corporation, and any successor thereto.

(g) Continuous Service. The Participant's service with the Company or an Affiliate, whether as an employee, director or consultant, is not interrupted or



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terminated. A Participant's Continuous Service shall not be deemed to have been interrupted or terminated merely because of a change in the capacity in which the Participant renders service to the Company or an Affiliate or a change in the entity for which the Participant renders such service. The Participant's Continuous Service shall be deemed to have terminated either upon actual termination or the entity for which the Participant performs service ceases to be an Affiliate. The Committee shall determine whether Continuous Service shall be considered interrupted in the case of a leave of absence approved by the Company or an Affiliate, including sick leave, military leave or any other personal leave.

(h) Disabled or Disability. Permanent and total disability, as defined in Section 22(e)(3) of the Code. A Participant shall not be considered Disabled unless the Committee determines that the Disability arose before such Participant's termination of employment or, in the case of a director or a non-employee Participant, before the termination of the director, consulting or advisor relationship between such Participant and the Company or an Affiliate.

(i) Exchange Act. The Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, as such law, rules and regulations may be amended from time to time.

(j) Fair Market Value. On any given date, the current fair market value of the shares of Common Stock as determined as follows. (i) if the Common Stock is traded on New York Stock Exchange, is listed on a national securities exchange or is quoted on an automated quotation system, the closing price for the day of determination as quoted on such market or exchange which is the primary market or exchange for trading of the Common Stock or if no trading occurs on such date, the last day on which trading occurred, or such other appropriate date as determined by the Committee in its discretion, as reported in The Wall Street Journal or such other source as the Committee deems reliable; (ii) if the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high and the low asked prices for the Common Stock for the day of determination; or (iii) in the absence of an established market for the Common Stock, Fair Market Value shall be determined by the Committee in good faith.

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(k) Incentive Stock Option. An Option that is intended to qualify as an "incentive stock option" under Section 422 of the Code.

(l) Nonqualified Stock Option. An Option that is not an Incentive Stock Option.

(m) Operating Partnership Units. The interest held by The Saul Organization in the Saul Holdings Limited Partnership.

(n) Option. An option to purchase shares of Common Stock granted to a Participant pursuant to Section 6.

(o) Participant. An employee of the Company (including any employee who is a member of the Board) or an Affiliate, a director of the Company or an Affiliate, or any non-employee consultant or advisor to the Company (including non-employee members of the Board) or an Affiliate, whose participation in the Plan is determined by the Committee to be in the best interest of the Company.

(p) Plan. The Saul Centers, Inc. 2004 Stock Plan, as amended from time to time.

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(q) The Saul Organization. The B.F. Saul Company, the B.F. Saul Real Estate Investment Trust and Chevy Chase Bank, F.S.B., as well as other affiliated entities and any successor entities.

(r) Stock Award. An award of shares of Common Stock or phantom share units described in Section 5(b) of the Plan.

(s) Subsidiary Corporation. An entity that qualifies as a "subsidiary corporation" with respect to the Company within the meaning of Section 424(f) of the Code.

### SECTION 3. ADMINISTRATION.

(a) Authority of the Committee. The Plan shall be administered by the Committee. The Committee shall have the authority to approve individuals for participation; to construe and interpret the Plan; to establish, amend or waive rules and regulations for its administration; and to accelerate the exercisability of any Option or the termination of any restriction under any Option or Stock Award. Options and Stock Awards may be subject to such provisions as the Committee shall deem advisable, and may be amended by the Committee from time to time; provided that no such amendment may adversely affect the rights of the holder of an Option or Stock Award without such holder's consent.

(b) Powers of the Committee. The Committee may employ such legal counsel, consultants and agents as it may deem desirable for the administration of the Plan and may rely upon any opinion received from any such counsel or consultant and any computation received from any such consultant or agent.

(c) Indemnification. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Option or Stock Award awarded under it. To the maximum extent permitted by applicable law, each member of the Committee shall be indemnified and held harmless by the Company against any cost or expense (including legal fees) or liability (including any sum paid in settlement of a claim with the approval of the Company) arising out of any act or omission to act in connection with the Plan unless arising out of such member's own fraud or bad faith. Such indemnification shall be in addition to any rights of indemnification the members may have as members of the Board or under the by-laws of the Company.

(d) Fractional Shares. The Company shall not be required to issue fractional shares pursuant to the Plan. The Committee may provide for elimination of fractional shares or the settlement of such fraction shares in cash.

(e) No Repricing of Options. The Committee may not without the approval of the stockholders of the Company lower the exercise price of an outstanding Option, whether by amending the exercise price of the outstanding Option or through cancellation of the outstanding Option and issuance of a replacement or substitute Option; provided that stockholder approval shall not be required for adjustments made in connection with an event described in Section 8 in order to prevent enlargement, dilution or diminishment of rights.

### SECTION 4. COMMON STOCK SUBJECT TO PLAN.

The aggregate shares of Common Stock that may be issued under the Plan pursuant to Options shall not exceed 500,000, subject to adjustment in accordance with Section 8. The aggregate shares of Common Stock that may be issued under the Plan pursuant to Stock Awards shall not exceed 100,000, subject to adjustment in accordance with Section 8. Common Stock issued under the Plan may be shares of authorized and unissued Common Stock or previously issued Common Stock reacquired by the Company.

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In the event of a lapse, expiration, termination, forfeiture or cancellation of any Option or Stock Award granted under the Plan without the issuance of shares, the Common Stock subject to or reserved for such Option or Stock Award may be used again for new grants of Options or Stock Awards hereunder; provided that in no event may the number of shares of Common Stock issued hereunder exceed the total number of shares reserved for issuance. Any shares of Common Stock withheld or surrendered to pay withholding taxes pursuant to Section 11(e) or withheld or surrendered in full or partial payment of the exercise price of an Option pursuant to Section 6(e) shall be added to the aggregate shares of Common Stock available for issuance.

Notwithstanding any other provision of the Plan, during any single calendar year, no Participant shall be granted Options which permit such Participant to purchase more than 500,000 shares of Common Stock, subject to adjustment in accordance with Section 8.

### SECTION 5. ELIGIBILITY.

(a) Options. Options may be granted under the Plan to any Participants. The Committee shall have absolute discretion to determine, within the limits of the express provisions of the Plan, those Participants to whom and the time or times at which Options shall be granted. The Committee shall also determine, within the limits of the express provisions of the Plan, the number of shares to be subject to each Option, the duration of each Option, the exercise price under each Option, the time or times within which (during the term of the Option) all or portions of each Option may become vested and exercisable, and whether an Option shall be an Incentive Stock Option, a Nonqualified Stock Option or a combination thereof. In making such determination, the Committee may take into account the nature of the services rendered by the Participant, his or her present and potential contributions to the Company's success and such other factors as the Committee in its discretion shall deem relevant.

Notwithstanding the foregoing, no Incentive Stock Option shall be granted to any Participant who is not an employee of the Company or an Affiliate.

Options may be granted under this Plan from time to time in substitution for stock options held by employees of other corporations who become employees of the Company or a Subsidiary Corporation as a result of a merger or consolidation of the employing corporation with the Company or a Subsidiary Corporation, the acquisition by the Company or a Subsidiary Corporation of the employing corporation, the acquisition by the Company or a Subsidiary Corporation of the assets of the employing corporation, or the acquisition by the Company or a Subsidiary Corporation of at least fifty percent (50%) of the issued and outstanding stock of the employing corporation as the result of which it becomes a Subsidiary Corporation of the Company. The terms and conditions of the substitute options so granted may vary from the terms and conditions set forth in this Plan to such extent as the Committee at the time of grant may deem appropriate to conform, in whole or in part, to the provisions of the stock options in substitution for which they are granted, but with respect to stock options which are Incentive Stock Options, no such variation shall be such as to affect the status of any such substitute option as an "incentive stock option" under Section 422 of the Code.

(b) Stock Awards. Stock Awards may be granted under the Plan only to directors of the Company. A Stock Award may be in the form of either (i) shares of Common Stock, or (ii) phantom stock, each share of which is equivalent in value to a share of Common Stock. The Committee shall have absolute discretion to determine the terms and conditions of Stock Awards, including but not limited to, any restrictions on the shares of Common Stock issued pursuant to a Stock

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Award and the terms of any agreement evidencing a Stock Award. The Committee in its discretion may establish a deferred compensation program under which fees payable by the Company to directors may be deferred in the form of a Stock Award.

### SECTION 6. TERMS AND CONDITIONS OF OPTIONS.

Each Option granted under the Plan shall be evidenced by an agreement, in a form approved by the Committee, which shall be subject to the following express terms and conditions and to such other terms and conditions as the Committee may deem appropriate:

(a) Option Period. Each Option agreement shall specify the period for which the Option thereunder is granted, which shall not exceed ten (10) years from the date of grant, and shall provide that the Option shall expire at the end of such period.

(b) Exercise Price. The per share exercise price of each Option shall be determined by the Committee at the time the Option is granted, and shall not be less than the Fair Market Value of Common Stock on the date the Option is granted.

(c) Vesting of Options. No part of any Option may be exercised until the Participant shall have satisfied the vesting conditions (i.e., such as remaining in the employ of or continuing services for the Company and/or an Affiliate for a certain period of time), if any, as the Committee may specify in the applicable Option agreement. Subject to the provisions of Section 6(d), any Option may be exercised, to the extent exercisable by its terms, at such time or times as may be determined by the Committee.

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(d) Exercise. An Option, if exercisable, shall be exercised by completion, execution and delivery of notice (written or electronic) to the Company of exercise of the Option which states (i) the Participant's intent to exercise the Option, (ii) the number of shares of Common Stock with respect to which the Option is being exercised, (iii) such other representations and agreements as may be required by the Company and (iv) the method for satisfying any applicable tax withholding as provided in Section 11(e). Such notice of exercise shall be provided on such form or by such method as the Committee may designate, and payment of the exercise price shall be made in accordance with Section 6(e). Subject to the provisions of the Plan and the applicable Option agreement, an Option may be exercised to the extent vested in whole at any time or in part from time to time at such times and in compliance with such requirements as the Committee shall determine. A partial exercise of an Option shall not affect the right to exercise the Option from time to time in accordance with the Plan and the applicable Option agreement with respect to the remaining shares subject to the Option. An Option may not be exercised with respect to fractional shares of Common Stock.

(e) Payment. The exercise price of an Option shall be paid in full at the time of exercise (i) in cash, (ii) through the surrender of previously-acquired shares of Common Stock having a Fair Market Value equal to the exercise price of the Option provided that such previously-acquired shares have been held by the Participant for at least six months, unless the Committee in its discretion permits the use of shares held less than six months, (iii) through the withholding by the Company (at the election of the Participant) of shares of Common Stock having a Fair Market Value equal to the exercise price, provided that the Participant attests in a manner acceptable to the Committee that he or she holds previously-acquired shares equal in number to the number of shares

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withheld by the Company and has held such previously-acquired shares for at least six months, (iv) through the withholding by the Company (at the discretion of the Committee) of shares of Common Stock having a Fair Market Value equal to the exercise price, (v) if the Common Stock is traded on an established securities market, the Committee may approve payment of the exercise price by a broker-dealer or by the Participant with cash advanced by the broker-dealer if the exercise notice is accompanied by the Participant's written irrevocable instructions to deliver the Common Stock acquired upon exercise of the Option to the broker-dealer, (vi) in any other manner permitted by the Committee in its discretion, or (vii) by a combination of (i), (ii), (iii), (iv), (v) and (vi), in the discretion of the Committee.

(f) Other Rules Applicable to Incentive Stock Options. No Option that is intended to be an Incentive Stock Option shall be invalid for failure to qualify as an Incentive Stock Option.

(i) Grant Period. Consistent with Section 9, an Incentive Stock Option must be granted within ten years of the date this Plan is adopted or the date the Plan is approved by the stockholders of the Company, whichever is earlier.

(ii) Ten Percent Owner. If a Participant, on the date that an Incentive Stock Option is granted, owns, directly or indirectly, within the meaning of Section 424(d) of the Code, stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Affiliate that qualifies as a "parent corporation" or "subsidiary corporation" under Sections 424(e) and 424(f) of the Code, then the exercise price per share shall in no instance be less than one hundred percent (110%) of the Fair Market Value per share of Common Stock at the time the Incentive Stock Option is granted, and no Incentive Stock Option shall be exercisable by such Participant after the expiration of five years from the date it is granted.

(iii) Value of Shares. The aggregate Fair Market Value (determined at the date of gra