

Saul Centers



2007

Annual Report

Saul Centers, Inc.

is a self-managed, self-administered equity real estate investment trust headquartered in Bethesda, Maryland. Saul Centers operates and manages a real estate portfolio of 48 community and neighborhood shopping centers and office properties totaling approximately 8.0 million square feet of leasable area. Over 80% of the property operating income is generated from properties in the metropolitan Washington, DC/Baltimore area.

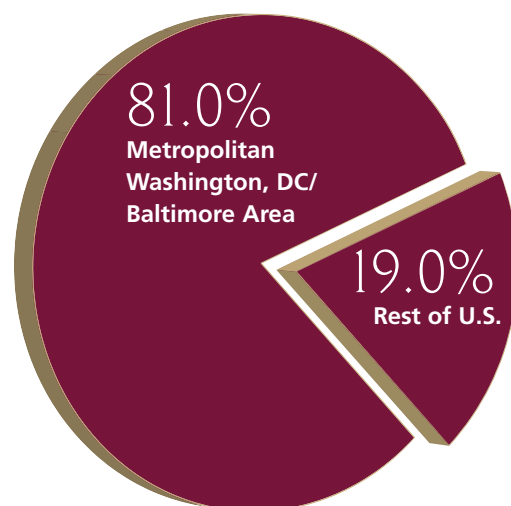
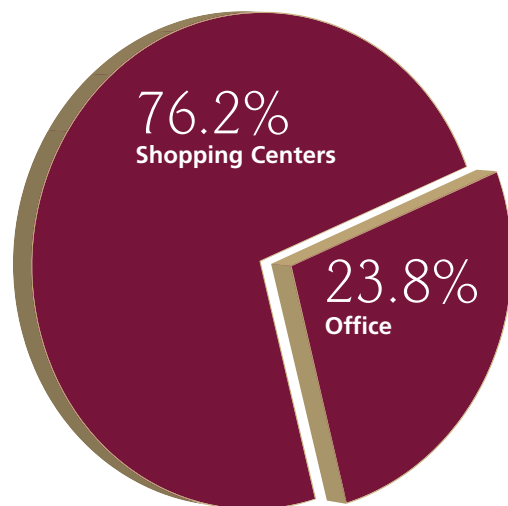
Saul Centers' primary operating strategy is to focus on continuing its program of internal growth, renovations, and expansions of community and neighborhood shopping centers that primarily serve the day-to-day necessities and services sub-sector of the overall retail market. The Company plans to supplement its growth through effective development of new retail, office and mixed-use properties, and acquisitions of operating properties as appropriate opportunities arise.

601 Pennsylvania Avenue



PORTFOLIO COMPOSITION

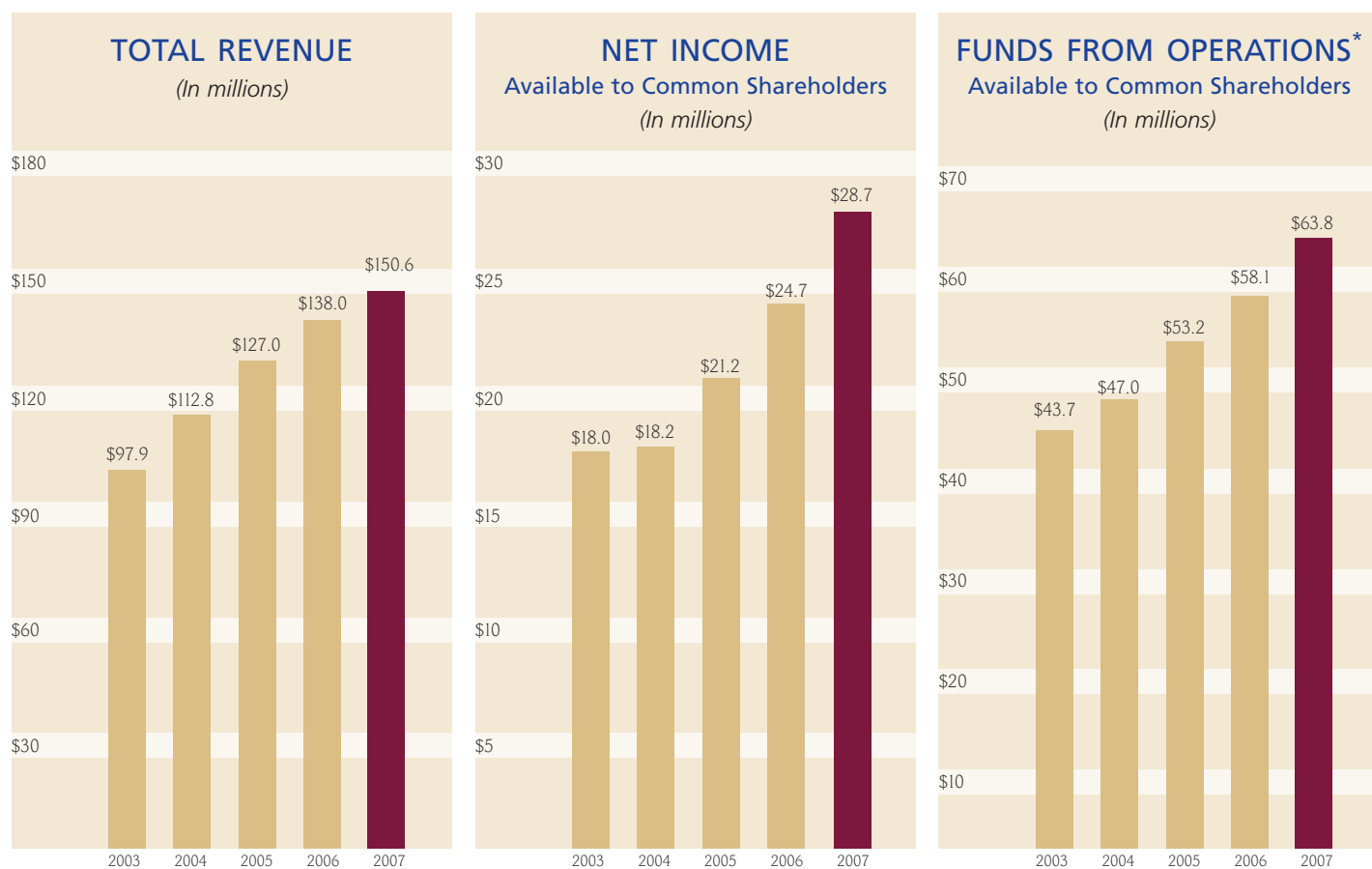
BASED ON 2007 PROPERTY OPERATING INCOME



SHARES OF SAUL CENTERS ARE
TRADED ON THE NEW YORK STOCK
EXCHANGE UNDER THE SYMBOL
BFS
"BFS"

Cover Photo: Shops at Monocacy

HISTORIC OPERATING PERFORMANCE



* Funds From Operations (FFO) is a non-GAAP financial measure. See page 25 for a definition of FFO and reconciliation to Net Income.



FINANCIAL HIGHLIGHTS

Year ended December 31,

2007

2006

2005

2004

2003

Summary Financial Data

Total Revenue	\$150,585,000	\$137,978,000	\$127,015,000	\$112,842,000	\$97,884,000
Net Income Available to Common Stockholders	\$28,703,000	\$24,680,000	\$21,227,000	\$18,174,000	\$17,998,000
FFO Available to Common Shareholders	\$63,846,000	\$58,121,000	\$53,222,000	\$47,031,000	\$43,740,000
Weighted Average Common Stock Outstanding	17,769,000	17,233,000	16,770,000	16,211,000	15,608,000
Weighted Average Shares and Units Outstanding	23,185,000	22,628,000	22,003,000	21,405,000	20,790,000
Net Income Available to Common Stockholders Per Share (Diluted)	\$1.62	\$1.43	\$1.27	\$1.12	\$1.15
FFO Available to Common Shareholders Per Share (Diluted)	\$2.75	\$2.57	\$2.42	\$2.20	\$2.10
Common Dividend as a Percentage of FFO (Per Share)	64%	65%	66%	71%	74%
Interest Expense Coverage ^a	3.23	3.14	3.15	3.14	2.78

Property Data

Number of Properties ^b	48	47	44	40	36
Total Portfolio Square Feet	8,009,000	7,904,000	7,376,000	7,217,000	6,532,000
Shopping Center Square Feet	6,803,000	6,698,000	6,170,000 ^c	6,012,000	5,328,000
Office Square Feet	1,206,000	1,206,000	1,206,000	1,205,000	1,204,000
Average Percentage Leased ^d	96%	97%	95%	94%	93%

(a) Interest expense coverage is defined as operating income before the sum of interest expense and amortization of deferred debt and depreciation and amortization of leasing costs, divided by interest expense.

(b) Excludes development parcels (Clarendon Center, Ashland Square Phase II, Lexington Center, Westview Village and New Market).

(c) During 2005, approximately 301,000 square feet of space was taken out of service at Lexington for the planned redevelopment of the center.

(d) Average percentage leased would have been 96% for both 2005 and 2004 if the Lexington redevelopment space was excluded from the calculation for the entire year.



Boca Valley Plaza



Seven Corners

MESSAGE TO OUR SHAREHOLDERS

2007

marked another successful year of operating consistency, stability and steady growth. Our core portfolio consists of grocery anchored shopping centers that are typically located in well established, densely populated, middle and upper income areas. These centers offer day-to-day necessities rather than apparel and luxury goods and, therefore, continue to generate consistent local traffic despite the uncertain economic environment that was present in the latter half of the year.

Overall portfolio leasing levels averaged 96% for the year. Rental rate growth in the portfolio was the strongest in the past 5 years, with spaces relet at average initial cash rental rates of 9.2% over rents paid on expiring leases. A total of 223 new leases or lease renewals for 1,035,000 square feet of retail and office space were executed. Lansdowne Town Center, a significant development project in northern Virginia, was completed in 2007 and was 99% leased at year end. We reported Funds From Operations (FFO) per share growth of 7% in 2007, exceeding our 5-year compounded annual growth rate of 4.6%, largely as a result of Lansdowne operations. At year end, our total debt and equity market capitalization exceeded \$1.8 billion. We remain confident that our core portfolio will continue a steady operating performance over the coming year. Our current development pipeline should enhance shareholder value as these projects are completed in 2009 and beyond.

2007 Portfolio Financial Highlights

Operating income from Lansdowne Town Center and rental rate growth in the core properties produced the significant portion of increased operating income and FFO in 2007.

For the year 2007, total revenue increased 9.1% to \$150,585,000 compared to \$137,978,000 for 2006. Operating income increased 12.1% to \$45,382,000 in 2007 compared to \$40,473,000 in 2006. Net income available to common stockholders was \$28,703,000, or \$1.62 per diluted share in 2007, a 13.3% per share increase from 2006 results of \$24,680,000, or \$1.43 per diluted share.

FFO available to common shareholders (after deducting preferred stock dividends) increased 9.9% in 2007 to \$63,846,000, compared to \$58,121,000 in 2006. Diluted per share FFO available to common shareholders increased 7.0% to \$2.75 per share in 2007 compared to \$2.57 per share for the 2006 year.



CONSISTENCY | STABILITY | STEADY GROWTH



Lansdowne Town Center



Retail Highlights

At year end 2007, our retail portfolio totaled 43 community and neighborhood shopping centers with 6.8 million square feet of space. Since raising capital in 2003 through a preferred stock offering, we have acquired 10 operating properties, developed 4 new shopping centers and expanded 5 of our existing centers. All of these activities increased the leaseable square footage of our retail portfolio by over 1.8 million square feet, or 34.6%. The retail portfolio leasing percentage was 95.3% at year end 2007. New or renewal retail leases were signed at average cash rental rates of approximately 11.1% over rents paid on expiring leases for the 804,000 square feet of same space lease rollovers or renewals. Of the over 886,000 square feet of retail leases expiring in 2007, approximately 73% of that square footage represents lease renewals.

The consistent performance described above can be attributed to our tenant composition and property locations. We target new acquisition and development opportunities in high growth submarkets within the mid-Atlantic and Southeastern regions of the United States, in areas with strong demographics. Average household incomes within a one and three mile radius of our shopping centers are approximately \$96,800 and \$98,100, respectively, comparing favorably to the national average of \$73,100. Our shopping center tenants generally provide convenient grocery, pharmacy, dining, medical, banking and other day-to-day service needs to the immediate local neighborhood populations. Twenty-nine centers in our retail portfolio are grocery anchored, and these centers comprise over 85% of our total retail square footage. Overall retail sales reported by our tenants during 2007 averaged \$324 per square foot. On a same store basis, retail sales decreased 2.6% from 2006 levels, as tenant sales are impacted by competitive market forces and the economic slowdown. Our grocery stores however, continued to generate consistent traffic, with approximately \$450 per square foot in reported sales during 2007. Success of the grocery anchor is a prime contributor to the continued high leasing percentage, rental rate increases and stable retail tenant base.



Lansdowne Town Center

SAUL CENTERS' CONSISTENT PERFORMANCE
CAN BE ATTRIBUTED TO OUR TENANT
COMPOSITION AND PROPERTY LOCATIONS.

43

Shopping Centers

6.8

Million Square Feet of Shopping Center Space

95.3%

Leased at Year-end



Seven Corners



Avenel Business Park



Boca Valley Plaza

All of the above contributed to a property operating income increase of 2.9% for our shopping centers in 2007. Operating efficiencies were also achieved as over 90% of our 2007 same center operating expense increases were recovered from tenants. As of March 1, 2008, a total of approximately 56% of the approximately 716,000 square feet of 2008 retail lease expirations have been successfully renewed or released.

Office Highlights

Our 1.2 million square foot office portfolio contributed 23.8% of the 2007 property operating income. Sixty percent of the office property operating income is produced from the 227,000 square foot 601 Pennsylvania Avenue office building, located between the U.S. Capitol and The White House, and the 235,000 square foot Washington Square property in Old Town Alexandria, Virginia. These properties are the foundation of our office portfolio, which as a group have averaged over 95% leased during each of the past 4 years, and have collectively increased property operating income every year during this period.

As of December 31, 2007, the office portfolio was 95.2% leased. Over 90% of the office leases have fixed annual escalations averaging over 2.5% per year, and as of March 1, 2008, only 5.6% of the office space as measured by current annualized monthly base rent is scheduled to expire during 2008. These facts, combined with a high credit quality tenant base, averaging less than \$30,000 per year credit loss over the past 5 years, are expected to produce continued stable operating performance in this quality portfolio.

As of December 31, 2007,
the office portfolio was
95.2% leased.

Developments, Acquisitions and Renovations

Prior to the tightening credit markets in the fall of 2007, the low interest rate environment in 2007 continued to drive intense competition for acquisitions of operating properties. As such, the primary focus of our acquisition and development team during 2007 was predevelopment activities for three new developments – Westview Village, Northrock and Clarendon Center. With these proposed developments, we will add over 600,000 square feet to our portfolio. In addition, we acquired one well-located and strongly anchored shopping center in 2007, which is described more fully on page 8. Finally, we are commencing some renovation projects at existing centers which are expected to produce attractive returns on invested capital.

Developments

WESTVIEW VILLAGE. Last year we reported on the pending acquisition of a 10.4 acre commercial site in the Westview development on Buckeystown Pike (MD Route 85) in Frederick, Maryland. We closed on that property in November 2007, and have since completed construction documents and received permits to develop approximately 105,000 square feet of space. The project will include 60,000 square feet of retail shop space, 15,000 square feet of retail pads and 30,000 square feet of professional office space. We are currently marketing the project and have executed leases for 9,606 square feet, or 16%, of the retail space. Site work construction commenced in early 2008 and substantial completion of the building shell is scheduled for late 2008.

NORTHROCK. In January 2008, we acquired approximately 15.4 acres of commercially zoned land on U.S. Route 29 in Warrenton, Virginia. We have already started the site work for Northrock shopping center, a 103,000 square foot neighborhood shopping center anchored by a 52,700 square foot Harris Teeter grocery store. Construction of the center is anticipated to be substantially complete by mid 2009.



Westview Village



Clarendon Center

THE PRIMARY FOCUS OF OUR ACQUISITION
AND DEVELOPMENT TEAM DURING 2007
WAS PREDEVELOPMENT ACTIVITIES FOR THREE
NEW DEVELOPMENTS



CLARENDON CENTER. Development progress continues on Clarendon Center, a mixed-use project encompassing portions of two city blocks adjacent to the Clarendon Metro Station, in Arlington, Virginia. During 2007, we substantially completed construction documents and, as of early March 2008, completed demolition of an existing vacant building located on a portion of the land. A final construction timetable has not yet been determined.

This development will feature a 12-story rental apartment tower containing 244 luxury units, a 9-story office building and a second office building of 6 stories, both totaling 170,000 square feet of Class A office space, and 45,000 square feet of street level retail space. The project will also accommodate 600 spaces of underground parking. Some of the area's most densely populated and desirable residential neighborhoods are within two blocks of Clarendon Center, and surrounding the site are office buildings, restaurants and retail stores.

ASHLAND SQUARE – PHASE I. We purchased the 19.3-acre Ashland Square site in Manassas, Virginia in December 2004. During 2007, we completed site work consisting primarily of clearing, grading and site utility construction and delivered a pad site to Chevy Chase Bank, F.S.B. on which they constructed a branch bank that opened for business in October 2007. The balance of the shopping center is being marketed to grocers and other retail businesses. A total of 125,000 square feet of retail space may be built at this location, and a request for an additional 35,000 square feet of commercial space is currently under review by Prince William County staff.

LANSDOWNE TOWN CENTER. The new 189,000 square foot Lansdowne Town Center project became fully operational and 99% leased in late 2007. This shopping center is anchored by a Harris Teeter grocery store and CVS Pharmacy, and has over 80,000 square feet of retail shops and 38,000 square feet of professional office suites. The substantial completion of the final 16,000 square feet of second floor office space tenant improvements and subsequent rent commencement is expected to occur by the spring of 2008. The stabilizing operations of Lansdowne Town Center contributed over 20% of the growth in FFO available to common shareholders in 2007.

MESSAGE TO OUR SHAREHOLDERS

Acquisitions

ORCHARD PARK. In July 2007, we acquired the 88,000 square foot Orchard Park shopping center located in suburban Atlanta. This service-oriented center is anchored by one of the top ten Kroger stores in the Atlanta market. In keeping with our core portfolio strategy, Orchard Park is located in a well-populated residential area – Dunwoody, Georgia – one of Atlanta's most desirable areas to live. Over 79,000 people with annual household income averaging approximately \$132,000 are located within three miles of the center. The center was 93% leased as of December 31, 2007.



Orchard Park

Renovations

SMALLWOOD VILLAGE CENTER. One of our larger renovation projects involves Smallwood Village Center located within the St. Charles planned community of Waldorf, Maryland. This 198,000 square foot shopping center is anchored by a Safeway grocery store and CVS Pharmacy. We purchased this center in 2006, and are obtaining final permits for a capital improvement project to improve access to the center, reconfigure portions of the center and upgrade its façade. Construction is expected to commence during the spring of 2008.



Smallwood Village Center

BOULEVARD. We are obtaining site work and building permits to reconfigure our 56,000 square foot Boulevard shopping center in Fairfax, Virginia. An obsolete 18,000 square foot freestanding building will be demolished to accommodate 8,000 square feet of new small shop space and a bank pad building. Construction is expected to commence during the spring of 2008.



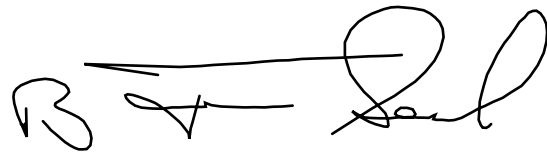
Boulevard

Capital Strategy

At the end of 2007, over 98% of our debt was fixed rate, with a weighted average maturity date over 8 years into the future, and the next maturity in December 2011. This debt structure reduces our exposure to the current uncertainty in the debt capital markets. The weighted average interest rate was 6.72% and our interest expense coverage was 3.2 times for the year. We maintained a prudent leverage of approximately 28.7% debt to total capitalization at December 31, 2007. As of March 14, 2008, we had borrowing availability of \$128 million on our \$150 million revolving credit line for general corporate use and for funding any future developments and acquisitions.

We are proud of our core portfolio performance and believe that our acquisition and development team has identified a pipeline of retail and mixed-use projects that should add value over the coming years. Our strong balance sheet should enable us to continue to pursue opportunities that fit our business strategy, which is firmly based on long term asset value creation. We have a talented team of professionals that we believe will continue to produce stable and consistent performance results in 2008 and beyond.

For the Board



B. Francis Saul II
March 14, 2008





AS OF DECEMBER 31, 2007, SAUL CENTERS' PORTFOLIO PROPERTIES WERE LOCATED IN VIRGINIA, MARYLAND, WASHINGTON, DC, NORTH CAROLINA, OKLAHOMA, NEW JERSEY, GEORGIA, KENTUCKY AND FLORIDA. PROPERTIES IN THE METROPOLITAN WASHINGTON, DC/BALTIMORE AREA REPRESENT 70% OF THE PORTFOLIO'S GROSS LEASABLE AREA.

PORTFOLIO PROPERTIES

PROPERTY/LOCATION	GROSS LEASABLE SQUARE FEET	PROPERTY/LOCATION	GROSS LEASABLE SQUARE FEET
Shopping Centers			
ASHBURN VILLAGE, ASHBURN, VA	221,687	SHOPS AT MONOCACY, FREDERICK, MD	109,144
ASHLAND SQUARE, PHASE I, MANASSAS, VA	3,650	OLDE FORTE VILLAGE, FT. WASHINGTON, MD	143,062
BEACON CENTER, ALEXANDRIA, VA	356,115	OLNEY, OLNEY, MD	53,765
BELVEDERE, BALTIMORE, MD	54,941	ORCHARD PARK, DUNWOODY, GA	87,782
BOCA VALLEY PLAZA, BOCA RATON, FL	121,269	PALM SPRINGS CENTER, ALTAMONTE SPRINGS, FL	126,446
BOULEVARD, FAIRFAX, VA	56,350	RAVENWOOD, BALTIMORE, MD	93,328
BRIGGS CHANEY MARKETPLACE, SILVER SPRING, MD	194,347	SEABREEZE PLAZA, PALM HARBOR, FL	146,673
BROADLANDS VILLAGE I, II & III, ASHBURN, VA	159,734	SEVEN CORNERS, FALLS CHURCH, VA	568,831
CLARENDON/CLARENDON STATION, ARLINGTON, VA	11,808	SHOPS AT FAIRFAX, FAIRFAX, VA	68,743
COUNTRYSIDE, STERLING, VA	141,696	SMALLWOOD VILLAGE CENTER, WALDORF, MD	197,861
CRUSE MARKETPLACE, CUMMING, GA	78,686	SOUTHDAL, GLEN BURNIE, MD	484,115
FLAGSHIP CENTER, ROCKVILLE, MD	21,500	SOUTHSIDE PLAZA, RICHMOND, VA	373,651
FRENCH MARKET, OKLAHOMA CITY, OK	244,724	SOUTH DEKALB PLAZA, ATLANTA, GA	163,418
GERMANTOWN, GERMANTOWN, MD	27,241	THRUWAY, WINSTON-SALEM, NC	355,116
GIANT, BALTIMORE, MD	70,040	VILLAGE CENTER, CENTREVILLE, VA	143,109
THE GLEN, LAKE RIDGE, VA	134,317	WEST PARK, OKLAHOMA CITY, OK	76,610
GREAT EASTERN, DISTRICT HEIGHTS, MD	254,448	WHITE OAK, SILVER SPRING, MD	480,156
HAMPSHIRE LANGLEY, TAKOMA PARK, MD	131,700	TOTAL SHOPPING CENTERS	6,802,842
HUNT CLUB CORNERS, APOPKA, FL	101,522		
JAMESTOWN PLACE, ALTAMONTE SPRINGS, FL	96,372	Office Properties	
KENTLANDS SQUARE, GAITHERSBURG, MD	114,381	AVENEL BUSINESS PARK, GAITHERSBURG, MD	390,579
KENTLANDS PLACE, GAITHERSBURG, MD	40,648	CROSTOWN BUSINESS CENTER, TULSA, OK	197,135
LANSDOWNE TOWN CENTER, LEESBURG, VA	189,414	601 PENNSYLVANIA AVE., WASHINGTON, DC	226,604
LEESBURG PIKE, BAILEYS CROSSROADS, VA	97,752	VAN NESS SQUARE, WASHINGTON, DC	156,493
LEXINGTON PADS, LEXINGTON, KY	13,646	WASHINGTON SQUARE, ALEXANDRIA, VA	235,042
LUMBERTON PLAZA, LUMBERTON, NJ	193,044	TOTAL OFFICE PROPERTIES	1,205,853
		TOTAL PORTFOLIO	8,008,695

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SELECTED FINANCIAL DATA

(In thousands, except per share data)

	2007	2006	2005	2004	2003
Operating Data					
Total revenue	\$ 150,585	\$ 137,978	\$ 127,015	\$ 112,842	\$ 97,884
Operating expenses	105,203	97,505	89,990	79,135	70,738
Operating income	45,382	40,473	37,025	33,707	27,146
Non-operating income (loss)					
Gain on property disposition	139	–	–	572	182
Income before minority interests	45,521	40,473	37,025	34,279	27,328
Minority interests	(8,818)	(7,793)	(7,798)	(8,105)	(8,086)
Net income	36,703	32,680	29,227	26,174	19,242
Preferred dividends	(8,000)	(8,000)	(8,000)	(8,000)	(1,244)
Net income available to common stockholders	28,703	\$ 24,680	\$ 21,227	\$ 18,174	\$ 17,998
Per Share Data (diluted)					
Net income available to common stockholders	\$ 1.62	\$ 1.43	\$ 1.27	\$ 1.12	\$ 1.15
Basic and Diluted Shares Outstanding					
Weighted average common shares - basic	17,589	17,075	16,663	16,154	15,591
Effect of dilutive options	180	158	107	57	17
Weighted average common shares - diluted	17,769	17,233	16,770	16,211	15,608
Weighted average convertible limited partnership units	5,416	5,395	5,233	5,194	5,182
Weighted average common shares and fully converted limited partnership units - diluted	23,185	22,628	22,003	21,405	20,790
Dividends Paid					
Cash dividends to common stockholders ⁽¹⁾	31,026	\$ 28,579	\$ 26,542	\$ 25,061	\$ 24,171
Cash dividends per share	1.77	\$ 1.68	\$ 1.60	\$ 1.56	\$ 1.56
Balance Sheet Data					
Real Estate Investments (net of accumulated depreciation)	\$ 657,258	\$ 627,651	\$ 567,417	\$ 501,388	\$ 387,292
Total assets	727,443	700,537	631,469	583,396	471,616
Total debt, including accrued interest	535,319	525,125	484,902	455,925	359,051
Preferred stock	100,000	100,000	100,000	100,000	100,000
Total stockholders' equity (deficit)	148,779	132,091	111,414	100,964	92,643
Other Data					
Cash flow provided by (used in):					
Operating activities	\$ 71,197	\$ 62,174	\$ 58,674	\$ 50,686	\$ 37,716
Investing activities	(52,036)	\$ (65,699)	\$ (73,805)	\$ (113,467)	\$ (49,121)
Financing activities	(21,457)	\$ 3,579	\$ (10,423)	\$ 51,098	\$ 55,340
Funds from operations ⁽²⁾					
Net income	\$ 36,703	\$ 32,680	\$ 29,227	\$ 26,174	\$ 19,242
Minority Interests	8,818	7,793	7,798	8,105	8,086
Real Estate Depreciation and Amortization	26,464	25,648	24,197	21,324	17,838
Gain on property disposition	(139)	–	–	(572)	(182)
Funds from operations	71,846	66,121	61,222	55,031	44,984
Preferred dividends	(8,000)	(8,000)	(8,000)	(8,000)	(1,244)
Funds from operations available to common shareholders	\$ 63,846	\$ 58,121	\$ 53,222	\$ 47,031	\$ 43,740

(1) For the years 2007, 2006, 2005, 2004 and 2003, shareholders reinvested \$18,725, \$14,842, \$15,330, \$13,774 and \$13,349, in newly issued common stock by operation of the Company's dividend reinvestment plan, respectively.

(2) Funds From Operations (FFO) is a non-GAAP financial measure. For a definition of FFO, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Funds From Operations" on page 25.



MANAGEMENT'S DISCUSSION & ANALYSIS

of Financial Condition & Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) begins with the Company's primary business strategy to give the reader an overview of the goals of the Company's business. This is followed by a discussion of the critical accounting policies that the Company believes are important to understanding the assumptions and judgments incorporated in the Company's reported financial results. The next section, beginning on page 15, discusses the Company's results of operations for the past two years. Beginning on page 19, the Company provides an analysis of its liquidity and capital resources, including discussions of its cash flows, debt arrangements, sources of capital and financial commitments. Finally, on page 25, the Company discusses funds from operations, or FFO, which is a relative non-GAAP financial measure of performance of an equity REIT used by the REIT industry.

The MD&A should be read in conjunction with the other sections of the Annual Report on Form 10-K, including the consolidated financial statements and notes thereto, and Risk Factors included in Item 1A of the Form 10-K. Historical results set forth in Selected Financial Data and the Financial Statements should not be taken as indicative of the Company's future operations.

OVERVIEW

The Company's principal business activity is the ownership, management and development of income-producing properties. The Company's long-term objectives are to increase cash flow from operations and to maximize capital appreciation of its real estate.

The Company's primary operating strategy is to focus on its community and neighborhood shopping center business and to operate its properties to achieve both cash flow growth and capital appreciation. Management believes there is potential for growth in cash flow as existing leases for space in the Shopping Centers expire and are renewed, or newly available or vacant space is leased. The Company intends to renegotiate leases where possible and seek new tenants for available space in order to maximize this potential for increased cash flow. As leases expire, management expects to revise rental rates, lease terms and conditions, relocate existing tenants, reconfigure tenant spaces and introduce new tenants with the goal of increasing cash flow. In those circumstances in which leases are not otherwise expiring, management selectively attempts to increase cash flow through a variety of means, or in connection with renovations or relocations, recapturing leases with below

market rents and re-leasing at market rates, as well as replacing financially troubled tenants. When possible, management also will seek to include scheduled increases in base rent, as well as percentage rental provisions, in its leases.

The Company's redevelopment and renovation objective is to selectively and opportunistically redevelop and renovate its properties, by replacing leases with below market rents with strong, traffic-generating anchor stores such as supermarkets and drug stores, as well as other desirable local, regional and national tenants. The Company's strategy remains focused on continuing the operating performance and internal growth of its existing Shopping Centers, while enhancing this growth with selective retail redevelopments and renovations.

Management believes that attractive acquisition and development opportunities for investment in existing and new shopping center properties will continue to be available from time to time. Management believes that the Company's capital structure will enable it to take advantage of these opportunities as they arise. In addition, management believes its shopping center expertise should permit it to optimize the performance of shopping centers once they have been acquired.

Management also believes that opportunities may arise for investment in new office properties. It is management's view that several of the office sub-markets in which the Company operates have attractive supply/demand characteristics. The Company will continue to evaluate new office development and redevelopment as an integral part of its overall business plan.

Although it is management's present intention to concentrate future acquisition and development activities on community and neighborhood shopping centers and office properties in the Washington, DC/Baltimore metropolitan area and the southeastern region of the United States, the Company may, in the future, also acquire other types of real estate in other areas of the country as opportunities present themselves. While the Company may diversify in terms of property locations, size and market, the Company does not set any limit on the amount or percentage of Company assets that may be invested in any one property or any one geographic area. In addition to investing in properties in the Washington, DC/Baltimore metropolitan area, from 2004 through 2007, the Company also acquired five grocery-anchored neighborhood shopping centers in Florida, totaling 592,000 square feet and two grocery-anchored neighborhood shopping centers in Georgia totaling 167,000 square feet.



MANAGEMENT'S DISCUSSION & ANALYSIS

of Financial Condition & Results of Operations

CRITICAL ACCOUNTING POLICIES

The Company's accounting policies are in conformity with U.S. generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the Company's financial statements and the reported amounts of revenue and expenses during the reporting periods. If judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of the financial statements. Below is a discussion of accounting policies which the Company considers critical in that they may require judgment in their application or require estimates about matters which are inherently uncertain. Additional discussion of accounting policies which the Company considers significant, including further discussion of the critical accounting policies described below, can be found in the notes to the Consolidated Financial Statements.

Real Estate Investments

Real estate investment properties are stated at historic cost basis less depreciation. Management believes that these assets have generally appreciated in value and, accordingly, the aggregate current value exceeds their aggregate net book value and also exceeds the value of the Company's liabilities as reported in these financial statements. Because these financial statements are prepared in conformity with GAAP, they do not report the current value of the Company's real estate assets. The purchase price of real estate assets acquired is allocated between land, building and in-place acquired leases based on the relative fair values of the components at the date of acquisition. Buildings are depreciated on a straight-line basis over their estimated useful lives of 35 to 50 years. Intangibles associated with acquired in-place leases are amortized over the remaining base lease terms.

If there is an event or change in circumstance that indicates an impairment in the value of a real estate investment property, the Company assesses an impairment in value by making a comparison of the current and projected operating cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying amount or projected carrying amount of that property. If such carrying amount is greater than the estimated projected cash flows, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair market value.

When incurred, the Company capitalizes the cost of improvements that extend the useful life of property and equipment and all repair and maintenance expenditures are expensed. In addition, we capitalize leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvement.

Interest, real estate taxes and other carrying costs are capitalized on projects under construction. Once construction is substantially complete and the assets are placed in service, rental income, direct operating expenses, and depreciation associated with such properties are included in current operations.

In the initial rental operations of development projects, a project is considered substantially complete and available for occupancy upon completion of tenant improvements, but no later than one year from the cessation of major construction activity. Substantially completed portions of a project are accounted for as separate projects. Depreciation is calculated using the straight-line method and estimated useful lives of 35 to 50 years for base buildings and up to 20 years for certain other improvements. Leasehold improvements are amortized over the lives of the related leases using the straight-line method.

Lease Acquisition Costs

Certain initial direct costs incurred by the Company in negotiating and consummating successful leases are capitalized and amortized over the initial base term of the leases. Capitalized leasing costs consist of commissions paid to third party leasing agents as well as internal direct costs such as employee compensation and payroll related fringe benefits directly related to time spent performing leasing related activities. Such activities include evaluating prospective tenants' financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating lease terms, preparing lease documents and closing transactions.

Revenue Recognition

Rental and interest income is accrued as earned except when doubt exists as to collectibility, in which case the accrual is discontinued. Recognition of rental income commences when control of the space has been given to the tenant. When rental payments due under leases vary from a straight-line basis because of free rent periods or scheduled rent increases, income is recognized on a straight-line basis throughout the initial term of the lease. Expense recoveries represent a portion of property operating expenses billed to tenants, including common area maintenance, real estate taxes and other recoverable costs. Expense recoveries are recognized in the period when the expenses are incurred. Rental income based on a tenant's revenue, known as percentage rent, is accrued when a tenant reports sales that exceed a specified breakpoint.

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Allowance for Doubtful Accounts – Current and Deferred Receivables

Accounts receivable primarily represent amounts accrued and unpaid from tenants in accordance with the terms of the respective leases, subject to the Company's revenue recognition policy. Receivables are reviewed monthly and reserves are established with a charge to current period operations when, in the opinion of management, collection of the receivable is doubtful. In addition to rents due currently, accounts receivable include amounts representing minimum rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases. Reserves are established with a charge to income for tenants whose rent payment history or financial condition casts doubt upon the tenant's ability to perform under its lease obligations.

Legal Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, the Company believes the final outcome of such matters will not have a material adverse effect on the financial position or the results of operations. Once it has been determined that a loss is probable to occur, the estimated amount of the loss is recorded in the financial statements. Both the amount of the loss and the point at which its occurrence is considered probable can be difficult to determine.

RESULTS OF OPERATIONS

Revenue (Dollars in thousands)	For the year ended December 31,			Percentage Change	
	2007	2006	2005	2007 to 2006	2006 to 2005
Base rent	\$ 118,806	\$ 110,121	\$ 99,448	7.9%	10.7%
Expense recoveries	26,090	22,636	20,027	15.3	13.0
Percentage rent	1,497	1,767	2,057	(15.3)	(14.1)
Other	4,192	3,454	5,483	21.4	(37.0)
Total revenue	\$ 150,585	\$ 137,978	\$ 127,015	9.1%	8.6%

Total revenue increased 9.1% for the 2007 year compared to 2006 primarily due to the contribution of operating revenue from three development properties (Lansdowne Town Center, Broadlands Village III and Ashland Square Phase I) and an acquisition property (Orchard Park) placed in service during 2007 and two operating properties acquired during 2006, (Hunt Club Corners and Smallwood Village Center) together defined as the "2007/2006 Development and Acquisition Properties" whose operating results are included in 2007's operating income but not fully in the previous year's results. The 2007/2006 Development and Acquisition Properties contributed \$7,013,000 or 55.6% of the increase in revenue. Also contributing to the 2007 revenue increase was rental rate growth in the remainder of the Company's Current Portfolio Properties (the "Core Properties") and increased lease termination fees.

Total revenue increased 8.6% for the 2006 year compared to 2005 primarily due to (1) the contribution of operating revenue from two development properties (Broadlands Village III and Lansdowne Town Center) and two acquisition properties (Smallwood Village Center and Hunt Club Corners) placed in service during 2006 and four operating properties developed or

acquired during 2005, (Kentlands Place, Palm Springs, Jamestown Place and Seabreeze Plaza) together defined as the "2006/2005 Development and Acquisition Properties" whose operating results are included in 2006's operating income but not fully in the previous year's results, which was offset in part by (2) the payment related to resolution of a land use dispute with a property owner adjacent to the Company's Lexington Mall included in 2005 other revenue. The 2006/2005 Development and Acquisition Properties contributed \$8,184,000 or 74.7% of the increase in revenue. The increase in revenue from 2005 to 2006 was offset by the net payment related to the resolution of the Lexington Mall land use dispute of \$1,801,000 included in 2005 revenue (-16.4% of the change in revenue). Also contributing to the 2006 revenue increase were rents earned at the Company's Great Eastern Plaza, Shops at Monocacy, The Glen (impacted by a 22,000 square foot expansion completed November 2005) and Southside Plaza shopping centers, which provided increased revenue of \$736,000 or 6.7%, \$691,000 or 6.3%, \$562,000 or 5.1% and \$493,000 or 4.5%, respectively. A discussion of the components of revenue follows.



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Base rent

The \$8,685,000 increase in base rent for 2007 versus 2006 was primarily attributable (68.5% or approximately \$5,950,000) to leases in effect at the 2007/2006 Development and Acquisition Properties. New leases at higher base rental rates than the predecessor leases at certain other properties accounted for the balance of the increase.

The \$10,673,000 increase in base rent for 2006 versus 2005 was primarily attributable (58.4% or approximately \$6,229,000) to leases in effect at the 2006/2005 Development and Acquisition Properties. Base rent was also increased by (1) the maturation of 2004 development property, Shops at Monocacy (5.4% or approximately \$577,000), (2) 22,000 square feet of new space placed in service at The Glen during 2005 (4.9% or approximately \$524,000) and (3) improved leasing at Southside Plaza (4.8% or approximately \$507,000). New leases at higher base rental rates than the predecessor leases at certain other properties accounted for the balance of the increase.

Expense recoveries

Expense recoveries represent a portion of property operating expenses billable to tenants, including common area maintenance, real estate taxes and other recoverable costs. The largest portion of the \$3,454,000 increase in expense recovery income from 2006 to 2007 resulted from recovery of increased real estate tax resulting from higher assessed valuations in the Core Properties, and to a lesser extent the payment of taxes at 2007/2006 Development and Acquisition Properties (40.6% or approximately \$1,402,000). Increased property operating expenses, particularly snow removal costs, at the core properties (39.4% or approximately \$1,360,000) and 2007/2006 Development and Acquisition Properties (20.0% or approximately \$692,000) contributed the balance of the increase.

The majority of the \$2,609,000 increase in expense recovery income from 2005 to 2006 was contributed by the 2006/2005 Development and Acquisition Properties (65.4% or approximately \$1,707,000). Increased expense recovery income was provided by the leasing of a large space at Great Eastern Plaza, which was not contributing expense recovery income in 2005 (10.2% or approximately \$265,000). Increased real estate taxes, insurance, repairs and utilities expenses at several of the Company's other properties were incurred and recovered from tenants.

Percentage rent

Percentage rent is rental revenue calculated on the portion of a tenant's sales revenue that exceeds a specified breakpoint. Percentage rent decreased \$270,000 in 2007 versus 2006 primarily as a result of timing differences in the submission of sales reports used to calculate percentage rent by two retail tenants (50.7% or approximately \$137,000, each).

Percentage rent decreased \$290,000 in 2006 versus 2005 primarily as a result of two tenants renewing leases at Leesburg Pike (88.3% or approximately \$256,000) and Southdale (36.6% or approximately \$106,000) at higher base rents in lieu of percentage rents and timing differences in the submission of sales reports used to calculate percentage rent by one retail tenant (37.6% or approximately \$109,000). Percentage rental income was positively impacted by new tenants in the 2006/2005 Development and Acquisition Properties (73.4% or approximately \$213,000).

Other revenue

Other revenue consists primarily of parking revenue at three of the Office Properties, temporary lease rental income, payments associated with early termination of leases and interest income from the investment of cash balances. Other revenue increased \$738,000 during 2007 versus 2006 as a result of increased lease termination fees (62.3% or approximately \$460,000), increased interest income from short-term investments (16.3% or approximately \$120,000), and increased parking revenue in the office portfolio (11.7% or approximately \$86,000).

Other revenue decreased \$2,029,000 during 2006 versus 2005 as a result of \$1,801,000 (88.8 % of decrease) related to resolution of a land use dispute with a property owner adjacent to the Company's Lexington Mall and decreased interest income from short-term investments (16.1% or \$327,000). Other revenue was also impacted by the collection of a lease termination fee and settlement of a rent dispute in 2005 with two former tenants at 601 Pennsylvania Avenue (12.9% or \$262,000), the negative impact of which was more than offset by increased parking revenue in the office portfolio (16.6% or \$336,000), primarily at 601 Pennsylvania Avenue where parking revenues increased compared to the prior year, when spaces were temporarily placed out of service during scheduled maintenance.

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OPERATING EXPENSES

(Dollars in thousands)	For the year ended December 31,			Percentage Change	
	2007	2006	2005	2007 to 2006	2006 to 2005
Property operating expenses	\$ 18,758	\$ 16,278	\$ 14,724	15.2%	10.6%
Provision for credit losses	376	400	237	(6.0)%	68.8%
Real estate taxes	14,084	12,503	11,040	12.6%	13.3%
Interest expense and amortization of deferred debt	33,855	32,534	30,207	4.1%	7.7%
Depreciation and amortization	26,464	25,648	24,197	3.2%	6.0%
General and administrative	11,666	10,142	9,585	15.0%	5.8%
Total operating expenses	\$ 105,203	\$ 97,505	\$ 89,990	7.9%	8.4%

Property operating expenses

Property operating expenses consist primarily of repairs and maintenance, utilities, payroll, insurance and other property related expenses. The \$2,480,000 increase in 2007 versus 2006 property operating expenses was caused primarily by the operation of the 2007/2006 Development and Acquisition Properties (47.9% or approximately \$1,188,000) and increased snow removal costs due to winter storms experienced during the 2007 year (22.1% or approximately \$549,000). The balance of the increase represents a 4.9% increase in property operating expenses for the Core Properties.

The \$1,554,000 increase in 2006 versus 2005 property operating expenses was caused primarily by the operation of the 2006/2005 Development and Acquisition Properties (90.3% or approximately \$1,403,000). Property operating expenses increased an average of 1.1% at the Company's remaining properties compared to the prior year period.

Provision for credit losses

The provision for credit losses represents the Company's estimation that amounts previously included in income and owed by tenants may not be collectible. The provision for credit losses was virtually unchanged from the prior year, a decrease of \$24,000 for 2007 versus 2006. The provision for credit losses is less than three tenths of one percent (0.3%) of total revenue for each period, a reflection of the relative credit quality of the Company's tenants.

The provision for credit losses increased \$163,000 for 2006 versus 2005 due primarily to the absence of significant credit losses experienced during 2005. The provision for credit losses is less than three tenths of one percent (0.3%) of total revenue for each period, a reflection of the relative credit quality of the Company's tenants.

Real estate taxes

The \$1,581,000 increase in real estate taxes for 2007 versus 2006 was largely impacted by an increased value assessment at 601 Pennsylvania Avenue (35.8% or approximately \$566,000). The 2007/2006 Development and Acquisition Properties also contributed to the increase (24.0% or approximately \$380,000). In addition, several of the Company's properties (Ashburn Village, Beacon Center, Countryside, The Glen and White Oak) received increases in assessed values during 2007 resulting in increased tax expense (together 28.3% or approximately \$447,000).

The \$1,463,000 increase in real estate taxes for 2006 versus 2005 was impacted by the 2006/2005 Development and Acquisition Properties (67.0% or approximately \$980,000). In addition, several of the Company's properties received increases in assessed values during 2006, primarily properties located in the Metropolitan Washington, DC area.



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Interest and amortization of deferred debt

Interest expense increased \$1,261,000 and Deferred debt cost amortization increased \$60,000 in 2007 versus 2006. Interest expense increased primarily due to the placement of a new permanent 15-year fixed rate mortgage on Lansdowne Town Center. During 2006, interest on Lansdowne's construction borrowings were capitalized while those dollars were largely expensed in 2007 as the property became fully operational. On a portfolio wide basis, the average outstanding borrowings from 2006 to 2007 increased approximately \$13,000,000 (approximately \$871,000 increase in interest expense). Additionally, interest capitalized as a cost of construction and development projects decreased during 2007 compared to 2006 (\$784,000 increase in interest expense). The change in capitalized interest is the equivalent of approximately \$11,500,000 in construction borrowings converted to operating property debt. Offsetting these increases in interest expense was an approximately 8 basis point decrease in the average interest rate for the loan portfolio resulting from Lansdowne's permanent mortgage rate being lower than the variable rate borrowings the permanent loan replaced (\$394,000 decrease in interest expense). Deferred debt cost amortization expense was \$1,149,000 and \$1,089,000, for the 2007 and 2006 periods, respectively, (\$60,000 increase in interest expense).

Interest expense increased \$2,399,000 and Deferred debt cost amortization decreased \$72,000 in 2006 versus 2005. Interest expense increased due to new borrowings, as the Company placed permanent 15-year fixed rate mortgages on selected 2006/2005 Development and Acquisition Properties. The increase in average outstanding borrowings of approximately \$51,000,000 resulted from financing selected 2006/2005 Development and Acquisition Properties and construction in progress (approximately \$3,538,000 increase in interest expense). Offsetting the increase in interest expense was (1) an approximately 13 basis point decrease in the average interest rate for the loan portfolio as the Company financed the new borrowings at interest rates lower than the average existing mortgage debt (approximately \$638,000 decrease in interest expense), (2) interest capitalized as a cost of construction and development projects during 2006 compared to 2005 in the amount of \$3,673,000 and \$3,258,000, respectively (\$415,000 decrease in interest expense) and (3) the inclusion in 2005 interest expense of a \$92,000 prepayment premium on the refinancing of a mortgage loan in order to obtain a new 15-year loan at a lower interest rate. Deferred debt cost amortization expense was \$1,089,000 and \$1,161,000, for the 2006 and 2005 periods, respectively. The decreased expense (\$72,000) resulted primarily from the early write-off of unamortized costs incident to the refinancing of the Company's revolving credit facility during 2005.

Depreciation and amortization

The \$816,000 increase in depreciation and amortization expense resulted primarily from the 2007/2006 Development and Acquisition Properties placed in service during 2007 and 2006, and reflects the Company's reduced level of acquisition activity compared to the 2004 and 2005 years.

The \$1,451,000 increase in depreciation and amortization expense resulted primarily from the 2006/2005 Development and Acquisition Properties placed in service during 2006 and 2005.

General and administrative

General and administrative expenses consists of payroll, administrative and other overhead expenses. The \$1,524,000 increase in general and administrative expenses for 2007 versus 2006 was largely attributable to increased payroll and employee benefit expenses for staff over 2006 levels and to the addition of several new administrative staff members (49.1% or approximately \$748,000), the write-off of costs related to an abandoned acquisition of a land parcel (31.8% or approximately \$484,000) and an increase in non-cash expense related to the issue of options to the Company's directors and officers (19.4% or approximately \$296,000).

The \$557,000 increase in general and administrative expenses for 2006 versus 2005 was attributable primarily to increased local and state taxes (52.2% or approximately \$291,000), increased corporate expenses related to the 2006 annual meeting of shareholders and other legal expenses related to property acquisitions (58.7% or approximately \$327,000) and the increased expense of employee health and retirement benefits (32.5% or approximately \$181,000). Also contributing to the increase in general and administrative expenses was an increase in non-cash expense related to the issue of options to the Company's officers and directors (15.4% or approximately \$86,000). The impact of the expense increases was offset in part by the write-off of abandoned Lexington Mall development costs in the 2005 Period (44.2% or \$246,000).

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Gain on Property Disposition

The Company recognized a gain on the disposition of real estate of \$139,000 in 2007. The 2007 gain represents additional condemnation proceeds recognized from the State of Maryland's condemnation and taking of a small strip of unimproved land for a road widening project at White Oak shopping center. Original proceeds from the condemnation were received in 2004. There were no property dispositions in 2006 or 2005.

IMPACT OF INFLATION

Inflation has remained relatively low and has had a minimal impact on the operating performance of the Company's portfolio; however, substantially all of the Company's leases contain provisions designed to mitigate the adverse impact of inflation on the Company's results of operations. These provisions include upward periodic adjustments in base rent due from tenants, usually based on a stipulated increase and to a lesser extent on a factor of the change in the consumer price index, commonly referred to as the CPI.

Substantially all of the Company's properties are leased to tenants under long-term leases, which provide for reimbursement of operating expenses by tenants. These leases tend to reduce the Company's exposure to rising property expenses due to inflation. Inflation and increased costs may have an adverse impact on the Company's tenants if increases in their operating expenses exceed increases in their revenue.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$5,765,000 and \$8,061,000 at December 31, 2007 and 2006, respectively. The changes in cash and cash equivalents during the years ended December 31, 2007 and 2006 were attributable to operating, investing and financing activities, as described below.

(Dollars in thousands)	Year Ended December 31,	
	2007	2006
Cash provided by operating activities	\$ 71,197	\$ 62,174
Cash used in investing activities	(52,036)	(65,699)
Cash (used) provided by financing activities	(21,457)	3,579
(Decrease) increase in cash	\$ (2,296)	\$ 54

Operating Activities

Cash provided by operating activities increased \$9,023,000 to \$71,197,000 for the year ended December 31, 2007 compared to \$62,174,000 for the year ended December 31, 2006 primarily reflecting increased operating income of the 2007/2006 Development and Acquisition Properties as well as positive contributions from the core portfolio. Cash provided by operating activities represents, in each year, cash received primarily from rental income, plus other income, less property operating expenses, normal recurring general and administrative expenses and interest payments on debt outstanding.

Investing Activities

Cash used in investing activities decreased \$13,663,000 to \$52,036,000 for the year ended December 31, 2007 compared to \$65,699,000 for the year ended December 31, 2006. Investing activities for 2007 primarily reflects the development and construction of new properties (Lansdowne Town Center, Ashburn Village V, Ashland Square and Clarendon Center), the acquisition of properties (Orchard Park and the Westview land parcel), other construction in progress, tenant improvements and property capital expenditures throughout the portfolio. Investing activities for 2006 primarily reflects the acquisition of properties (Smallwood Village and Hunt Club Corners), the construction of new shopping center properties (Lansdowne Town Center, Broadlands Village III as well as the Ravenwood and Ashburn Village expansions), tenant improvements and property capital expenditures throughout the portfolio. Tenant improvement and property capital expenditures totaled \$7,302,000 and \$10,145,000, for 2007 and 2006, respectively.

Financing Activities

Cash used by financing activities for the year ended December 31, 2007 was \$21,457,000 and cash provided by financing activities for the year ended December 31, 2006 was \$3,579,000. Cash used by financing activities for the year ended December 31, 2007 primarily reflects:

- the repayment of borrowings on mortgage notes payable totaling \$14,717,000;
- amounts repaid under the revolving credit facility totaling \$47,000,000;
- distributions made to common stockholders and holders of convertible limited partnership units in the Operating Partnership during the year totaling \$40,613,000;
- distributions made to preferred stockholders during the year totaling \$8,000,000; and
- payments of \$2,085,000 for financing costs of the revolving credit facility and two mortgage loans during 2005.



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which was partially offset by:

- \$52,000,000 of proceeds received from mortgage notes payable incurred during the year;
- amounts borrowed from the revolving credit facility totaling \$20,000,000; and
- \$18,958,000 of proceeds received from the issuance of common stock under the dividend reinvestment program and from the exercise of stock options, and from the issuance of convertible limited partnership interests in the Operating Partnership;

Cash provided by financing activities for the year ended December 31, 2006 primarily reflects:

- amounts borrowed from the revolving credit facility totaling \$31,000,000;
- proceeds received from two new mortgage notes payable totaling \$17,500,000; and
- \$21,054,000 of proceeds received from the issuance of common stock under the dividend reinvestment program and from the exercise of stock options, and from the issuance of convertible limited partnership interests in the Operating Partnership;

which was partially offset by:

- the scheduled repayment (amortization) of mortgage notes payable totaling \$13,322,000;
- the partial repayments of the revolving credit facility totaling \$6,500,000;
- distributions made to common stockholders and holders of convertible limited partnership units in the Operating Partnership during the year totaling \$37,611,000;
- distributions made to preferred stockholders during the year totaling \$8,000,000; and
- payments of \$542,000 for financing costs of two new mortgage loans during 2006.

Liquidity Requirements

Short-term liquidity requirements consist primarily of normal recurring operating expenses and capital expenditures, debt service requirements (including debt service relating to additional and replacement debt), distributions to common and preferred stockholders, distributions to unit holders and amounts required for expansion and renovation of the Current Portfolio Properties and selective acquisition and development of additional properties. In order to qualify as a REIT for federal income tax purposes, the Company must distribute to its

stockholders at least 90% of its "real estate investment trust taxable income," as defined in the Code. The Company expects to meet these short-term liquidity requirements (other than amounts required for additional property acquisitions and developments) through cash provided from operations, available cash and its existing line of credit.

Long-term liquidity requirements consisted primarily of obligations under our long-term debt and dividends paid to our preferred shareholders. We anticipate that long-term liquidity requirements will also include amounts required for property acquisitions and developments. Management anticipates that during the coming year the Company may:

- redevelop certain of the Current Portfolio Properties,
- develop additional freestanding outparcels or expansions within certain of the Shopping Centers,
- acquire existing neighborhood and community shopping centers and/or office properties, and
- develop new shopping center or office sites.

Acquisition and development of properties are undertaken only after careful analysis and review, and management's determination that such properties are expected to provide long-term earnings and cash flow growth. During the coming year, developments, expansions or acquisitions are expected to be funded with available cash, bank borrowings from the Company's credit line, construction and permanent financing, proceeds from the operation of the Company's dividend reinvestment plan or other external debt or equity capital resources available to the Company and proceeds from the sale of properties. Borrowings may be at the Saul Centers, Operating Partnership or Subsidiary Partnership level, and securities offerings may include (subject to certain limitations) the issuance of additional limited partnership interests in the Operating Partnership which can be converted into shares of Saul Centers common stock. The availability and terms of any such financing will depend upon market and other conditions.

Contractual Payment Obligations

As of December 31, 2007, the Company had unfunded contractual payment obligations of approximately \$33.0 million, excluding operating obligations, due within the next 12 months. The table below specifies the total contractual payment obligations as of December 31, 2007.

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CONTRACTUAL OBLIGATIONS

(Dollars in thousands)	Total	Payments Due By Period			
		Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Notes Payable	\$ 532,726	\$ 16,162	\$ 44,081	\$ 192,846	\$ 279,637
Operating Leases (1)	11,265	164	334	349	10,418
Corporate Headquarters Lease (1)	3,294	754	1,577	963	—
Development Obligations	4,361	4,361	—	—	—
Contracts to acquire land (2)	11,600	11,600	—	—	—
Total Contractual Cash Obligations	\$ 563,246	\$ 33,041	\$ 45,992	\$ 194,158	\$ 290,055

(1) See Note 7 to Consolidated Financial Statements. Corporate Headquarters Lease amounts represent an allocation to the Company based upon employees' time dedicated to the Company's business as specified in the Shared Services Agreement. Future amounts are subject to change as the number of employees, employed by each of the parties to the lease, fluctuate.

(2) As of December 31, 2007, the Company had executed a contract to acquire a parcel of land for future retail development (see Acquisitions, Redevelopments and Renovations for a discussion of this project-Northrock). The purchase closed on January 23, 2008. The amount is scheduled net of a good faith deposit totaling \$1,000.

(3) Subsequent to December 31, 2007, the Company committed to certain development obligations relating to two of its development parcels and other redevelopment properties. These obligations totaled approximately \$15,600 and are expected to be funded over 12 to 18 months.

Management believes that the Company's capital resources, which at December 31, 2007 included cash balances of \$5.8 million and borrowing availability of approximately \$142.0 million on its revolving line of credit will be sufficient to meet its contractual obligations for the foreseeable future.

Preferred Stock Issue

On July 16, 2003, the Company filed a shelf registration statement with the SEC relating to the future offering of up to an aggregate of \$100 million of preferred stock and depositary shares. On November 5, 2003, the Company sold 3,500,000 depositary shares, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock. The underwriters exercised an over-allotment option, purchasing an additional 500,000 depositary shares on November 26, 2003.

The depositary shares may be redeemed, in whole or in part, at the \$25.00 liquidation preference at the Company's option on or after November 5, 2008. The depositary shares pay an annual dividend of \$2.00 per depositary share, equivalent to 8% of the \$25.00 liquidation preference. The first dividend, paid on January 15, 2004 was for less than a full quarter and covered the period from November 5 through December 31, 2003. The Series A preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company. Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events.

Dividend Reinvestments

In December 1995, the Company established a Dividend Reinvestment Plan (the "Plan") to allow its common stockholders and holders of limited partnership interests an opportunity to buy additional shares of common stock by reinvesting all or a portion of their dividends or distributions. The Plan provides for investing in newly issued shares of common stock at a 3% discount from market price without payment of any brokerage commissions, service charges or other expenses. All expenses of the Plan are paid by the Company. The Company issued 381,662 and 358,563 shares under the Plan at a weighted average discounted price of \$48.11 and \$41.43 per share during the years ended December 31, 2007 and 2006, respectively. The Company also credited 7,535 and 8,173 shares to directors pursuant to the reinvestment of dividends specified by the Directors' Deferred Compensation Plan at a weighted average discounted price of \$49.13 and \$40.03 per share, during the years ended December 31, 2007 and 2006, respectively.

Additionally, the Operating Partnership issued 106,157 limited partnership units under a dividend reinvestment plan mirroring the Plan at a weighted average discounted price of \$37.69 per unit during the year ended December 31, 2006. No limited partnership units were issued during the year ended December 31, 2007.

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CAPITAL STRATEGY AND FINANCING ACTIVITY

As a general policy, the Company intends to maintain a ratio of its total debt to total asset value of 50% or less and to actively manage the Company's leverage and debt expense on an ongoing basis in order to maintain prudent coverage of fixed charges. Asset value is the aggregate fair market value of the Current Portfolio Properties and any subsequently acquired properties as reasonably determined by management by reference to the properties' aggregate cash flow. Given the Company's current debt level, it is management's belief that the ratio of the Company's debt to total asset value was below 50% as of December 31, 2007.

The organizational documents of the Company do not limit the absolute amount or percentage of indebtedness that it may incur. The Board of Directors may, from time to time, reevaluate the Company's debt capitalization policy in light of current

economic conditions, relative costs of capital, market values of the Company property portfolio, opportunities for acquisition, development or expansion, and such other factors as the Board of Directors then deems relevant. The Board of Directors may modify the Company's debt capitalization policy based on such a reevaluation without shareholder approval and consequently, may increase or decrease the Company's debt to total asset ratio above or below 50% or may waive the policy for certain periods of time. The Company selectively continues to refinance or renegotiate the terms of its outstanding debt in order to achieve longer maturities, and obtain generally more favorable loan terms, whenever management determines the financing environment is favorable.

The following is a summary of notes payable as of December 31, 2007 and 2006:

NOTES PAYABLE				
(Dollars in thousands)	December 31,		Interest Rate *	Scheduled Maturity *
	2007	2006		
Fixed rate mortgages:	\$ 83,078 (a)	\$ 87,307	8.00%	Dec-2011
	119,340 (b)	123,130	7.67%	Oct-2012
	11,022 (c)	11,188	6.12%	Jan-2013
	30,041 (d)	31,155	7.88%	Jan-2013
	8,131 (e)	8,331	5.77%	Jul-2013
	12,935 (f)	13,253	5.28%	May-2014
	11,930 (g)	12,337	8.33%	Jun-2015
	39,099 (h)	39,886	6.01%	Feb-2018
	44,495 (i)	45,516	5.88%	Jan-2019
	14,395 (j)	14,726	5.76%	May-2019
	19,878 (k)	20,338	5.62%	Jul-2019
	19,661 (l)	20,100	5.79%	Sep-2019
	17,601 (m)	18,015	5.22%	Jan-2020
	12,535 (n)	12,723	5.60%	May-2020
	11,858 (o)	12,125	5.30%	Jun-2020
	10,139 (p)	10,341	5.81%	Feb-2021
	6,884 (q)	6,972	6.01%	Aug-2021
	39,740 (r)	—	5.62%	Jun-2022
	11,964 (s)	—	6.08%	Sep-2022
Total fixed rate	524,726	487,443	6.72%	8.2 Years
Variable rate loan:				
Revolving credit facility	8,000 (t)	35,000	LIBOR + 1.475 %	Dec-2010
Total variable rate	8,000	35,000	6.33%	3.0 Years
Total notes payable	\$ 532,726	\$ 522,443	6.71%	8.1 Years

* Interest rate and scheduled maturity data presented as of December 31, 2007. Totals computed using weighted averages.



MANAGEMENT'S DISCUSSION & ANALYSIS

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- (a) The loan is collateralized by Avenel Business Park, Van Ness Square, Ashburn Village, Leesburg Pike, Lumberton Plaza and Village Center. The loan has been increased on four occasions since its inception in 1997. The 8.00% blended interest rate is the weighted average of the initial loan rate and additional borrowing rates. The loan requires equal monthly principal and interest payments of \$920,000 based upon a weighted average 23-year amortization schedule and a final payment of \$63,153,000 at loan maturity. Principal of \$4,229,000 was amortized during 2007.
- (b) The loan is collateralized by nine shopping centers (Seven Corners, Thruway, White Oak, Hampshire Langley, Great Eastern, Southside Plaza, Belvedere, Giant and Ravenwood) and requires equal monthly principal and interest payments of \$1,103,000 based upon a 25-year amortization schedule and a final payment of \$97,403,000 at loan maturity. Principal of \$3,790,000 was amortized during 2007.
- (c) The loan is collateralized by Smallwood Village Center and requires equal monthly principal and interest payments of \$71,000 based upon a 30 year amortization schedule and a final payment of \$10,071,000 at loan maturity. Principal of \$166,000 was amortized during 2007.
- (d) The loan is collateralized by 601 Pennsylvania Avenue and requires equal monthly principal and interest payments of \$294,000 based upon a 25-year amortization schedule and a final payment of \$22,961,000 at loan maturity. Principal of \$1,114,000 was amortized during 2007.
- (e) The loan is collateralized by Cruse MarketPlace and requires equal monthly principal and interest payments of \$56,000 based upon an amortization schedule of approximately 24 years and a final payment of \$6,830,000 at loan maturity. Principal of \$200,000 was amortized during 2007.
- (f) The loan is collateralized by Seabreeze Plaza and requires equal monthly principal and interest payments of \$84,000 based upon a 25-year amortization schedule and a final payment of \$10,531,000 at loan maturity. Principal of \$318,000 was amortized during 2007.
- (g) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires monthly principal and interest payments of \$118,000 based upon a 22-year amortization schedule and a final payment of \$7,630,000 at loan maturity. Principal of \$407,000 was amortized during 2007.
- (h) The loan is collateralized by Washington Square and requires equal monthly principal and interest payments of \$264,000 based upon a 27.5-year amortization schedule and a final payment of \$28,012,000 at loan maturity. Principal of \$787,000 was amortized during 2007.
- (i) The loan, consisting of two notes dated December 2003 and two notes dated February and December 2004, is currently collateralized by three shopping centers, Broadlands Village (Phases I, II & III), The Glen and Kentlands Square, and requires equal monthly principal and interest payments of \$306,000 based upon a 25-year amortization schedule and a final payment of \$28,393,000 at loan maturity. Principal of \$1,021,000 was amortized during 2007.
- (j) The loan is collateralized by Olde Forte Village and requires equal monthly principal and interest payments of \$98,000 based upon a 25-year amortization schedule and a final payment of \$8,985,000 at loan maturity. Principal of \$331,000 was amortized during 2007.
- (k) The loan is collateralized by Countryside and requires equal monthly principal and interest payments of \$133,000 based upon a 25-year amortization schedule and a final payment of \$12,288,000 at loan maturity. Principal of \$460,000 was amortized during 2007.
- (l) The loan is collateralized by Briggs Chaney MarketPlace and requires equal monthly principal and interest payments of \$133,000 based upon a 25-year amortization schedule and a final payment of \$12,192,000 at loan maturity. Principal of \$439,000 was amortized during 2007.
- (m) The loan is collateralized by Shops at Monocacy and requires equal monthly principal and interest payments of \$112,000 based upon a 25-year amortization schedule and a final payment of \$10,568,000 at loan maturity. Principal of \$414,000 was amortized during 2007.
- (n) The loan is collateralized by Boca Valley Plaza and requires equal monthly principal and interest payments of \$75,000 based upon a 30-year amortization schedule and a final payment of \$9,149,000 at loan maturity. Principal of \$188,000 was amortized during 2007.
- (o) The loan is collateralized by Palm Springs Center and requires equal monthly principal and interest payments of \$75,000 based upon a 25-year amortization schedule and a final payment of \$7,075,000 at loan maturity. Principal of \$267,000 was amortized during 2007.
- (p) The loan is collateralized by Jamestown Place and requires equal monthly principal and interest payments of \$66,000 based upon a 25-year amortization schedule and a final payment of \$6,102,000 at loan maturity. Principal of \$202,000 was amortized during 2007.
- (q) The loan is collateralized by Hunt Club Corners and requires equal monthly principal and interest payments of \$42,000 based upon a 30-year amortization schedule and a final payment of \$5,018,000 at loan maturity. Principal of \$88,000 was amortized during 2007.
- (r) The loan is collateralized by Lansdowne Town Center and requires monthly principal and interest payments of \$230,000 based on a 30-year amortization schedule and a final payment of \$28,177,000 at loan maturity. Principal of \$260,000 was amortized during 2007.
- (s) The loan is collateralized by Orchard Park and requires equal monthly principal and interest payments of \$73,000 based upon a 30-year amortization schedule and a final payment of \$8,628,000 at loan maturity. Principal of \$36,000 was amortized during 2007.
- (t) The loan is an unsecured revolving credit facility totaling \$150,000,000. Interest expense during 2007 was calculated based upon the 1 month LIBOR rate plus a spread of 1.50% (reduced to 1.475% effective December 19, 2007) or upon the bank's reference rate at the Company's option. The line may be extended one year with payment of a fee of 1/4% at the Company's option. Monthly payments, if applicable, are interest only and vary depending upon the amount outstanding and the applicable interest rate for any given month.



MANAGEMENT'S DISCUSSION & ANALYSIS

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The December 31, 2007 and 2006 depreciation adjusted cost of properties collateralizing the mortgage notes payable totaled \$557,820,000 and \$508,236,000, respectively. Notes payable at December 31, 2007 and 2006, totaling \$157,381,000 and \$189,285,000, respectively, are guaranteed by members of The Saul Organization. The Company's credit facility requires the Company and its subsidiaries to maintain certain financial covenants. As of December 31, 2007, the material covenants required the Company, on a consolidated basis, to:

- limit the amount of debt so as to maintain a gross asset value, as defined in the loan agreement, in excess of liabilities of at least \$600 million plus 90% of our future net equity proceeds;
- limit the amount of debt as a percentage of gross asset value, as defined in the loan agreement, to less than 60% (leverage ratio);
- limit the amount of debt so that interest coverage will exceed 2.5 to 1 on a trailing 12-full calendar month basis;
- limit the amount of debt so that interest, scheduled principal amortization and preferred dividend coverage exceeds 1.6 to 1; and
- limit the amount of variable rate debt and debt with initial loan terms of less than five years to no more than 40% of total debt.

As of December 31, 2007, the Company was in compliance with all such covenants.

2007 Financing Activity

On and effective December 19, 2007, the Company entered into a new \$150,000,000 unsecured revolving credit facility (the "Facility"), with a syndication of lenders. The Facility replaced the Company's existing unsecured credit facility. Saul Centers, Inc. and certain subsidiaries of Saul Holdings Limited Partnership have guaranteed the payment obligations of Saul Holdings Limited Partnership under the Facility. The Facility provides for a \$150,000,000 revolving credit facility maturing on December 19, 2010, which term may be extended by the Company for one additional year subject to the Company's satisfaction of certain conditions. Until December 19, 2009, certain or all of the lenders may, upon request by the Company, increase the

Facility by \$50,000,000. Letters of credit may be issued under the Facility. On December 31, 2007, of the \$150,000,000 available for borrowing, \$8,000,000 was outstanding, \$177,000 was committed for letters of credit, and the resulting balance of \$141,823,000 was available to borrow for working capital, operating property acquisitions or development projects. In general, loan availability under the Facility is primarily determined by operating income from the Company's existing unencumbered properties. As of December 31, 2007, the unencumbered properties supported availability of \$99,000,000. Interest expense is calculated based upon the 1, 2, 3 or 6 month LIBOR plus a spread of 1.40% to 1.60%, determined by certain leverage tests, or upon the bank's reference rate, at the Company's option. An additional \$51,000,000 is available based upon the Company's consolidated operating income after debt service. On this portion of the Facility, interest accrues at a rate of LIBOR plus a spread of 1.70% to 2.25%, determined by certain leverage tests, or upon the bank's reference rate plus a spread of 0.575%, at the Company's option.

On August 15, 2007, the Company closed on a new 15-year, fixed-rate mortgage financing in the amount of \$12,000,000, secured by Orchard Park. The loan matures September 5, 2022, requires equal monthly principal and interest payments of \$72,565, based upon a 6.08% interest rate and 30-year principal amortization, and requires a final payment of \$8,628,000 at maturity.

On May 30, 2007, the Company closed on a new 15-year, fixed-rate mortgage financing in the amount of \$40,000,000, secured by Lansdowne Town Center. The loan matures June 10, 2022, requires equal monthly principal and interest payments of \$230,137, based upon a 5.62% interest rate and 30-year principal amortization, and requires a final payment of \$28,177,000 at maturity.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements that are reasonably likely to have a current or future material effect on the Company's financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

MANAGEMENT'S DISCUSSION & ANALYSIS

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FUNDS FROM OPERATIONS

In 2007, the Company reported Funds From Operations (FFO)¹ available to common shareholders (common stockholders and limited partner unitholders) of \$63,846,000 representing a 9.9% increase over 2006 FFO available to common shareholders of \$58,121,000. The following table presents a reconciliation from net income to FFO available to common shareholders for the periods indicated:

(Dollars in thousands)	2007	For the Year Ended December 31,			
	2006	2005	2004	2003	
Net income	\$ 36,703	\$ 32,680	\$ 29,227	\$ 26,174	\$ 19,242
Subtract:					
Gain on property disposition	(139)	–	–	(572)	(182)
Add:					
Minority interests	8,818	7,793	7,798	8,105	8,086
Real estate depreciation and amortization	26,464	25,648	24,197	21,324	17,838
FFO	71,846	66,121	61,222	55,031	44,984
Preferred dividends	(8,000)	(8,000)	(8,000)	(8,000)	(1,244)
FFO available to common shareholders	\$ 63,846	\$ 58,121	\$ 53,222	\$ 47,031	\$ 43,740
Average shares and units used to compute FFO per share	23,185	22,628	22,003	21,405	20,790

¹ The National Association of Real Estate Investment Trusts (NAREIT) developed FFO as a relative non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO is defined by NAREIT as net income, computed in accordance with GAAP, plus minority interests, extraordinary items and real estate depreciation and amortization, excluding gains or losses from property sales. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs, which is disclosed in the Company's Consolidated Statements of Cash Flows for the applicable periods. There are no material legal or functional restrictions on the use of FFO. FFO should not be considered as an alternative to net income, its most directly comparable GAAP measure, as a indicator of the Company's operating performance, or as an alternative to cash flows as a measure of liquidity. Management considers FFO a meaningful supplemental measure of operating performance because it primarily excludes the assumption that the value of the real estate assets diminishes predictably over time (i.e. depreciation), which is contrary to what we believe occurs with our assets, and because industry analysts have accepted it as a performance measure. FFO may not be comparable to similarly titled measures employed by other REITs.

ACQUISITIONS, REDEVELOPMENTS AND RENOVATIONS

Management anticipates that during the coming year the Company may: (i) redevelop certain of the Current Portfolio Properties, (ii) develop additional freestanding outparcels or expansions within certain of the Shopping Centers, (iii) acquire existing neighborhood and community shopping centers and/or office properties, and (iv) develop new shopping center or office sites. Acquisition and development of properties are undertaken only after careful analysis and review, and management's determination that such properties are expected to provide long-term earnings and cash flow growth. During the coming year, any developments, expansions or acquisitions are expected to be funded with bank borrowings from the Company's credit line, construction financing, proceeds from the operation of the Company's dividend reinvestment plan or other external capital resources available to the Company.

The Company has been selectively involved in acquisition, redevelopment and renovation activities. It continues to evaluate the acquisition of land parcels for retail and office development and acquisitions of operating properties for opportunities to enhance operating income and cash flow growth. The Company also continues to take advantage of redevelopment, renovation and expansion opportunities within the portfolio, as demonstrated by its recent activities at Olde Forte Village, Broadlands Village, Thruway, The Glen, Ravenwood and Lansdowne Town Center. The following describes the acquisitions, redevelopments and renovations which affected the Company's financial position and results of operations in 2007, 2006 and 2005.

Olde Forte Village

The Company redeveloped in 2005, Olde Forte Village, a neighborhood shopping center located in Fort Washington, Maryland. The center, acquired in 2003, is anchored by the then newly constructed 58,000 square foot Safeway supermarket, which relocated from a smaller store within the center. The



MANAGEMENT'S DISCUSSION & ANALYSIS

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center then contained approximately 50,000 square feet of vacant space, consisting primarily of the former Safeway space. The reconfigured shopping center totals 143,000 square feet of leasable space. The Company's total redevelopment costs, including the initial property acquisition cost, were approximately \$22 million. The center was 95% leased at December 31, 2007.

Broadlands Village

The Company purchased 24 acres of undeveloped land in the Broadlands section of the Dulles Technology Corridor of Loudoun County, Virginia in April 2002. Broadlands is a 1,500 acre planned community consisting of 3,500 residences, approximately half of which are constructed and currently occupied. In October 2003, the Company completed construction of the first phase of the Broadlands Village shopping center. The 58,000 square foot Safeway supermarket opened in October 2003 with a pad building and many in-line small shops also opening in the fourth quarter of 2003. Construction of a 30,000 square foot second phase was substantially completed in 2004. The Company's total development costs of both phases, including the land acquisition, were approximately \$22 million. During the second quarter of 2006, the Company substantially completed construction of a third phase of this development, totaling approximately 22,000 square feet of shop space and two pad site locations. Development costs for this phase totaled approximately \$7.5 million. The center was 98% leased and fully operational at December 31, 2007.

The Glen

In February 2005, the Company commenced construction of a 22,000 square foot expansion building to provide additional restaurants and small shop service space at The Glen shopping center in Prince William County, Virginia. Construction of the expansion building was substantially completed in the fall of 2005, and development costs were approximately \$4.1 million. The resulting 134,000 square foot Safeway anchored center was 96% leased at December 31, 2007.

Kentlands Place

In January 2004, the Company purchased 3.4 acres of undeveloped land adjacent to its 114,000 square foot Kentlands Square shopping center in Gaithersburg, Maryland. The Company substantially completed construction of a 40,600 square foot retail/office property, comprised of 23,800 square feet of in-line retail space and 16,800 square feet of professional office suites, in early 2005. Development costs, including the land acquisition, were approximately \$8.5 million. The property was 100% leased at December 31, 2007 and includes significant retail tenants Bonefish Grill and Elizabeth Arden's Red Door Salon.

Briggs Chaney MarketPlace

In April 2004, the Company acquired Briggs Chaney MarketPlace in Silver Spring, Maryland. Briggs Chaney MarketPlace is a 194,000 square foot neighborhood shopping center on Route 29 in Montgomery County, Maryland. The center, constructed in 1983, was 99% leased at December 31, 2007 and is anchored by a 45,000 square foot Safeway supermarket and a 28,000 square foot Ross Dress For Less. The property was acquired for \$27.3 million. During 2005, the Company completed interior construction to reconfigure a portion of space vacant at acquisition, totaling approximately 11,000 square feet of leasable area, and completed construction of a façade renovation of the shopping center. Redevelopment costs totaled approximately \$1.9 million.

Ashland Square

On December 15, 2004, the Company acquired a 19.3 acre parcel of land in Manassas, Prince William County, Virginia for a purchase price of \$6.3 million. The Company has plans to develop the parcel into a grocery-anchored neighborhood shopping center. The Company received site plan approval during the third quarter of 2006 to develop approximately 125,000 square feet of retail space. A site plan for an additional 35,000 square feet of commercial space is under review by Prince William County. During the third quarter of 2006, the Company commenced site work consisting primarily of clearing, grading and site utility construction. A lease has been executed with Chevy Chase Bank which built a branch on a pad site. The bank branch opened for business October 2007. The balance of the center is being marketed to grocers and other retail businesses, with a development timetable yet to be finalized.

Palm Springs Center

On March 3, 2005, the Company completed the acquisition of the 126,000 square foot Albertson's anchored Palm Springs Center located in Altamonte Springs, Florida (metropolitan Orlando). The center was 97% leased at December 31, 2007 and was acquired for a purchase price of \$17.5 million.

New Market

On March 3, 2005, the Company acquired a 7.1 acre parcel of land located in New Market, Maryland for a purchase price of \$500,000. On September 8, 2005, the Company acquired a 28.4 acre contiguous parcel for a purchase price of \$1.5 million. Together, these parcels will accommodate a neighborhood shopping center development in excess of 120,000 square feet of leasable space. The Company had contracted to purchase one additional parcel with the intent to assemble additional acreage for further retail development near this I-70 interchange, east of Frederick, Maryland. During December 2007, the Company abandoned the acquisition of this final parcel and wrote-off to general and administrative expense all costs related to this parcel.



MANAGEMENT'S DISCUSSION & ANALYSIS

of Financial Condition & Results of Operations

Lansdowne Town Center

During the first quarter of 2005, the Company received approval of a zoning submission to Loudoun County which allowed the development of a neighborhood shopping center named Lansdowne Town Center, within the Lansdowne Community in northern Virginia. On March 29, 2005, the Company finalized the acquisition of an additional 4.5 acres of land to bring the total acreage of the development parcel to 23.4 acres (including the 18.9 acres acquired in 2002). The additional purchase price was approximately \$1.0 million. In late 2006, the Company substantially completed construction of an approximately 189,000 square foot retail center. A lease was executed with Harris Teeter for a 55,000 square foot grocery store, which opened in November 2006. Project costs, upon completion of final tenant improvements, are expected to total approximately \$41.5 million. As of December 31, 2007, the project was fully operational and 99% leased, however rent is not expected to commence for approximately 16,000 square feet of second floor office space until spring of 2008, when tenant improvements are expected to be substantially complete.

Jamestown Place

On November 17, 2005, the Company completed the acquisition of the 96,000 square foot Publix-anchored Jamestown Place located in Altamonte Springs, Florida (metropolitan Orlando). The center was 95% leased at December 31, 2007 and was acquired for a purchase price of \$14.8 million.

Seabreeze Plaza

On November 30, 2005, the Company completed the acquisition of the 147,000 square foot Publix-anchored Seabreeze Plaza located in Palm Harbor, Florida (metropolitan Tampa). The center was 90% leased at December 31, 2007 and was acquired for a purchase price of \$25.9 million subject to the assumption of a \$13.6 million mortgage loan.

Smallwood Village Center

On January 27, 2006, the Company acquired the 198,000 square foot Smallwood Village Center, located on 25 acres within the St. Charles planned community of Waldorf, Maryland. The center was acquired for a purchase price of \$17.5 million subject to the assumption of an \$11.3 million mortgage loan, and was 73% leased at December 31, 2007. The Company is obtaining final permits for a capital improvement project to improve access to the center, reconfigure portions of the center and upgrade the center's façade. Construction is expected to commence during the spring of 2008.

Ravenwood

In January 2006, the Company commenced construction of a 7,380 square foot shop space expansion to the Giant anchored Ravenwood shopping center, located in Towson, Maryland.

Construction was substantially completed in June 2006. All of the new space is leased and operational at December 31, 2007. Development costs totaled approximately \$2.2 million.

Lexington Center

On September 29, 2005, the Company announced the resolution of a land use dispute at Lexington Mall, allowing increased flexibility in future development rights for its property. The Company and the land owner of the adjacent 16 acre site, have resolved a dispute arising from a reciprocal easement agreement governing land use between the two owners. The parties have executed a new land use agreement which grants each other the flexibility to improve its property. The Company also reached an agreement with Dillard's to terminate its lease, without consideration exchanged by either party. The mall is vacant and the Company has prepared conceptual designs for the shopping center's development and marketing to prospective retailers.

Hunt Club Corners

On June 1, 2006, the Company completed the acquisition of the 101,500 square foot Publix-anchored Hunt Club Corners shopping center located in Apopka, Florida (metropolitan Orlando). The center was 99% leased at December 31, 2007 and was acquired for a purchase price of \$11.1 million.

Ashburn Village-Phase V

The Company completed construction during the fourth quarter of 2006 of a 10,000 square foot shop space expansion to the Ashburn Village shopping center located in Loudoun County, Virginia. The space was 100% leased and operational at December 31, 2007. Development costs totaled approximately \$2.2 million.

Clarendon Center

The Company owns an assemblage of land parcels (including its Clarendon and Clarendon Station operating properties) totaling approximately 1.5 acres adjacent to the Clarendon Metro Station in Arlington, Virginia. In June 2006, the Company obtained zoning approvals for a mixed-use development project to include up to approximately 45,000 square feet of retail space, 170,000 square feet of office space and 244 residential units. The Company has substantially completed construction documents. An existing vacant building located on a portion of the land is being demolished to prepare this portion of the site for development. A development timetable has not yet been completed.

Westview Village

In November 2007, the Company purchased a 10.4 acre site in the Westview development on Buckeystown Pike (MD Route 85) in Frederick, Maryland. The purchase price was \$5.0 million. Construction documents have been completed and site permits have been received for development of approximately 105,000



MANAGEMENT'S DISCUSSION & ANALYSIS

of Financial Condition & Results of Operations

square feet of commercial space, including 60,000 square feet of retail shop space, 15,000 square feet of retail pads and 30,000 square feet of professional office space. The Company is currently marketing the space and has executed leases for 9,606 square feet of the retail space. The Company commenced site work construction in early 2008 and anticipates total construction and development costs, including land, to be approximately \$26.0 million. Substantial completion of the building shell is scheduled for late 2008.

Great Eastern Plaza Land Parcel

On June 6, 2007, the Company acquired 8.0 acres of undeveloped land adjacent to its Great Eastern Plaza shopping center in District Heights, Maryland, for a purchase price of \$1.3 million. The Company is analyzing options to expand the existing shopping center onto this parcel at some future date.

Orchard Park

On July 19, 2007, the Company completed the acquisition of the 88,000 square foot Kroger-anchored Orchard Park shopping

center located in Dunwoody, GA. The center is 93% leased as of December 31, 2007 and was acquired for a purchase price of \$17.0 million.

Northrock Land Parcel

In January 2008, the Company acquired approximately 15.4 acres of undeveloped land in Warrenton, Virginia. The site is located in the City of Warrenton at the southwest corner of the U. S. Route 29/211 and Fletcher Drive intersection. The Company has commenced site work construction for Northrock Shopping Center, a neighborhood shopping center totaling approximately 103,000 square feet of leasable area. The Harris Teeter supermarket chain has executed a lease for a 52,700 square foot grocery store to anchor the center. The land purchase price was \$12.5 million, and the Company anticipates total construction and development costs, including land, to be approximately \$27.5 million. Construction substantial completion is anticipated for mid 2009.

PORTFOLIO LEASING STATUS

The following chart sets forth certain information regarding our properties for the periods indicated.

As of December 31,	Total Properties		Total Square Footage		Percent Leased	
	Shopping Centers	Office	Shopping Centers	Office	Shopping Centers	Office
2007	43	5	6,803,000	1,206,000	95.3%	95.2%
2006	42	5	6,698,000	1,206,000	96.1%	97.3%
2005	39	5	6,170,000	1,206,000	97.2%	96.6%

The 2007 leasing percentages decreased due to a net 67,000 square foot decrease in leased space, 42,000 in the shopping center portfolio and 25,000 in the office portfolio. The shopping center decrease in leased space occurred due to a 22,000 square foot decrease at Smallwood Village, where the Company is planning a façade renovation of the common areas

and a 20,000 square foot decrease at South Dekalb Plaza. The 2006 shopping center leasing percentages decreased due to the departure of two local grocery anchors at the Belvedere and West Park shopping centers totaling 59,000 square feet.

MANAGEMENT'S REPORT on Internal Control Over Financial Reporting

Assessment of Effectiveness of Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework to assess the effectiveness of the Company's internal control over financial

reporting. Based upon the assessment, the Company's management has concluded that, as of December 31, 2007, the Company's internal control over financial reporting was effective. The Company's independent registered public accounting firm has issued an attestation report on management's assessment of the Company's internal control over financial reporting, which appears on page 29 in this Annual Report.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

on Internal Control Over Financial Reporting

Board of Directors and Stockholders
Saul Centers, Inc.

We have audited Saul Centers, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Saul Centers, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the Assessment of Effectiveness of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as

necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Saul Centers, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Saul Centers, Inc. as of December 31, 2007 and 2006, the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007 of Saul Centers, Inc. and our report dated February 26, 2008 expressed an unqualified opinion thereon.

Ernst & Young LLP
McLean, Virginia
February 26, 2008



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Saul Centers, Inc.

We have audited the accompanying consolidated balance sheets of Saul Centers, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saul Centers, Inc. at December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 2006 the Company adopted the provisions of U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," pursuant to which the Company recorded a cumulative adjustment to retained earnings as of January 1, 2006 to correct prior period misstatements in recording rental income.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Saul Centers, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2008 expressed an unqualified opinion thereon.

Ernst & Young LLP
McLean, Virginia
February 26, 2008

CONSOLIDATED BALANCE SHEETS

	December 31, 2007	December 31, 2006
<i>(Dollars in thousands, except per share amounts)</i>		
Assets		
Real estate investments		
Land	\$ 167,007	\$ 154,047
Buildings and equipment	673,328	631,797
Construction in progress	49,592	56,017
	889,927	841,861
Accumulated depreciation	(232,669)	(214,210)
	657,258	627,651
Cash and cash equivalents	5,765	8,061
Accounts receivable and accrued income, net	33,967	33,248
Deferred leasing costs, net	16,190	18,137
Prepaid expenses, net	2,571	2,507
Deferred debt costs, net	6,264	5,328
Other assets	5,428	5,605
Total assets	\$ 727,443	\$ 700,537
Liabilities		
Mortgage notes payable	\$ 524,726	\$ 487,443
Revolving credit facility outstanding	8,000	35,000
Dividends and distributions payable	12,887	11,558
Accounts payable, accrued expenses and other liabilities	13,159	16,409
Deferred income	15,147	12,251
Total liabilities	573,919	562,661
Minority interests	4,745	5,785
Stockholders' equity		
Series A Cumulative Redeemable Preferred stock, 1,000,000 shares authorized and 40,000 shares issued and outstanding	100,000	100,000
Common stock, \$0.01 par value, 30,000,000 shares authorized, 17,747,529 and 17,341,441 shares issued and outstanding, respectively	178	173
Additional paid-in capital	161,618	141,554
Accumulated deficit	(113,017)	(109,636)
Total stockholders' equity	148,779	132,091
Total liabilities and stockholders' equity	\$ 727,443	\$ 700,537



CONSOLIDATED STATEMENTS of Operations

	For The Year Ended December 31,		
(Dollars in thousands, except per share amounts)	2007	2006	2005
Revenue			
Base rent	\$ 118,806	\$ 110,121	\$ 99,448
Expense recoveries	26,090	22,636	20,027
Percentage rent	1,497	1,767	2,057
Other	4,192	3,454	5,483
Total revenue	150,585	137,978	127,015
Operating expenses			
Property operating expenses	18,758	16,278	14,724
Provision for credit losses	376	400	237
Real estate taxes	14,084	12,503	11,040
Interest expense and amortization of deferred debt	33,855	32,534	30,207
Depreciation and amortization of leasing costs	26,464	25,648	24,197
General and administrative	11,666	10,142	9,585
Total operating expenses	105,203	97,505	89,990
Operating income before minority interests and gain on property disposition	45,382	40,473	37,025
Non-operating item: Gain on property disposition	139	–	–
Net operating income before minority interests	45,521	40,473	37,025
Minority interests			
Minority share of income	(8,818)	(7,793)	(6,937)
Distributions in excess of earnings	–	–	(861)
Total minority interests	(8,818)	(7,793)	(7,798)
Net income	36,703	32,680	29,227
Preferred dividends	(8,000)	(8,000)	(8,000)
Net income available to common stockholders	\$ 28,703	\$ 24,680	\$ 21,227
Per share net income available to common stockholders			
Basic	\$ 1.63	\$ 1.45	\$ 1.27
Diluted	\$ 1.62	\$ 1.43	\$ 1.27
Distributions declared per common share outstanding	\$ 1.82	\$ 1.68	\$ 1.63

CONSOLIDATED STATEMENTS of Shareholders Equity

<i>(Dollars in thousands, except per share amounts)</i>	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Stockholders' equity:					
Balance, December 31, 2004	\$ 100,000	\$ 164	\$ 106,886	\$ (106,086)	\$ 100,964
Issuance of 477,802 shares of common stock:					
455,494 shares due to dividend reinvestment plan	—	5	15,402	—	15,407
22,308 shares due to employee stock options and directors' deferred stock plan and stock option awards	—	—	1,051	—	1,051
Net income	—	—	—	29,227	29,227
Preferred stock distributions	—	—	—	(6,000)	(6,000)
Distributions payable preferred stock (\$50.00 per share)	—	—	—	(2,000)	(2,000)
Common stock distributions	—	—	—	(20,146)	(20,146)
Distributions payable common stock (\$0.42 per share)	—	—	—	(7,089)	(7,089)
Balance, December 31, 2005	100,000	169	123,339	(112,094)	111,414
Issuance of 464,197 shares of common stock:					
358,563 shares due to dividend reinvestment plan	—	4	14,838	—	14,842
105,634 shares due to employee stock options and directors' deferred stock plan and stock option awards	—	—	3,377	—	3,377
Net income	—	—	—	32,680	32,680
Cumulative effect of SAB 108 adjustment (see Note 2)				6,551	6,551
Preferred stock distributions	—	—	—	(6,000)	(6,000)
Distributions payable preferred stock (\$50.00 per share)	—	—	—	(2,000)	(2,000)
Common stock distributions	—	—	—	(21,490)	(21,490)
Distributions payable common stock (\$0.42 per share)	—	—	—	(7,283)	(7,283)
Balance, December 31, 2006	100,000	173	141,554	(109,636)	132,091
Issuance of 406,088 shares of common stock:					
389,197 shares due to dividend reinvestment plan	—	5	18,720	—	18,725
16,891 shares due to employee stock options and directors' deferred stock plan and stock option awards	—	—	1,344	—	1,344
Net income	—	—	—	36,703	36,703
Preferred stock distributions	—	—	—	(6,000)	(6,000)
Distributions payable preferred stock (\$50.00 per share)	—	—	—	(2,000)	(2,000)
Common stock distributions	—	—	—	(23,743)	(23,743)
Distributions payable common stock (\$0.47 per share)	—	—	—	(8,341)	(8,341)
Balance, December 31, 2007	\$ 100,000	\$ 178	\$ 161,618	\$ (113,017)	\$ 148,779

CONSOLIDATED STATEMENTS of Cash Flows

(Dollars in thousands)	For the Year Ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net income	\$ 36,703	\$ 32,680	\$ 29,227
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on property disposition	(139)	–	–
Minority interests	8,818	7,793	7,798
Depreciation and amortization of deferred leasing costs	26,464	25,648	24,197
Amortization of deferred debt costs	1,149	1,089	1,161
Non cash compensation costs from stock grants and options	1,111	1,166	991
Provision for credit losses	376	400	237
Increase in accounts receivable and accrued income	(1,095)	(3,650)	(2,843)
Increase in deferred leasing costs	(2,692)	(2,256)	(2,940)
(Increase) decrease in prepaid expenses	(64)	33	(119)
Decrease (increase) in other assets	177	(1,219)	(1,770)
Increase in accounts payable, accrued expenses and other liabilities	598	1,008	1,425
(Decrease) increase in deferred income	(209)	(518)	1,310
Net cash provided by operating activities	71,197	62,174	58,674
Cash flows from investing activities:			
Acquisitions of real estate investments, net*	(23,744)	(17,318)	(47,745)
Additions to real estate investments	(7,302)	(10,145)	(9,175)
Additions to development and redevelopment activities	(20,990)	(38,236)	(16,885)
Net cash used in investing activities	(52,036)	(65,699)	(73,805)
Cash flows from financing activities:			
Proceeds from mortgage notes payable	52,000	17,500	25,500
Repayments on mortgage notes payable	(14,717)	(13,322)	(20,794)
Proceeds from revolving credit facility	20,000	31,000	10,500
Repayments on revolving credit facility	(47,000)	(6,500)	–
Additions to deferred debt costs	(2,085)	(542)	(2,025)
Proceeds from the issuance of:			
Common Stock	18,958	17,053	15,384
Convertible limited partnership units in the Operating Partnership	–	4,001	3,899
Distributions to:			
Preferred stockholders	(8,000)	(8,000)	(8,000)
Common stockholders	(31,026)	(28,579)	(26,542)
Convertible limited partnership units in the Operating Partnership	(9,587)	(9,032)	(8,345)
Net cash (used in) provided by financing activities	(21,457)	3,579	(10,423)
Net (decrease) increase in cash and cash equivalents	(2,296)	54	(25,554)
Cash and cash equivalents, beginning of year	8,061	8,007	33,561
Cash and cash equivalents, end of year	\$ 5,765	\$ 8,061	\$ 8,007
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 35,684	\$ 34,906	\$ 32,112

* Supplemental discussion of non-cash investing and financing activities:
The 2006 real estate acquisition costs of \$17,318 are presented exclusive of a mortgage loan assumed of \$11,334 and a \$300 seller rent deficiency reimbursement. The 2005 real estate acquisition costs of \$47,745 are presented exclusive of a mortgage loan assumed of \$13,579.

1. ORGANIZATION, FORMATION, AND BASIS OF PRESENTATION

Organization

Saul Centers, Inc. ("Saul Centers") was incorporated under the Maryland General Corporation Law on June 10, 1993. Saul Centers operates as a real estate investment trust (a "REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Saul Centers generally will not be subject to federal income tax, provided it annually distributes at least 90% of its REIT taxable income to its stockholders and meets certain organizational and other requirements. Saul Centers has made and intends to continue to make regular quarterly distributions to its stockholders. Saul Centers, together with its wholly owned subsidiaries and the limited partnerships of which Saul Centers or one of its subsidiaries is the sole general partner, are referred to collectively as the "Company". B. Francis Saul II serves as Chairman of the Board of Directors and Chief Executive Officer of Saul Centers.

Formation and Structure of Company

Saul Centers was formed to continue and expand the shopping center business previously owned and conducted by the 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"). On August 26, 1993, members of The Saul Organization transferred to Saul Holdings Limited Partnership, a newly formed Maryland limited partnership (the "Operating Partnership"), and two newly formed subsidiary limited partnerships (the "Subsidiary Partnerships", and collectively with the Operating Partnership, the "Partnerships"), shopping center and office properties, and the management functions related to the transferred properties. Since its formation, the Company has developed and purchased additional properties.

The following table lists the properties acquired and/or developed by the Company since December 31, 2004. All of the following properties are operating shopping centers ("Shopping Centers").

Name of Property	Location	Date of Acquisition/Development
<i>Acquisitions</i>		
Palm Springs Center	Altamonte Springs, FL	2005
Jamestown Place	Altamonte Springs, FL	2005
Seabreeze Plaza	Palm Harbor, FL	2005
Smallwood Village Center	Waldorf, MD	2006
Hunt Club Corners	Apopka, FL	2006
Orchard Park	Dunwoody, GA	2007
<i>Developments</i>		
Kentlands Place	Gaithersburg, MD	2005
Broadlands Village Phase III	Ashburn, VA	2006
Lansdowne Town Center	Leesburg, VA	2006/7
Ashland Square Phase I	Manassas, VA	2007

As of December 31, 2007, the Company's properties (the "Current Portfolio Properties") consisted of 43 operating shopping center properties (the "Shopping Centers"), five predominantly office operating properties (the "Office Properties") and five (non-operating) development properties.

The Company established Saul QRS, Inc., a wholly owned subsidiary of Saul Centers, to facilitate the placement of collateralized mortgage debt. Saul QRS, Inc. was created to succeed to the interest of Saul Centers as the sole general partner of Saul Subsidiary I Limited Partnership. The remaining limited partnership interests in Saul Subsidiary I Limited Partnership and Saul Subsidiary II Limited Partnership are held by the Operating Partnership as the sole limited partner. Through this structure, the Company owns 100% of the Current Portfolio Properties.



NOTES to Consolidated Financial Statements

Basis of Presentation

The accompanying financial statements of the Company have been presented on the historical cost basis of The Saul Organization because of affiliated ownership and common management and because the assets and liabilities were the subject of a business combination with the Operating Partnership, the Subsidiary Partnerships and Saul Centers, all newly formed entities with no prior operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company, which conducts all of its activities through its subsidiaries, the Operating Partnership and Subsidiary Partnerships, engages in the ownership, operation, management, leasing, acquisition, renovation, expansion, development and financing of community and neighborhood shopping centers and office properties, primarily in the Washington, DC/Baltimore metropolitan area. Because the properties are located primarily in the Washington, DC/Baltimore metropolitan area, the Company is subject to a concentration of credit risk related to these properties. A majority of the Shopping Centers are anchored by several major tenants. As of December 31, 2007, twenty-nine of the Shopping Centers were anchored by a grocery store and offer primarily day-to-day necessities and services. Only two retail tenants, Giant Food (4.5%), a tenant at nine Shopping Centers, and Safeway (3.0%), a tenant at seven Shopping Centers, and one office tenant, the United States Government (2.7%), a tenant at six properties, individually accounted for more than 2.5% of the Company's total revenue for the year ended December 31, 2007.

Principles of Consolidation

The accompanying consolidated financial statements of the Company include the accounts of Saul Centers, its subsidiaries, and the Operating Partnership and Subsidiary Partnerships which are majority owned by Saul Centers. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Real Estate Investment Properties

The Company purchases real estate investment properties from time to time and allocates the purchase price to various components, such as land, buildings, and intangibles related to in-place leases and customer relationships in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") 141, "Business Combinations." The purchase price is allocated based on the relative fair value of each component. The fair value of buildings is determined as if the buildings were vacant upon acquisition and subsequently leased at market rental rates. As such, the determination of fair value considers the present value of all cash flows expected to be generated from the property including an initial lease up period. The Company determines the fair value of above and below market intangibles associated with in-place leases by assessing the net effective rent and remaining term of the lease relative to market terms for similar leases at acquisition. In the case of above and below market leases, the Company considers the remaining contractual lease period and renewal periods, taking into consideration the likelihood of the tenant exercising its renewal options. The fair value of a below market lease component is recorded as deferred income and amortized as additional lease revenue over the remaining contractual lease period and any renewal option periods included in the valuation analysis. The fair value of above market lease intangibles is recorded as a deferred asset and is amortized as a reduction of lease revenue over the remaining contractual lease term. The Company determines the fair value of at-market in-place leases considering the cost of acquiring similar leases, the foregone rents associated with the lease-up period and carrying costs associated with the lease-up period. Intangible assets associated with at-market in-place leases are amortized as additional expense over the remaining contractual lease term. To the extent customer relationship intangibles are present in an acquisition, the fair value of the intangibles are amortized over the life of the customer relationship.

Real estate investment properties are reviewed for potential impairment losses quarterly or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If there is an event or change in circumstance indicating the potential for an impairment in the value of a real estate investment property, the Company's policy is to assess potential impairment in value by making a comparison of the current and projected operating cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying amount or projected carrying amount of that property. If such carrying amount is in excess of the estimated projected operating cash flows of the property, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair market value. The Company has not recognized an impairment loss in 2007, 2006 or 2005 on any of its real estate.

Interest, real estate taxes and other carrying costs are capitalized on projects under development and construction. Once construction is substantially completed and the assets are placed in service, their rental income, real estate tax expense, property operating expenses (consisting of payroll, repairs and maintenance, utilities, insurance and other property related expenses) and depreciation are included in current operations. Property operating expenses are charged to operations as incurred. Interest expense capitalized totaled \$2,889,000, \$3,673,000 and \$3,258,000, for 2007, 2006 and 2005, respectively. In the initial rental operations of development projects, a project is considered substantially complete and available for occupancy upon completion of tenant improvements, but no later than one year from the cessation of major construction activity. Substantially completed portions of a project are accounted for as separate projects.

Depreciation is calculated using the straight-line method and estimated useful lives of 35 to 50 years for base buildings and up to 20 years for certain other improvements that extend the useful lives. In addition, we capitalize leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvement. Leasehold improvements are amortized, over the shorter of the lives of the related leases or the useful life of the improvement, using the straight-line method. Depreciation expense and amortization of leasehold improvements for the years ended December 31, 2007, 2006 and 2005 was \$21,638,000, \$20,236,000 and \$19,824,000, respectively. Repairs and maintenance expense totaled \$8,926,000, \$7,364,000 and \$6,329,000, for 2007, 2006 and 2005, respectively, and is included in operating expenses in the accompanying consolidated financial statements.

Deferred Leasing Costs

Certain initial direct costs incurred by the Company in negotiating and consummating a successful lease are capitalized and amortized over the initial base term of the lease. These costs total \$16,190,000 and \$18,137,000, net of accumulated amortization of \$14,457,000 and \$13,308,000 as of December 31, 2007 and 2006, respectively. Amortization expense, included in depreciation and amortization in the consolidated statements of operations, totaled \$4,826,000, \$5,412,000 and \$4,373,000, for the years ended December 31, 2007, 2006 and 2005, respectively. Capitalized leasing costs consist of commissions paid to third party leasing agents as well as internal direct costs for successful leases such as employee compensation and payroll related fringe benefits directly related to time spent performing leasing related activities. Such activities include evaluating the prospective tenant's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating lease terms, preparing lease documents and closing the transaction. The carrying amount of costs are written-off to expense if the applicable lease is terminated prior to expiration of the initial lease term.

Construction in Progress

Construction in progress includes preconstruction costs and development costs of active projects. Preconstruction costs associated with these active projects include legal, zoning and permitting costs and other project carrying costs incurred prior to the commencement of construction. Development costs include direct construction costs and indirect costs incurred subsequent to the start of construction such as architectural, engineering, construction management and carrying costs consisting of interest, real estate taxes and insurance. Construction in progress balances as of December 31, 2007 and 2006 are as follows:

Construction in Progress		
	December 31,	
<i>(In thousands)</i>	2007	2006
Clarendon Center	\$ 27,323	\$ 20,431
Ashland Square Phase II	10,851	8,878
Westview Village	6,382	–
Lansdowne Town Center	–	19,972
Ashburn Village Phase V.	–	1,846
Lexington Center	2,813	2,480
Other.	2,223	2,410
Total	\$ 49,592	\$ 56,017

As of December 31, 2007 and 2006, 100% and 45% of the Lansdowne Town Center project had been placed in operation. The costs reported in Construction in Progress above reflect the costs incurred for the non-operating portion of the project, as of December 31, 2006. The development costs related to the operating portions of the project were reclassified to land and buildings during the years ended December 31, 2007 and 2006.

Accounts Receivable and Accrued Income

Accounts receivable primarily represent amounts currently due from tenants in accordance with the terms of the respective leases. Receivables are reviewed monthly and reserves are established with a charge to current period operations when, in the opinion of management, collection of the receivable is doubtful. Accounts receivable in the accompanying consolidated financial statements are shown net of an allowance for doubtful accounts of \$387,000 and \$479,000, at December 31, 2007 and 2006, respectively.

NOTES to Consolidated Financial Statements

Allowance for Doubtful Accounts

(In thousands)	For the Year Ended December 31,	
	2007	2006
Beginning Balance	\$ 479	\$ 430
Provision for Credit Losses	376	400
Charge-offs	(468)	(351)
Ending Balance	\$ 387	\$ 479

In addition to rents due currently, accounts receivable include \$25,013,000 and \$23,341,000, at December 31, 2007 and 2006, respectively, representing minimum rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases. These amounts are presented after netting allowances of \$52,000 and \$213,000, respectively, for tenants whose rent payment history or financial condition cast doubt upon the tenant's ability to perform under its lease obligations.

On September 13, 2006, the SEC staff published Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements in Current Year Financial Statements ("SAB 108"). SAB 108 addresses how the effects of a prior year uncorrected misstatement must be considered in quantifying misstatements in the current year financial statements and provides guidance on the correction of misstatements. SAB 108 offers a transition provision for correcting immaterial prior period misstatements that were uncorrected as of the beginning of the fiscal year of adoption. SAB 108 was effective for fiscal years ending after November 15, 2006. It was the Company's policy, for leases entered into prior to 1998, to recognize rental revenue on a straight-line basis when rental payments due under leases varied, because of free rent periods or fixed rent increases (excluding those increases which approximate inflationary increases). It was the Company's policy that annual scheduled base rent increases of 3% or less were determined to approximate inflationary increases and were not recognized ratably over the life of the lease. Subsequent to 1998, the Company has annually analyzed these uncorrected misstatements and determined that the uncorrected misstatement was immaterial for all reporting periods. The Company has determined that less than 5% of its leases were not recognizing base rent on a straight-line basis and that the cumulative under-reporting of straight-line rental income related to these long term leases totaled approximately \$6,551,000. According to the provisions of SAB 108, the Company recorded an accumulated accounts receivable balance of \$6,551,000 for these leases and recorded a corresponding increase to Stockholders' Equity as of January 1, 2006. Commencing in 2006 and pursuant to the accounting for recognizing rental income on a straight-line basis, a portion of the \$6,551,000 receivable was amortized as a non-cash

reduction of rental income, \$203,000 in 2007 and \$136,000 in 2006. The remaining balance unamortized balance of \$6,212,000 as of December 31, 2007 will be amortized as a non-cash reduction of base rent over the remaining life of the affected leases.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments. Short-term investments are highly liquid investments that are both readily convertible to cash and so near their maturity that they present insignificant risk of changes in value arising from interest rate fluctuations. Short-term investments include money market accounts and other investments which generally mature within three months, measured from the acquisition date.

Deferred Debt Costs

Deferred debt costs consist of fees and costs incurred to obtain long-term financing, construction financing and the revolving line of credit. These fees and costs are being amortized over the terms of the respective loans or agreements, which approximates the effective interest method. Deferred debt costs totaled \$6,264,000 and \$5,328,000, net of accumulated amortization of \$5,393,000 and \$4,244,000, at December 31, 2007 and 2006, respectively.

Deferred Income

Deferred income consists of payments received from tenants prior to the time they are earned and recognized by the Company as revenue. These payments include prepayment of the following month's rent, prepayment of real estate taxes when the taxing jurisdiction has a fiscal year differing from the calendar year reimbursements specified in the lease agreement and advance payments by tenants for tenant construction work provided by the Company. In addition, deferred income includes the fair value of a below market lease component associated with acquisition properties as determined pursuant to the application of SFAS 141 "Business Combinations".

Revenue Recognition

Rental and interest income is accrued as earned except when doubt exists as to collectibility, in which case the accrual is discontinued. Recognition of rental income commences when control of the space has been given to the tenant. When rental payments due under leases vary from a straight-line basis because of free rent periods or stepped increases, income is recognized on a straight-line basis in accordance with U.S. generally accepted accounting principles. Expense recoveries represent a portion of property operating expenses billed to the tenants, including common area maintenance, real estate taxes and other recoverable costs. Expense recoveries are recognized in the period when the expenses are incurred. Rental income based on a tenant's revenue ("percentage rent") is accrued when a tenant reports sales that exceed a specified breakpoint, pursuant to the terms of their respective leases.

Income Taxes

The Company made an election to be treated, and intends to continue operating so as to qualify as a REIT under sections 856 through 860 of the Internal Revenue Code of 1986, as amended, commencing with its taxable year ending December 31, 1993. A REIT generally will not be subject to federal income taxation on that portion of its income that qualifies as REIT taxable income to the extent that it distributes at least 90% of its REIT taxable income to stockholders and complies with certain other requirements. Therefore, no provision has been made for federal income taxes in the accompanying consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 is an interpretation of FASB Statement No. 109, "Accounting for Income Taxes," and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN 48 requires expanded disclosure with respect to the uncertainty in income taxes and was effective as of the beginning of the 2007 reporting year. The adoption of FIN 48 did not impact the Company's financial condition or results of operations. Further, as of December 31, 2007, the Company had no material unrecognized tax benefits. The Company recognizes penalties and interest accrued related to unrecognized tax benefits, if any, as general and administrative expense. With few exceptions, the Company is no longer subject to U.S. federal, state, and local tax examinations by tax authorities for years before 2003.

Stock Based Employee Compensation, Deferred Compensation and Stock Plan for Directors

Effective January 2003, the Company adopted the fair value method to value and account for employee stock options using the prospective transition method specified under SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" and accounts for stock based compensation according to SFAS No. 123R, "Accounting for Stock-Based Compensation". The Company had no options eligible for valuation prior to the grant of options in 2003. The fair value of options granted is determined at the time of each award using the Black-Scholes model, a widely used method for valuing stock based employee compensation, and the following assumptions: (1) Expected Volatility. Expected volatility is determined using the most recent trading history of the Company's common stock (month-end closing prices)

corresponding to the average expected term of the options, (2) Average Expected Term. The options are assumed to be outstanding for a term calculated considering prior exercise history, scheduled vesting and the expiration date, (3) Expected Dividend Yield. This rate is a value management determines after considering the Company's current and historic dividend yield rates, the Company's yield in relation to other retail REITs and the Company's market yield at the grant date, and (4) Risk-free Interest Rate. This rate is based upon the market yields of US Treasury obligations with maturities corresponding to the average expected term of the options at the grant date. The Company amortizes the value of options granted, ratably over the vesting period, and includes the amounts as compensation in general and administrative expenses.

The Company established a stock option plan in 1993 (the "1993 Plan") for the purpose of attracting and retaining executive officers and other key personnel. The 1993 Plan provides for grants of options to purchase a specified number of shares of common stock. A total of 400,000 shares were made available under the 1993 Plan. The 1993 Plan authorizes the Compensation Committee of the Board of Directors to grant options at an exercise price which may not be less than the market value of the common stock on the date the option is granted. On May 23, 2003, the Compensation Committee granted options to purchase a total of 220,000 shares (80,000 shares from incentive stock options and 140,000 shares from nonqualified stock options) to six Company officers (the "2003 Options"). Following the grant of the 2003 Options, no additional shares remained for issuance under the 1993 Plan. The 2003 Options vest 25% per year over four years and have a term of ten years, subject to earlier expiration upon termination of employment. The exercise price of \$24.91 per share was the closing market price of the Company's common stock on the date of the award.

At the annual meeting of the Company's stockholders in 2004, the stockholders approved the adoption of the 2004 stock plan (the "2004 Plan") for the purpose of attracting and retaining executive officers, directors and other key personnel. The 2004 Plan provides for grants of options to purchase up to 500,000 shares of common stock as well as grants of up to 100,000 shares of common stock to directors. The 2004 Plan authorizes the Compensation Committee of the Board of Directors to grant options at an exercise price which may not be less than the market value of the common stock on the date the option is granted.



NOTES to Consolidated Financial Statements

Effective April 26, 2004, the Compensation Committee granted options to purchase a total of 152,500 shares (27,500 shares from incentive stock options and 125,000 shares from nonqualified stock options) to eleven Company officers and to the twelve Company directors (the "2004 Options"). The officers' 2004 Options vest 25% per year over four years and have a term of ten years, subject to earlier expiration upon termination of employment. The directors' options were immediately exercisable. The exercise price of \$25.78 per share was the closing market price of the Company's common stock on the date of the award. Using the Black-Scholes model, the Company determined the total fair value of the 2004 Options to be \$360,000, of which \$293,000 and \$67,000 were the values assigned to the officer options and director options respectively. Because the directors' options vest immediately, the entire \$67,000 was expensed as of the date of grant. The expense of the officers' options is being recognized as compensation expense monthly during the four years the options vest. The 2004 Options are due to expire April 25, 2014.

Effective May 6, 2005, the Compensation Committee granted options to purchase a total of 162,500 shares (35,500 shares from incentive stock options and 127,000 shares from nonqualified stock options) to twelve Company officers and to the twelve Company directors (the "2005 Options"). The officers' 2005 Options vest 25% per year over four years and have a term of ten years, subject to earlier expiration upon termination of employment. The directors' options were immediately exercisable. The exercise price of \$33.22 per share was the closing market price of the Company's common stock on the date of the award. Using the Black-Scholes model, the Company determined the total fair value of the 2005 Options to be \$484,500, of which \$413,400 and \$71,100 were the values assigned to the officer options and director options respectively. Because the directors' options vest immediately, the entire \$71,100 was expensed as of the date of grant. The expense of the officers' options is being recognized as compensation expense monthly during the four years the options vest. The 2005 Options are due to expire May 5, 2015.

Effective May 1, 2006, the Compensation Committee granted options to purchase a total of 30,000 shares (all nonqualified stock options) to the twelve Company directors (the "2006 Options"). The options were immediately exercisable. The exercise price of \$40.35 per share was the closing market price of the Company's common stock on the date of the award. Using the Black-Scholes model, the Company determined the total fair value of the 2006 Options to be \$143,400. Because the directors' options vest immediately, the entire \$143,400 was expensed as of the date of grant. The 2006 Options are due to expire April 30, 2016.

Effective April 27, 2007, the Compensation Committee granted options to purchase a total of 165,000 shares (27,560 shares from incentive stock options and 137,440 shares from nonqualified stock options) to thirteen Company officers and twelve Company Directors (the "2007 options"). The officers' 2007 Options vest 25% per year over four years and have a term of ten years, subject to earlier expiration upon termination of employment. The directors' options were immediately exercisable. The exercise price of \$54.17 per share was the closing market price of the Company's common stock on the date of award. Using the Black-Scholes model, the Company determined the total fair value of the 2007 Options to be \$1,544,148, of which \$1,258,848 and \$285,300 were the values assigned to the officer options and director options respectively. Because the directors' options vest immediately, the entire \$285,300 was expensed as of the date of grant. The expense for the officers' options is being recognized as compensation expense monthly during the four years the options vest. The 2007 Options are due to expire April 26, 2017.

Pursuant to the 2004 Plan, the Compensation Committee established a Deferred Compensation Plan for Directors for the benefit of its directors and their beneficiaries. This replaces the Company's previous Deferred Compensation and Stock Plan for Directors. A director may elect to defer all or part of his or her director's fees and has the option to have the fees paid in cash, in shares of common stock or in a combination of cash and shares of common stock upon termination from the Board. If the director elects to have fees paid in stock, fees earned during a calendar quarter are aggregated and divided by the common stock's closing market price on the first trading day of the following quarter to determine the number of shares to be allocated to the director. As of December 31, 2007, 216,000 shares had been credited to the directors' deferred fee accounts.

The Compensation Committee has also approved an annual award of shares of the Company's common stock as additional compensation to each director serving on the Board of Directors as of the record date for the Annual Meeting of Stockholders. The shares are awarded as of each Annual Meeting of Shareholders, and their issuance may not be deferred. Each director was issued 200 shares, for each of the years ended December 31, 2007, 2006 and 2005. The shares were valued at the closing stock price on the dates the shares were awarded and included in general and administrative expenses in the total amounts of \$130,000, \$97,000, and \$80,000, for the years ended December 31, 2007, 2006 and 2005, respectively.

Minority Interests

Saul Centers is the sole general partner of the Operating Partnership, owning a 76.6% common interest as of December 31, 2007. Minority Interests in the Operating Partnership are comprised of limited partnership units owned by The Saul Organization. Minority Interests as reflected on the Balance Sheets are increased for earnings allocated to limited partnership interests, distributions reinvested in additional units and in certain situations for distributions to minority interests in excess of earnings allocated, and are decreased for limited partner distributions. Minority Interests as reflected on the Statements of Operations represent earnings allocated to limited partnership interests. Amounts distributed in excess of the limited partners' share of earnings, net of limited partner reinvestments of distributions, also increase minority interests expense in the respective period and are classified on the Statements of Operations as Distributions in excess of earnings to the extent such distributions in excess of earnings exceed the carrying amount of minority interests.

Per Share Data

Per share data is calculated in accordance with SFAS 128, "Earnings Per Share." Per share data for net income (basic and diluted) is computed using weighted average shares of common stock. Convertible limited partnership units and employee stock options are the Company's potentially dilutive securities. For all periods presented, the convertible limited partnership units are anti-dilutive. For the years ended December 31, 2007, 2006 and 2005 the options are dilutive because the average share price of the Company's common stock exceeded the exercise prices. The treasury stock method was used to measure the effect of the dilution.

Basic and Diluted Shares Outstanding

(In thousands)	December 31		
	2007	2006	2005
Weighted average common shares outstanding – Basic	17,589	17,075	16,663
Effect of dilutive options	180	158	107
Weighted average common shares outstanding – Diluted	17,769	17,233	16,770
Average Share Price	\$ 52.22	\$ 43.04	\$ 35.20

Legal Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, the Company believes the final outcome of such matters will not have a material adverse effect on the financial position or the results of operations. Once it has been determined that a loss is probable to occur, the estimated amount of the loss is recorded in the financial statements. Both the amount of the loss and the point at which its occurrence is considered probable can be difficult to determine.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurement" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies to accounting pronouncements that require or permit fair value measurements, except for share-based payments under SFAS No. 123(R). The adoption of SFAS No. 157 is required for the year beginning January 1, 2008. The Company does not expect SFAS No. 157 to have a material impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115" ("SFAS No. 159"). This standard permits entities to choose to measure many financial instruments and certain other items at fair value and is effective for the first fiscal year beginning after November 15, 2007. The Company does not expect SFAS No. 159 to have a material impact on its consolidated financial statements.

3. REAL ESTATE ACQUIRED

Ashland Square

On December 15, 2004, the Company acquired a parcel of land in Manassas, Prince William County, Virginia for a purchase price of \$6.3 million.

Palm Springs Center

On March 3, 2005, the Company completed the acquisition of the Albertson's-anchored Palm Springs Center located in Altamonte Springs, Florida (metropolitan Orlando). The center was acquired for a purchase price of \$17.5 million.



NOTES to Consolidated Financial Statements

New Market

On March 3, 2005 and September 8, 2005, the Company acquired two parcels of land located in New Market, Maryland, for a purchase price of \$500,000 and \$1,500,000, respectively. The Company had contracted to purchase an adjacent third parcel with the intent to assemble additional acreage for further retail development near this I-70 interchange, east of Frederick, Maryland. During December 2007 the Company abandoned the acquisition of the third parcel and wrote-off to general and administrative expense all costs related to that parcel.

Lansdowne Town Center

During the first quarter of 2005, the Company received approval of a zoning submission to Loudoun County which allowed the development of a neighborhood shopping center named Lansdowne Town Center, within the Lansdowne Community in northern Virginia. On March 29, 2005, the Company finalized the acquisition of an additional parcel of land for approximately \$1.0 million. In late 2006, the Company substantially completed construction of the retail center. A lease was executed with Harris Teeter for a grocery store, which opened in November 2006. As of December 31, 2007, the project was fully operational.

Jamestown Place

On November 17, 2005, the Company completed the acquisition of the Publix-anchored Jamestown Place located in Altamonte Springs, Florida (metropolitan Orlando). The center was acquired for a purchase price of \$14.8 million.

Seabreeze Plaza

On November 30, 2005, the Company completed the acquisition of the Publix-anchored Seabreeze Plaza located in Palm Harbor, Florida (metropolitan Tampa). The center was acquired for a purchase price of \$25.9 million subject to the assumption of a \$13.6 million mortgage loan. The mortgage assumption was treated as a non-cash acquisition in the Statement of Cash Flows.

Smallwood Village Center

On January 27, 2006, the Company acquired the Smallwood Village Center, located within the St. Charles planned community of Waldorf, Maryland, a suburb of metropolitan Washington, DC, through a wholly-owned subsidiary of its operating partnership. The center was acquired for a purchase price of \$17.5 million subject to the assumption of an \$11.3 million mortgage loan.

Hunt Club Corners

On June 1, 2006, the Company completed the acquisition of the Publix-anchored Hunt Club Corners shopping center located in Apopka, FL. The center was acquired for a purchase price of \$11.1 million.

Great Eastern Plaza Land Parcel

On June 6, 2007, the Company acquired an additional parcel of undeveloped land adjacent to its Great Eastern Plaza shopping center in District Heights, Maryland, for a purchase price of \$1.3 million.

Orchard Park

On July 19, 2007, the Company completed the acquisition of the Kroger-anchored Orchard Park shopping center located in Dunwoody, GA. The center was acquired for a purchase price of \$17.0 million.

Westview Village

In November 2007, the Company purchased a land parcel in the Westview development on Buckeystown Pike (MD Route 85) in Frederick, Maryland. The purchase price was \$5.0 million. Construction documents have been completed and site permits have been received for development of a neighborhood shopping center.

Application of SFAS 141, "Business Combinations", for Real Estate Acquired

The Company accounts for the acquisition of operating properties using the purchase method of accounting in accordance with SFAS 141, "Business Combinations." The Company allocates the purchase price to various components, such as land, buildings and intangibles related to in-place leases and customer relationships, if applicable, as described in Note 2. Significant Accounting Policies-Real Estate Investment Properties. Of the combined \$17,077,000 total cost of the operating property acquisitions, which exclude undeveloped land acquisitions, in 2007 and \$28,538,000 in 2006, of which both amounts include the properties' purchase price and closing costs, a total of \$805,000 and \$1,459,000, was allocated as lease intangible assets and included in lease acquisition costs at December 31, 2007 and December 31, 2006, respectively. Each year's lease intangible assets are being amortized over the remaining periods of the leases acquired, a weighted average term of 26 and 22 years, for 2007 and 2006, respectively. The value of below market leases totaling \$3,105,000 and \$3,211,000, are being amortized over a weighted average term of 30 years for both 2007 and 2006, and are included in deferred income. The value of above market leases totaling \$37,000, are being amortized over a weighted average term of one year for 2006 and are included as a deferred asset in accounts receivable. There were no above market rents for any 2007 acquisitions.

As of December 31, 2007 and 2006, the gross carrying amount of lease intangible assets included in lease acquisition costs was \$11,385,000 and \$10,580,000, respectively, and accumulated amortization was \$7,598,000 and \$5,680,000, respectively. Total amortization of these assets was \$1,918,000, \$2,592,000 and \$1,504,000, for the years ended December 31, 2007, 2006 and 2005, respectively. As of December 31, 2007 and 2006, the gross carrying amount of below market lease intangible liabilities included in deferred income was \$9,678,000 and \$6,573,000, respectively, and accumulated amortization was \$1,599,000 and \$1,019,000, respectively. Total amortization of these liabilities was \$580,000, \$604,000 and \$267,000, for the years ended December 31, 2007, 2006 and 2005, respectively. As of December 31, 2007 and 2006, the gross carrying amount of above market lease intangible assets included in accounts receivable was \$726,000 for both years, and accumulated amortization was \$564,000 and \$457,000 respectively. Total amortization of these assets was \$107,000, \$158,000 and \$157,000, for the years ended December 31, 2007, 2006 and 2005, respectively.

As of December 31, 2007, the scheduled amortization of intangible assets and deferred income related to in place leases are as follows:

Amortization of Intangible Assets and Deferred Income Related to In-place Leases				
<i>(In thousands)</i>	Lease acquisition costs	Above market leases	Below market leases	Total
2008	\$ (1,028)	\$ (82)	\$ 568	\$ (542)
2009	(674)	(45)	522	(197)
2010	(463)	(33)	439	(57)
2011	(279)	(2)	391	110
2012	(156)	–	373	217
Thereafter	(1,187)	–	5,786	4,599
Total	\$ (3,787)	\$ (162)	\$ 8,079	\$ 4,130

The results of operations of the acquired properties are included in the consolidated statements of operations as of the acquisition date.

4. MINORITY INTERESTS - HOLDERS OF CONVERTIBLE LIMITED PARTNERSHIP UNITS IN THE OPERATING PARTNERSHIP

The Saul Organization has a 23.4% limited partnership interest, represented by 5,416,000 convertible limited partnership units in the Operating Partnership, as of December 31, 2007. These convertible limited partnership units are convertible into shares of Saul Centers' common stock, at the option of the unit holder, on a one-for-one basis provided that, in accordance with the Saul Centers, Inc. Articles of Incorporation, the rights may not be exercised at any time that The Saul Organization beneficially owns, directly or indirectly, in the aggregate more than 39.9% of the value of the outstanding common stock and preferred stock of Saul Centers (the "Equity Securities").

The Operating Partnership issued 106,157 limited partnership units pursuant to the Dividend Reinvestment and Stock Purchase Plan at a weighted average discounted price of \$37.69 per share during the year ended December 31, 2006. No units were issued during the year ended December 31, 2007.

The impact of The Saul Organization's 23.4% limited partnership interest in the Operating Partnership is reflected as minority interests in the accompanying consolidated financial statements. Fully converted partnership units and diluted weighted average shares outstanding for the years ended December 31, 2007, 2006 and 2005, were 23,185,000, 22,628,000, and 22,003,000, respectively.

5. MORTGAGE NOTES PAYABLE, REVOLVING CREDIT FACILITY, INTEREST EXPENSE AND AMORTIZATION OF DEFERRED DEBT COSTS

The Company's outstanding debt, including amounts owed under the Company's revolving credit facility, totaled \$532,726,000 at December 31, 2007, of which \$524,726,000 was fixed rate debt and \$8,000,000 was variable rate debt. At the prior year's end, December 31, 2006, notes payable totaled \$522,443,000, of which \$487,443,000 was fixed rate debt and \$35,000,000 was variable rate debt. At December 31, 2007, the Company had a \$150 million unsecured revolving credit facility with \$8,000,000 outstanding borrowings. Prior to the facility's extension December 19, 2007, the credit facility provided working capital and funds for acquisitions, certain developments and redevelopments. The facility had a three-year term due to expire on January 27, 2008. The facility provided for letters of credit to be issued under the revolving credit facility. The facility required monthly interest payments, if applicable, at a rate of LIBOR plus a spread of 1.40% to 1.625% (determined by certain leverage tests) or upon the bank's reference rate at the Company's option. Loan availability under the facility was determined by operating income from the Company's existing unencumbered properties.



NOTES to Consolidated Financial Statements

On and effective December 19, 2007, the Company entered into a new \$150,000,000 unsecured revolving credit facility (the "2007 Facility"), with a syndication of lenders. The 2007 Facility replaced the Company's existing unsecured credit facility. Saul Centers, Inc. and certain consolidated subsidiaries of the Operating Partnership have guaranteed the payment obligations of the Operating Partnership under the 2007 Facility. The 2007 Facility provides for a \$150,000,000 revolving credit facility maturing on December 19, 2010, which term may be extended by the Company for one additional year subject to the Company's satisfaction of certain conditions. Until December 19, 2009, certain or all of the lenders may, upon request by the Company, increase the 2007 Facility by \$50,000,000. Letters of credit may be issued under the 2007 Facility. On December 31, 2007, of the \$150,000,000 available for borrowing, \$8,000,000 was outstanding, \$177,000 was committed for letters of credit, and the resulting balance of \$141,823,000 was available to borrow for working capital, operating property acquisitions or development projects. In general, loan availability under the 2007 Facility is primarily determined by operating income from the Company's existing unencumbered properties. As of December 31, 2007, the unencumbered properties supported availability of \$99,000,000. Interest expense is calculated based upon the 1, 2, 3 or 6 month LIBOR plus a spread of 1.40% to 1.60%, determined by certain leverage tests, or upon the bank's reference rate, at the Company's option. An additional \$51,000,000 is available based upon the Company's consolidated operating income after debt service. On this portion of the 2007 Facility, interest accrues at a rate of LIBOR plus a spread of 1.70% to 2.25%, determined by certain leverage tests, or upon the bank's reference rate plus a spread of 0.575%, at the Company's option.

During 2007, Saul Centers was released as a guarantor for a portion of two of the Partnerships' mortgage notes payable totaling \$4,500,000. The guarantees were released upon the achievement of specified leasing thresholds at the two properties. Saul Centers is a guarantor of the revolving credit facility, of which the Operating Partnership is the borrower. The mortgage notes payable are all non-recourse debt, and Saul Centers has no remaining guarantees on any of these notes.

On August 15, 2007, the Company closed on a new 15-year, fixed-rate mortgage financing in the amount of \$12,000,000, secured by Orchard Park. The loan matures September 5, 2022, requires equal monthly principal and interest payments of \$72,565, based upon a 6.08% interest rate and 30-year principal amortization, and requires a final payment of \$8,628,000 at maturity.

On May 30, 2007, the Company closed on a new 15-year, fixed-rate mortgage financing in the amount of \$40,000,000, secured by Lansdowne Town Center. The loan matures June 10, 2022, requires equal monthly principal and interest payments of \$230,137, based upon a 5.62% interest rate and 30-year principal amortization, and requires a final payment of \$28,177,000 at maturity.

The Company obtained three new fixed-rate, non-recourse financings during 2006. On January 10, 2006, the Company closed on a new fixed-rate mortgage financing in the amount of \$10,500,000, secured by Jamestown Place, acquired in November 2005. The loan matures February 2021, requires equal monthly principal and interest payments of \$66,000, based upon a 5.81% interest rate and 25-year principal amortization, and requires a final payment of \$6,102,000 at maturity. On January 27, 2006, the Company assumed the obligation of a secured mortgage obligation in conjunction with the acquisition of Smallwood Village Center. The outstanding balance on the loan was \$11,334,000 at settlement. The loan matures January 2013, requires equal monthly principal and interest payments of \$71,000, based upon a 6.12% interest rate and 30-year principal amortization, and requires a final payment of \$10,071,000 at maturity. The Company also obtained a new fixed-rate, non-recourse financing on July 12, 2006 when it closed on a new fixed-rate mortgage financing in the amount of \$7,000,000, secured by Hunt Club Corners, acquired June 1, 2006. The loan matures August 11, 2021, requires equal monthly principal and interest payments of \$42,000, based upon a 6.01% interest rate and 30-year principal amortization, and requires a final payment of \$5,018,000 at maturity.

NOTES to Consolidated Financial Statements

The following is a summary of notes payable as of December 31, 2007 and 2006:

NOTES PAYABLE				
(Dollars in thousands)	December 31,		Interest	Scheduled
	2007	2006	Rate *	Maturity *
Fixed rate mortgages:	\$ 83,078 (a)	\$ 87,307	8.00%	Dec-2011
	119,340 (b)	123,130	7.67%	Oct-2012
	11,022 (c)	11,188	6.12%	Jan-2013
	30,041 (d)	31,155	7.88%	Jan-2013
	8,131 (e)	8,331	5.77%	Jul-2013
	12,935 (f)	13,253	5.28%	May-2014
	11,930 (g)	12,337	8.33%	Jun-2015
	39,099 (h)	39,886	6.01%	Feb-2018
	44,495 (i)	45,516	5.88%	Jan-2019
	14,395 (j)	14,726	5.76%	May-2019
	19,878 (k)	20,338	5.62%	Jul-2019
	19,661 (l)	20,100	5.79%	Sep-2019
	17,601 (m)	18,015	5.22%	Jan-2020
	12,535 (n)	12,723	5.60%	May-2020
	11,858 (o)	12,125	5.30%	Jun-2020
	10,139 (p)	10,341	5.81%	Feb-2021
	6,884 (q)	6,972	6.01%	Aug-2021
	39,740 (r)	—	5.62%	Jun-2022
	11,964 (s)	—	6.08%	Sep-2022
Total fixed rate	524,726	487,443	6.72%	8.2 Years
Variable rate loan:				
Revolving credit facility	8,000 (t)	35,000	LIBOR + 1.475 %	Dec-2010
Total variable rate	8,000	35,000	6.33%	3.0 Years
Total notes payable	\$ 532,726	\$ 522,443	6.71%	8.1 Years

* Interest rate and scheduled maturity data presented as of December 31, 2007. Totals computed using weighted averages.

(a) The loan is collateralized by Avenel Business Park, Van Ness Square, Ashburn Village, Leesburg Pike, Lumberton Plaza and Village Center. The loan has been increased on four occasions since its inception in 1997. The 8.00% blended interest rate is the weighted average of the initial loan rate and additional borrowing rates. The loan requires equal monthly principal and interest payments of \$920,000 based upon a weighted average 23-year amortization schedule and a final payment of \$63,153,000 at loan maturity. Principal of \$4,229,000 was amortized during 2007.

(b) The loan is collateralized by nine shopping centers (Seven Corners, Thruway, White Oak, Hampshire Langley, Great Eastern, Southside Plaza, Belvedere, Giant and Ravenwood) and requires equal monthly principal and interest payments of \$1,103,000 based upon a 25-year amortization schedule and a final payment of \$97,403,000 at loan maturity. Principal of \$3,790,000 was amortized during 2007.

(c) The loan is collateralized by Smallwood Village Center and requires equal monthly principal and interest payments of \$71,000 based upon a 30 year amortization schedule and a final payment of \$10,071,000 at loan maturity. Principal of \$166,000 was amortized during 2007.

(d) The loan is collateralized by 601 Pennsylvania Avenue and requires equal monthly principal and interest payments of \$294,000 based upon a 25-year amortization schedule and a final payment of \$22,961,000 at loan maturity. Principal of \$1,114,000 was amortized during 2007.

(e) The loan is collateralized by Cruse MarketPlace and requires equal monthly principal and interest payments of \$56,000 based upon an amortization schedule of approximately 24 years and a final payment of \$6,830,000 at loan maturity. Principal of \$200,000 was amortized during 2007.

(f) The loan is collateralized by Seabreeze Plaza and requires equal monthly principal and interest payments of \$84,000 based upon a 25-year amortization schedule and a final payment of \$10,531,000 at loan maturity. Principal of \$318,000 was amortized during 2007.

(g) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires monthly principal and interest payments of \$118,000 based upon a 22-year amortization schedule and a final payment of \$7,630,000 at loan maturity. Principal of \$407,000 was amortized during 2007.

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- (h) The loan is collateralized by Washington Square and requires equal monthly principal and interest payments of \$264,000 based upon a 27.5-year amortization schedule and a final payment of \$28,012,000 at loan maturity. Principal of \$787,000 was amortized during 2007.
- (i) The loan, consisting of two notes dated December 2003 and two notes dated February and December 2004, is currently collateralized by three shopping centers, Broadlands Village (Phases I, II & III), The Glen and Kentlands Square, and requires equal monthly principal and interest payments of \$306,000 based upon a 25-year amortization schedule and a final payment of \$28,393,000 at loan maturity. Principal of \$1,021,000 was amortized during 2007.
- (j) The loan is collateralized by Olde Forte Village and requires equal monthly principal and interest payments of \$98,000 based upon a 25-year amortization schedule and a final payment of \$8,985,000 at loan maturity. Principal of \$331,000 was amortized during 2007.
- (k) The loan is collateralized by Countryside and requires equal monthly principal and interest payments of \$133,000 based upon a 25-year amortization schedule and a final payment of \$12,288,000 at loan maturity. Principal of \$460,000 was amortized during 2007.
- (l) The loan is collateralized by Briggs Chaney MarketPlace and requires equal monthly principal and interest payments of \$133,000 based upon a 25-year amortization schedule and a final payment of \$12,192,000 at loan maturity. Principal of \$439,000 was amortized during 2007.
- (m) The loan is collateralized by Shops at Monocacy and requires equal monthly principal and interest payments of \$112,000 based upon a 25-year amortization schedule and a final payment of \$10,568,000 at loan maturity. Principal of \$414,000 was amortized during 2007.
- (n) The loan is collateralized by Boca Valley Plaza and requires equal monthly principal and interest payments of \$75,000 based upon a 30-year amortization schedule and a final payment of \$9,149,000 at loan maturity. Principal of \$188,000 was amortized during 2007.
- (o) The loan is collateralized by Palm Springs Center and requires equal monthly principal and interest payments of \$75,000 based upon a 25-year amortization schedule and a final payment of \$7,075,000 at loan maturity. Principal of \$267,000 was amortized during 2007.
- (p) The loan is collateralized by Jamestown Place and requires equal monthly principal and interest payments of \$66,000 based upon a 25-year amortization schedule and a final payment of \$6,102,000 at loan maturity. Principal of \$202,000 was amortized during 2007.
- (q) The loan is collateralized by Hunt Club Corners and requires equal monthly principal and interest payments of \$42,000 based upon a 30-year amortization schedule and a final payment of \$5,018,000 at loan maturity. Principal of \$88,000 was amortized during 2007.
- (r) The loan is collateralized by Lansdowne Town Center and requires monthly principal and interest payments of \$230,000 based on a 30-year amortization schedule and a final payment of \$28,177,000 at loan maturity. Principal of \$260,000 was amortized during 2007.
- (s) The loan is collateralized by Orchard Park and requires equal monthly principal and interest payments of \$73,000 based upon a 30-year amortization schedule and a final payment of \$8,628,000 at loan maturity. Principal of \$36,000 was amortized during 2007.
- (t) The loan is an unsecured revolving credit facility totaling \$150,000,000. Interest expense during 2007 was calculated based upon the 1 month LIBOR rate plus a spread of 1.50% (reduced to 1.475% effective December 19, 2007) or upon the bank's reference rate at the Company's option. The line may be extended one year with payment of a fee of 1/4% at the Company's option. Monthly payments, if applicable, are interest only and vary depending upon the amount outstanding and the applicable interest rate for any given month.

The December 31, 2007 and 2006 depreciation adjusted cost of properties collateralizing the mortgage notes payable totaled \$557,820,000 and \$508,236,000, respectively. The Company's credit facility requires the Company and its subsidiaries to maintain certain financial covenants. As of December 31, 2007, the material covenants required the Company, on a consolidated basis, to:

- limit the amount of debt so as to maintain a gross asset value, as defined in the loan agreement, in excess of liabilities of at least \$600 million plus 90% of our future net equity proceeds;
- limit the amount of debt as a percentage of gross asset value, as defined in the loan agreement, to less than 60% (leverage ratio);
- limit the amount of debt so that interest coverage will exceed 2.5 to 1 on a trailing 12-full calendar month basis;
- limit the amount of debt so that interest, scheduled principal amortization and preferred dividend coverage exceeds 1.6 to 1; and
- limit the amount of variable rate debt and debt with initial loan terms of less than 5 years to no more than 40% of total debt.

As of December 31, 2007, the Company was in compliance with all such covenants.

Notes payable at December 31, 2007 and 2006, totaling \$157,381,000 and \$189,285,000, respectively, are guaranteed by members of The Saul Organization. As of December 31, 2007, the scheduled maturities of all debt including scheduled principal amortization for years ended December 31, are as follows:

Debt Maturity Schedule

(In thousands)

2008	\$ 16,162
2009	17,393
2010	26,688
2011	82,315
2012	110,531
Thereafter	279,637
Total	\$ 532,726

**Interest Expense and Amortization of
Deferred Debt Costs**

<i>(In thousands)</i>	Year ended December 31,		
	2007	2006	2005
Interest incurred	\$35,595	\$ 35,118	\$32,304
Amortization of deferred debt costs	1,149	1,089	1,161
Capitalized interest	(2,889)	(3,673)	(3,258)
Total	\$33,855	\$ 32,534	\$30,207

6. LEASE AGREEMENTS

Lease income includes primarily base rent arising from noncancelable commercial leases. Base rent (including straight-line rent) for the years ended December 31, 2007, 2006 and 2005, amounted to \$118,806,000, \$110,121,000 and \$99,448,000, respectively. Future contractual payments under noncancelable leases for years ended December 31, (which exclude the effect of straight-line rents), are as follows:

Future Contractual Payments

<i>(In thousands)</i>	
2008	\$ 116,560
2009	106,043
2010	94,766
2011	78,034
2012	61,609
Thereafter	289,057
Total	\$ 746,069

The majority of the leases also provide for rental increases and expense recoveries based on fixed annual increases or increases in the Consumer Price Index and increases in operating expenses. The expense recoveries generally are payable in equal installments throughout the year based on estimates, with adjustments made in the succeeding year. Expense recoveries for the years ended December 31, 2007, 2006 and 2005 amounted to \$26,090,000, \$22,636,000 and \$20,027,000, respectively. In addition, certain retail leases provide for percentage rent based on sales in excess of the minimum specified in the tenant's lease. Percentage rent amounted to \$1,497,000, \$1,767,000 and \$2,057,000, for the years ended December 31, 2007, 2006 and 2005, respectively.

7. LONG-TERM LEASE OBLIGATIONS

Certain properties are subject to noncancelable long-term leases which apply to land underlying the Shopping Centers. Certain of the leases provide for periodic adjustments of the base annual rent and require the payment of real estate taxes on the underlying land. The leases will expire between 2058 and 2068. Reflected in the accompanying consolidated financial statements is minimum ground rent expense of \$164,000 for each of the years ended December 31, 2007, 2006 and 2005, respectively.

The future minimum rental commitments under these ground leases are as follows:

Ground Lease Rental Commitments

<i>(In thousands)</i>	Annually					Total
	2008	2009	2010	2011	2012	Thereafter
Beacon Center	\$ 53	\$ 53	\$ 53	\$ 57	\$ 60	\$ 2,960
Olney	51	52	56	56	56	4,153
Southdale	60	60	60	60	60	3,305
Total	\$164	\$165	\$169	\$173	\$176	\$10,418

In addition to the above, Flagship Center consists of two developed out parcels that are part of a larger adjacent community shopping center formerly owned by The Saul Organization and sold to an affiliate of a tenant in 1991. The Company has a 90-year ground leasehold interest which commenced in September 1991 with a minimum rent of one dollar per year. Countryside shopping center was acquired in February, 2004. Because of certain land use considerations, approximately 3.4% of the underlying land is held under a 99-year ground lease. The lease requires the Company to pay minimum rent of one dollar per year as well as its pro-rata share of the real estate taxes.

The Company's corporate headquarters lease, which commenced in March 2002, is leased by a member of The Saul Organization. The 10-year lease provides for base rent escalated at 3% per year, with payment of a pro-rata share of operating expenses over a base year amount. The Company and The Saul Organization entered into a Shared Services Agreement whereby each party pays an allocation of total rental payments on a percentage proportionate to the number of employees employed by each party. The Company's rent payments for the years ended December 31, 2007, 2006 and 2005 were \$796,000, \$726,000 and \$661,000, respectively. Expenses arising from the lease are included in general and administrative expense (see Note 9 – Related Party Transactions).



NOTES to Consolidated Financial Statements

8. STOCKHOLDERS' EQUITY AND MINORITY INTERESTS

The consolidated statement of operations for the years ended December 31, 2007 and 2006 includes a charge for minority interests of \$8,818,000 and \$7,793,000, respectively, representing The Saul Organization's share of the net income for the year. The charge for the year ended December 31, 2005 was \$7,798,000, consisting of \$6,937,000 related to The Saul Organization's share of the net income for the year and \$861,000 related to distributions to minority interests in excess of allocated net income for the year.

On July 16, 2003, the Company filed a shelf registration statement (the "Shelf Registration Statement") with the SEC relating to the future offering of up to an aggregate of \$100 million of preferred stock and depositary shares. On November 5, 2003, the Company sold 3,500,000 depositary shares, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock. The underwriters exercised an over-allotment option, purchasing an additional 500,000 depositary shares on November 26, 2003.

The depositary shares may be redeemed, in whole or in part, at the \$25.00 per share liquidation preference at the Company's option on or after November 5, 2008. The depositary shares will pay an annual dividend of \$2.00 per share, equivalent to 8% of the \$25.00 per share liquidation preference. The first dividend, paid on January 15, 2004 was for less than a full quarter and covered the period from November 5 through December 31, 2003. The Series A preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company. Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events.

9. RELATED PARTY TRANSACTIONS

Chevy Chase Bank, an affiliate of The Saul Organization, leases space in 18 of the Company's properties. Total rental income from Chevy Chase Bank amounted to \$2,946,000, \$2,220,000 and \$1,768,000, for the years ended December 31, 2007, 2006 and 2005, respectively. As of December 31, 2007, accounts receivable and accrued income included \$12,200 and as of December 31, 2006, deferred income included \$16,000 of prepaid rent from various Chevy Chase Bank leases.

The Company utilizes Chevy Chase Bank for its various checking accounts and as of December 31, 2007 had \$5,559,000 deposited in cash and short-term investment accounts.

The Chairman and Chief Executive Officer, the President, the Senior Vice President- General Counsel and the Vice President-Chief Accounting Officer of the Company are also officers of various members of The Saul Organization and their

management time is shared with The Saul Organization. Their annual compensation is fixed by the Compensation Committee of the Board of Directors, with the exception of the Vice President-Chief Accounting Officer whose share of annual compensation allocated to the Company is determined by the shared services agreement (described below).

The Company participates in a multiemployer profit sharing retirement plan with other entities within The Saul Organization which covers those full-time employees who meet the requirements as specified in the plan. Beginning January 1, 2002, only employer contributions are made to the plan. Each participant who is entitled to be credited with at least one hour of service on or after January 1, 2002, shall be 100% vested in his or her employer contribution account and no portion of such account shall be forfeitable. Employer contributions, included in general and administrative expense or property operating expenses in the consolidated statements of operations, at the discretionary amount of up to six percent of the employee's cash compensation, subject to certain limits, were \$331,000, \$289,000 and \$266,000 for 2007, 2006 and 2005, respectively. There are no past service costs associated with the plan since it is of the defined-contribution type.

The Company also participates in a multiemployer nonqualified deferred plan with entities in The Saul Organization which covers those full-time employees who meet the requirements as specified in the plan. The plan, which can be modified or discontinued at any time, requires participating employees to defer 2% of their compensation over a specified amount. For the years ended December 31, 2007, 2006 and 2005, the Company was required to contribute three times the amount deferred by employees. The Company's expense, included in general and administrative expense, totaled \$106,000, \$106,000 and \$118,000, for the years ended December 31, 2007, 2006 and 2005, respectively. All amounts deferred by employees and the Company are fully vested. The cumulative unfunded liability under this plan was \$857,000 and \$709,000 at December 31, 2007 and 2006, respectively, and is included in accounts payable, accrued expenses and other liabilities in the consolidated balance sheets.

The Company has entered into a shared services agreement (the "Agreement") with The Saul Organization that provides for the sharing of certain personnel and ancillary functions such as computer hardware, software, and support services and certain direct and indirect administrative personnel. The method for determining the cost of the shared services is provided for in the Agreement and is based upon head count estimates of usage or estimates of time incurred, as applicable. Senior management has determined that the final allocations of shared costs are reasonable. The terms of the Agreement and the payments made thereunder are reviewed annually by the Audit Committee of the Board of Directors, which consists entirely of independent directors. Billings by The Saul Organization for the Company's share of these ancillary costs and expenses for the years ended

December 31, 2007, 2006 and 2005, which included rental payments for the Company's headquarters lease (see Note 7. Long Term Lease Obligations), totaled \$4,890,000, \$3,963,000 and \$3,462,000, respectively. The amounts are expensed when incurred and are primarily reported as general and administrative expenses or capitalized to specific development projects in these consolidated financial statements. As of December 31, 2007 and 2006, accounts payable, accrued expenses and other liabilities included \$298,000 and \$255,000, respectively, represent billings due to The Saul Organization for the Company's share of these ancillary costs and expenses.

On November 14, 2007, the Company purchased a land parcel in Frederick, Maryland, from a subsidiary of Chevy Chase Bank, a related party, for \$5,000,000. The purchase price of the property was determined by the average of two independent third party appraisals which were contracted, one on behalf of the Company and one on behalf of Chevy Chase Bank.

10. STOCK OPTION PLAN

The Company established a stock option plan in 1993 (the "1993 Plan") for the purpose of attracting and retaining executive officers and other key personnel. The 1993 Plan provided for grants of options to purchase a specified number of shares of common stock. A total of 400,000 shares were made available under the 1993 Plan. The 1993 Plan authorizes the Compensation Committee of the Board of Directors to grant options at an exercise price which may not be less than the market value of the common stock on the date the option is granted.

During 1993 and 1994, the Compensation Committee granted options to purchase a total of 180,000 shares (90,000 shares from incentive stock options and 90,000 shares from nonqualified stock options) to five Company officers. The options vested 25% per year over four years, had an exercise price of \$20.00 per share and a term of ten years, subject to earlier expiration upon termination of employment. No compensation expense was recognized as a result of these grants. As of December 31, 2004, no 1993 and 1994 options remained unexercised.

On May 23, 2003, the Compensation Committee granted options to purchase a total of 220,000 shares (80,000 shares from incentive stock options and 140,000 shares from nonqualified stock options) to six Company officers (the "2003 Options"). The 2003 Options vest 25% per year over four years and have a term of ten years, subject to earlier expiration upon termination of employment. The exercise price of \$24.91 per share was the market trading price of the Company's common stock at the time of the award. As a result of the 2003 Options grant, no further shares were available under the 1993 Plan.

At the annual meeting of the Company's stockholders in 2004, the stockholders approved the adoption of the 2004 stock plan (the "2004 Plan") for the purpose of attracting and retaining executive officers, directors and other key personnel. The 2004 Plan provides for grants of options to purchase up to 500,000 shares of common stock as well as grants of up to 100,000 shares of common stock to directors. The 2004 Plan authorizes the Compensation Committee of the Board of Directors to grant options at an exercise price which may not be less than the market value of the common stock on the date the option is granted.

Effective April 26, 2004, the Compensation Committee granted options to purchase a total of 152,500 shares (27,500 shares of incentive stock options and 125,000 shares of nonqualified stock options) to eleven Company officers and to the twelve Company directors (the "2004 Options"). The officers' 2004 Options vest 25% per year over four years and have a term of ten years, subject to earlier expiration upon termination of employment. The directors' options are exercisable immediately. The exercise price of \$25.78 per share was the market trading price of the Company's common stock on the date the option was granted.

Effective May 6, 2005, the Compensation Committee granted options to purchase a total of 162,500 shares (35,500 shares of incentive stock options and 127,000 shares of nonqualified stock options) to twelve Company officers and to the twelve Company directors (the "2005 Options"). The officers' 2005 Options vest 25% per year over four years and have a term of ten years, subject to earlier expiration upon termination of employment. The directors' options are exercisable immediately. The exercise price of \$33.22 per share was the market trading price of the Company's common stock on the date the option was granted.

Effective May 1, 2006, the Compensation Committee granted options to purchase a total of 30,000 shares of nonqualified stock options to the twelve Company directors (the "2006 Options"). The options are exercisable immediately. The exercise price of \$40.35 per share was the market trading price of the Company's common stock on the date the option was granted.

Effective April 27, 2007, the Compensation Committee granted options to purchase a total of 165,000 shares (27,560 shares from incentive stock options and 137,440 shares from nonqualified stock options) to thirteen Company officers and twelve Company Directors (the "2007 options"). The officers' 2007 Options vest 25% per year over four years and have a term of ten years, subject to earlier expiration upon termination of employment. The directors' options were immediately exercisable. The exercise price of \$54.17 per share was the closing market price of the Company's common stock on the date the option was granted.



NOTES to Consolidated Financial Statements

The following table summarizes the amount and activity of each grant, the total value and variables used in the computation and the amount expensed and included in general and administrative expense in the Consolidated Statements of Operations for the years ended December 31, 2007, 2006 and 2005:

Stock Options Issued to Officers						
					Subtotal	
Grant date	05/23/2003	04/26/2004	05/06/2005	04/27/2007		
Total grant	220,000	122,500	132,500	135,000	610,000	
Vested	220,000	91,875	66,250	—	378,125	
Exercised	81,422	25,625	6,250	—	113,297	
Forfeited	7,500	7,500	11,250	—	26,250	
Exercisable at Dec. 31, 2007	131,078	58,750	48,750	—	238,578	
Remaining unexercised	131,078	89,375	115,000	135,000	470,453	
Exercise price	\$ 24.91	\$ 25.78	\$ 33.22	\$ 54.17		
Volatility	0.175	0.183	0.207	0.233		
Expected life (years)	7.0	7.0	8.0	6.5		
Assumed yield	7.00%	5.75%	6.37%	4.13%		
Risk-free rate	4.00%	4.05%	4.15%	4.61%		
Total value at grant date	\$ 332,200	\$ 292,775	\$ 413,400	\$ 1,258,848	\$ 2,297,223	
Forfeited options	11,325	17,925	35,100	—	64,350	
Expensed in prior years	133,399	49,988	—	—	183,387	
Expensed in 2005	83,000	73,000	69,000	—	225,000	
Expensed in 2006	76,444	67,220	95,460	—	239,124	
Expensed in 2007	28,032	64,242	91,648	209,808	393,730	
Future expense	—	\$ 20,400	\$ 122,192	\$ 1,049,040	\$ 1,191,632	

Stock Options Issued to Directors and Grand Totals					Subtotal	Grand Total
Grant date	04/26/2004	05/06/2005	05/01/2006	04/27/2007		
Total grant	30,000	30,000	30,000	30,000	120,000	730,000
Vested	30,000	30,000	30,000	30,000	120,000	498,125
Exercised	3,700	—	—	—	3,700	116,997
Forfeited	—	—	—	—	—	26,250
Exercisable at Dec. 31, 2007	26,300	30,000	30,000	30,000	116,300	354,878
Remaining unexercised	26,300	30,000	30,000	30,000	116,300	586,753
Exercise price	\$ 25.78	\$ 33.22	\$ 40.35	\$ 54.17		
Volatility	0.183	0.198	0.206	0.225		
Expected life (years)	5.0	10.0	9.0	8.0		
Assumed yield	5.75%	6.91%	5.93%	4.39%		
Risk-free rate	3.57%	4.28%	5.11%	4.65%		
Total value at grant date	\$ 66,600	\$ 71,100	\$ 143,400	\$ 285,300	\$ 566,400	\$ 2,863,623
Forfeited options	—	—	—	—	—	64,350
Expensed in prior years	66,600	—	—	—	66,600	249,987
Expensed in 2005	—	71,100	—	—	71,100	296,100
Expensed in 2006	—	—	143,400	—	143,400	382,524
Expensed in 2007	—	—	—	285,300	285,300	679,030
Future expense	—	—	—	—	—	\$ 1,191,632
Weighted average term of future expense (Officer and Director options)					3.1 yrs	

NOTES to Consolidated Financial Statements

The table below summarizes the option activity for the years 2007, 2006 and 2005:

	2007		2006		2005	
	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding at January 1	430,453	\$ 29.06	513,125	\$ 27.80	352,500	\$ 25.29
Granted	165,000	54.17	30,000	40.35	162,500	33.22
Exercised	(8,700)	26.85	(86,422)	25.59	(1,875)	25.78
Expired/Forfeited	—	—	(26,250)	28.72	—	—
Outstanding December 31	586,753	36.15	430,453	29.06	513,125	27.80
Exercisable at December 31	354,878	30.74	241,078	29.09	178,750	26.59

The intrinsic value of options exercised in 2007, 2006 and 2005 was \$208,775, \$1,871,000 and \$23,000, respectively. The intrinsic value of options outstanding and exercisable at year end 2007 was \$10,260,000 and \$8,074,000, respectively. The intrinsic value measures the price difference between the options' exercise price and the closing share price quoted by the New York Stock Exchange as of the date of measurement. The date of exercise was the measurement date for shares exercised during the period. At December 31, 2007, the final trading day of calendar 2007, the closing price was \$53.43 per share and was used for the calculation of aggregate intrinsic value of options outstanding and exercisable at that date. Options having an exercise price in excess of the December 31, 2007 closing price have no intrinsic value. The weighted average remaining contractual life of the Company's exercisable and outstanding options are 6.6 and 7.3 years, respectively.

11. NON-OPERATING ITEMS

Gain on Property Disposition

The gain on property disposition of \$139,000 in 2007 represents additional condemnation proceeds recognized from the State of Maryland's condemnation and taking of a small strip of unimproved land for a road widening project at White Oak shopping center. Original proceeds from the condemnation were received in 2004. There were no property dispositions in 2006 or 2005.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments," requires disclosure about the fair value of financial instruments. The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair value. Based upon management's estimate of borrowing rates and loan terms currently available to the Company for fixed rate financing, the fair value of the fixed rate notes payable is in excess of the \$524,726,000 and \$487,443,000 carrying value at December 31, 2007 and 2006, respectively. Management estimates that the fair value of these fixed rate notes payable, assuming long

term interest rates of approximately 6.27% and 5.96%, would be approximately \$528,894,000 and \$504,562,000, as of December 31, 2007 and 2006, respectively.

13. COMMITMENTS AND CONTINGENCIES

Neither the Company nor the Current Portfolio Properties are subject to any material litigation, nor, to management's knowledge, is any material litigation currently threatened against the Company, other than routine litigation and administrative proceedings arising in the ordinary course of business. Management believes that these items, individually or in the aggregate, will not have a material adverse impact on the Company or the Current Portfolio Properties.

14. DISTRIBUTIONS

In December 1995, the Company established a Dividend Reinvestment and Stock Purchase Plan (the "Plan"), to allow its stockholders and holders of limited partnership interests an opportunity to buy additional shares of common stock by reinvesting all or a portion of their dividends or distributions. The Plan provides for investing in newly issued shares of common stock at a 3% discount from market price without payment of any brokerage commissions, service charges or other expenses. All expenses of the Plan are paid by the Company. The Operating Partnership also maintains a similar dividend reinvestment plan that mirrors the Plan, which allows limited partnership interests the opportunity to buy additional limited partnership units.

The Company paid common stock distributions of \$1.77 per share, \$1.68 per share and \$1.60 per share, during 2007, 2006 and 2005, respectively, and paid preferred stock dividends of \$2.00 per depositary share during each of the years. For the common stock dividends paid, \$1.770, \$1.445 and \$1.520 per share, represented ordinary dividend income for the years 2007, 2006 and 2005. For the common stock dividends paid, \$0.235 and \$0.080 per share, represented return of capital to the shareholders for the years 2006 and 2005, respectively. The 2007 common dividend was 100% taxable. All of the preferred stock dividends paid were considered ordinary dividend income.



NOTES to Consolidated Financial Statements

The following summarizes distributions paid during the years ended December 31, 2007, 2006 and 2005, and includes activity in the Plan as well as limited partnership units issued from the reinvestment of unit distributions:

(Dollars in thousands)	Total Distributions to			Dividend Reinvestments		
	Preferred Stockholders	Common Stockholders	Limited Partnership Unitholders	Common Stock Shs Issued	Units Issued	Discounted Share Price
Distributions during 2007						
October 31	\$ 2,000	\$ 8,323	\$ 2,546	19,828	—	\$ 52.52
July 31	2,000	7,740	2,383	148,651	—	41.92
April 30	2,000	7,679	2,383	113,165	—	51.60
January 31	2,000	7,284	2,275	107,553	—	52.24
Total 2007	\$ 8,000	\$ 31,026	\$ 9,587	389,197	—	
Distributions during 2006						
October 31	\$ 2,000	\$ 7,219	\$ 2,274	126,054	—	\$ 47.14
July 28	2,000	7,145	2,274	153,298	—	38.70
April 28	2,000	7,126	2,254	35,807	50,736	39.66
January 31	2,000	7,089	2,230	43,404	55,421	35.89
Total 2006	\$ 8,000	\$ 28,579	\$ 9,032	358,563	106,157	
Distributions during 2005						
October 31	\$ 2,000	\$ 7,042	\$ 2,207	108,133	57,875	\$ 33.95
July 29	2,000	6,668	2,081	91,353	50,483	36.67
April 29	2,000	6,436	2,029	158,607	—	32.50
January 31	2,000	6,396	2,028	97,401	2,552	32.40
Total 2005	\$ 8,000	\$ 26,542	\$ 8,345	455,494	110,910	

In December 2007, 2006 and 2005, the Board of Directors of the Company authorized a distribution of \$0.47, \$0.42 and \$0.42 per common share payable in January 2008, 2007 and 2006, to holders of record on January 17, 2008, January 17, 2007 and January 17, 2006, respectively. As a result, \$8,342,000, \$7,284,000 and \$7,089,000, were paid to common shareholders on January 31, 2008, January 31, 2007 and January 31, 2006, respectively. Also, \$2,546,000, \$2,275,000 and \$2,230,000, were paid to limited partnership unitholders on January 31, 2008, January 31, 2007 and January 31, 2006 (\$0.47, \$0.42 and \$0.42 per Operating Partnership

unit), respectively. The Board of Directors authorized preferred stock dividends of \$0.50 per depositary share, to holders of record on January 2, 2008, January 2, 2007 and January 3, 2006, respectively. As a result, \$2,000,000 was paid to preferred shareholders on January 15, 2008, January 12, 2007 and January 13, 2006, respectively. These amounts are reflected as a reduction of stockholders' equity in the case of common stock and preferred stock dividends and minority interests deductions in the case of limited partner distributions and are included in dividends and distributions payable in the accompanying consolidated financial statements.

15. INTERIM RESULTS (UNAUDITED)

The following summary presents the results of operations of the Company for the quarterly periods of calendar years 2007 and 2006.

<i>(In thousands, except per share amounts)</i>				
	2007			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	\$ 36,684	\$ 37,077	\$ 38,014	\$ 38,810
Operating income before minority interests and gain on property disposition	11,009	11,077	11,956	11,340
Net income	8,874	8,926	9,624	9,279
Net income available to common shareholders	6,874	6,926	7,624	7,279
Net income available to common shareholders per share (diluted)	0.39	0.39	0.43	0.41
	2006			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	\$ 33,467	\$ 33,748	\$ 34,860	\$ 35,903
Operating income before minority interests and gain on property disposition	9,509	9,648	10,328	10,988
Net income	7,707	7,797	8,321	8,855
Net income available to common shareholders	5,707	5,797	6,321	6,855
Net income available to common shareholders per share (diluted)	0.33	0.34	0.37	0.39

NOTES to Consolidated Financial Statements

16. BUSINESS SEGMENTS

The Company has two reportable business segments: Shopping Centers and Office Properties. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2). The Company evaluates performance based upon income from real estate for the combined properties in each segment.

<i>(In thousands)</i>	Shopping Centers	Office Properties	Corporate and Other	Consolidated Totals
2007				
Real estate rental operations:				
Revenue	\$ 112,444	\$ 37,687	\$ 454	\$ 150,585
Expenses	(23,325)	(9,893)	–	(33,218)
Income from real estate	89,119	27,794	454	117,367
Interest expense & amortization of deferred debt	–	–	(33,855)	(33,855)
General and administrative	–	–	(11,666)	(11,666)
Subtotal	89,119	27,794	(45,067)	71,846
Depreciation and amortization	(18,320)	(8,144)	–	(26,464)
Gain on property disposition	139	–	–	139
Minority interests	–	–	(8,818)	(8,818)
Net income	\$ 70,938	\$ 19,650	\$ (53,885)	\$ 36,703
Capital investment	\$ 43,325	\$ 1,387	\$ 7,324	\$ 52,036
Total assets	\$ 569,249	\$ 122,908	\$ 35,286	\$ 727,443
2006				
Real estate rental operations:				
Revenue	\$ 101,460	\$ 36,184	\$ 334	\$ 137,978
Expenses	(20,172)	(9,009)	–	(29,181)
Income from real estate	81,288	27,175	334	108,797
Interest expense & amortization of deferred debt	–	–	(32,534)	(32,534)
General and administrative	–	–	(10,142)	(10,142)
Subtotal	81,288	27,175	(42,342)	66,121
Depreciation and amortization	(17,646)	(8,002)	–	(25,648)
Minority interests	–	–	(7,793)	(7,793)
Net income	\$ 63,642	\$ 19,173	\$ (50,135)	\$ 32,680
Capital investment	\$ 59,679	\$ 3,109	\$ 2,911	\$ 65,699
Total assets	\$ 539,283	\$ 131,317	\$ 29,937	\$ 700,537
2005				
Real estate rental operations:				
Revenue	\$ 90,592	\$ 35,762	\$ 661	\$ 127,015
Expenses	(17,221)	(8,780)	–	(26,001)
Income from real estate	73,371	26,982	661	101,014
Interest expense & amortization of deferred debt	–	–	(30,207)	(30,207)
General and administrative	–	–	(9,585)	(9,585)
Subtotal	73,371	26,982	(39,131)	61,222
Depreciation and amortization	(16,283)	(7,914)	–	(24,197)
Minority interests	–	–	(7,798)	(7,798)
Net income	\$ 57,088	\$ 19,068	\$ (46,929)	\$ 29,227
Capital investment	\$ 70,652	\$ 1,509	\$ 1,644	\$ 73,805
Total assets	\$ 467,687	\$ 135,211	\$ 28,571	\$ 631,469

17. SUBSEQUENT EVENTS

In January 2008, the Company acquired an undeveloped land parcel in Warrenton, Virginia. The site is located in the City of Warrenton at the southwest corner of the U. S. Route 29/211 and Fletcher Drive intersection. The Company has commenced site work construction for Northrock Shopping Center, a neighborhood shopping center. The Harris Teeter supermarket chain has executed a lease for a grocery store to anchor the center. The land purchase price was \$12.5 million.



SAUL CENTERS Corporate Information

DIRECTORS

B. Francis Saul II
Chairman & Chief
Executive Officer

B. Francis Saul III
President

Philip D. Caraci
Vice Chairman

**The Honorable
John E. Chapoton**
Partner, Brown Investment Advisory

Gilbert M. Grosvenor
Chairman of the
Board of Trustees,
National Geographic Society

Philip C. Jackson, Jr.
Adjunct Professor Emeritus,
Birmingham-Southern College

David B. Kay
Chief Financial Officer,
Municipal Mortgage & Equity, LLC

General Paul X. Kelley
28th Commandant of
the Marine Corps

Charles R. Longworth
Chairman Emeritus, Colonial
Williamsburg Foundation

Patrick F. Noonan
Chairman Emeritus,
The Conservation Fund

**The Honorable
James W. Symington**
Of Counsel, O'Connor & Hannan,
Attorneys at Law

John R. Whitmore
Financial Consultant

EXECUTIVE OFFICERS

B. Francis Saul II
Chairman & Chief
Executive Officer

B. Francis Saul III
President

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

Kenneth D. Shoop
Vice President,
Chief Accounting Officer

Christopher H. Netter
Senior Vice President, Leasing

John F. Collich
Senior Vice President,
Retail Development

Charles W. Sherren, Jr.
Senior Vice President, Management

Thomas H. McCormick
Senior Vice President,
General Counsel

COUNSEL

Pillsbury Winthrop
Shaw Pittman LLP
Washington, DC 20037

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
McLean, Virginia 22102

WEB SITE

www.saulcenters.com

EXCHANGE LISTING

New York Stock
Exchange (NYSE) Symbol:
Common Stock: BFS
Preferred Stock: BFS.PrA

TRANSFER AGENT

Continental Stock Transfer & Trust
Company
17 Battery Place
New York, NY 10004
(800) 509-5586

INVESTOR RELATIONS

A copy of the Saul Centers, Inc. annual report to the Securities and Exchange Commission on Form 10-K, which includes as exhibits the Chief Executive Officer and Chief Financial Officer Certifications required by Section 302 of the Sarbanes-Oxley Act, may be printed from the Company's web site or obtained at no cost to stockholders by writing to the address below or calling (301) 986-6016. In 2007, the Company filed with the NYSE the Certification of its Chief Executive Officer confirming that he was not aware of any violation by the Company of the NYSE's corporate governance listing standards.

HEADQUARTERS

7501 Wisconsin Ave.
Suite 1500
Bethesda, MD 20814-6522
Phone: (301) 986-6200

Dividend Reinvestment Plan and Annual Meeting of Shareholders

Saul Centers, Inc. offers a dividend reinvestment plan which enables its shareholders to automatically invest some of or all dividends in additional shares. The plan provides shareholders with a convenient and cost-free way to increase their investment in Saul Centers. Shares purchased under the dividend reinvestment plan are issued at a 3% discount from the closing price of the stock on the dividend payment date. The Plan's prospectus is available for review in the Shareholders Information section of the Company's web site.

To receive more information please call the plan administrator at (800) 509-5586 and request to speak with a service representative or write:

Continental Stock Transfer & Trust Company
Attention: Saul Centers, Inc. Dividend Reinvestment Plan
17 Battery Place
New York, NY 10004

COMMON STOCK PRICES		
Period	Share Price	
	High	Low
October 1, 2007 – December 31, 2007	\$62.58	\$50.56
July 1, 2007 – September 30, 2007	\$51.50	\$42.32
April 1, 2007 – June 30, 2007	\$56.31	\$43.95
January 1, 2007 – March 31, 2007	\$60.37	\$52.15
October 1, 2006 – December 31, 2006	\$56.99	\$44.99
July 1, 2006 – September 30, 2006	\$45.55	\$38.37
April 1, 2006 – June 30, 2006	\$42.35	\$35.67
January 1, 2006 – March 31, 2006	\$43.96	\$36.04
On February 25, 2008, the closing price was \$48.32 per share. There were approximately 330 holders of record as of that date.		

The Annual Meeting of Shareholders will be held at 11:00 a.m., local time, on April 25, 2008, at the Hyatt Regency Bethesda, One Bethesda Metro Center, Bethesda, MD (at the southwest corner of the Wisconsin Avenue and Old Georgetown Road intersection, adjacent to the Bethesda Metro Stop on the Metro Red Line.)





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