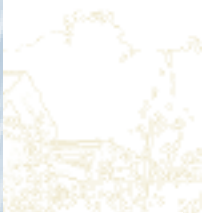


Saul Centers



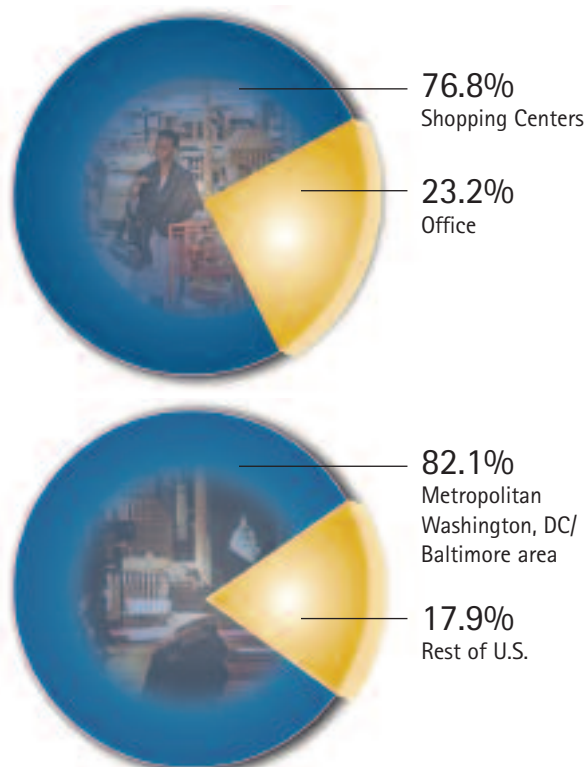
Annual Report
2009

Saul Centers, Inc.

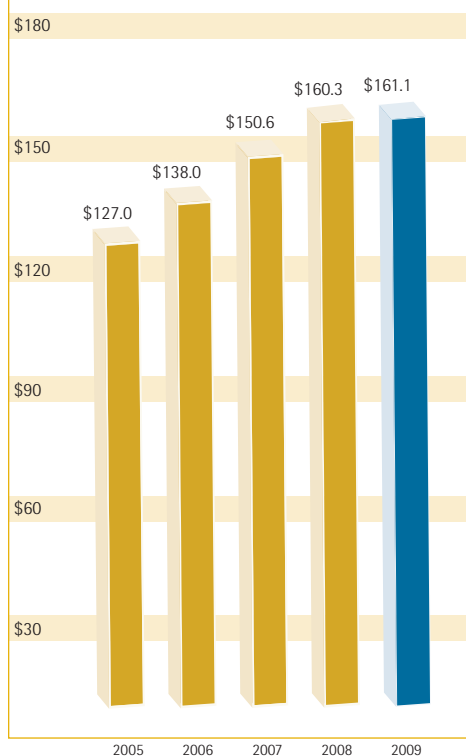
is a self-managed, self-administered equity real estate investment trust headquartered in Bethesda, Maryland. Saul Centers operates and manages a real estate portfolio of 52 community and neighborhood shopping centers and office properties totaling approximately 8.4 million square feet of leasable area. Over 82% 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.

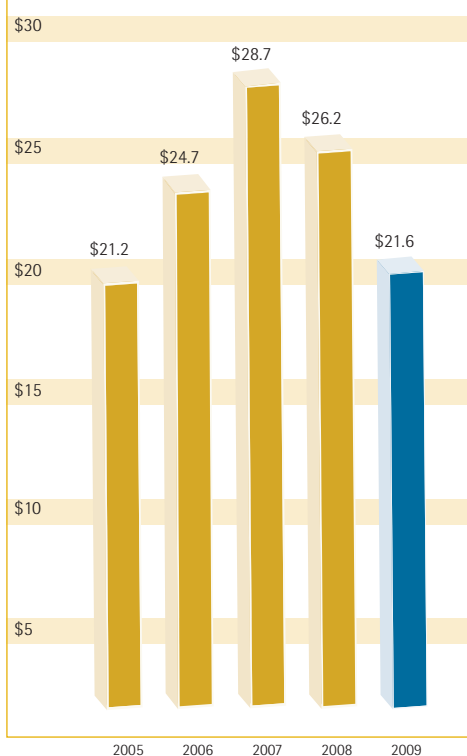
PORTFOLIO COMPOSITION Based on 2009 Property Operating Income



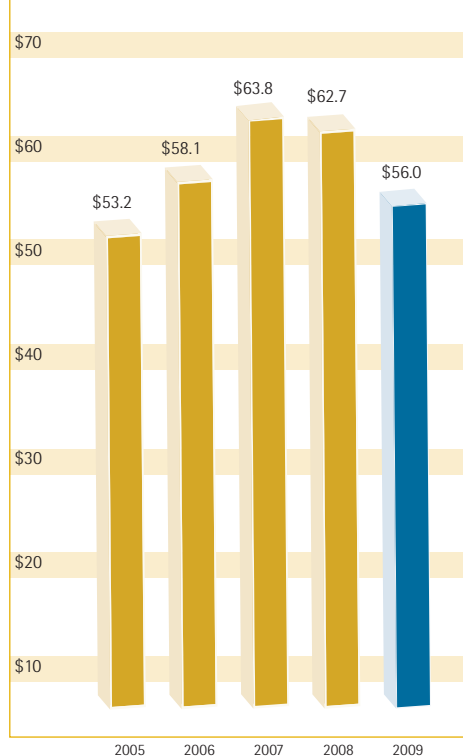
TOTAL REVENUE (In millions)



NET INCOME Available to Common Stockholders (In millions)



FUNDS FROM OPERATIONS* Available to Common Shareholders (In millions)



* Funds From Operations (FFO) is a non-GAAP financial measure. See page 23 for a definition of FFO and reconciliation to Net Income.

Year ended December 31,

2009

2008

2007

2006

2005

Summary Financial Data

Total Revenue	\$ 161,113,000	\$ 160,345,000	\$ 150,585,000	\$ 137,978,000	\$ 127,015,000
Net Income Available to Common Stockholders	\$ 21,573,000	\$ 26,241,000	\$ 28,703,000	\$ 24,680,000	\$ 21,227,000
FFO Available to Common Shareholders	\$ 56,025,000	\$ 62,695,000	\$ 63,846,000	\$ 58,121,000	\$ 53,222,000
Weighted Average Common Stock Outstanding	17,943,000	17,961,000	17,769,000	17,233,000	16,770,000
Weighted Average Shares and Units Outstanding	23,359,000	23,377,000	23,185,000	22,628,000	22,003,000
Net Income Available to Common Stockholders Per Share (Diluted)	\$ 1.20	\$ 1.46	\$ 1.62	\$ 1.43	\$ 1.27
FFO Available to Common Shareholders Per Share (Diluted)	\$ 2.40	\$ 2.68	\$ 2.75	\$ 2.57	\$ 2.42
Common Dividend as a Percentage of FFO (Per Share)	64%	70%	64%	65%	66%
Interest Expense Coverage ^a	3.27	3.33	3.23	3.14	3.15

Property Data

Number of Properties ^b	52	50	48	47	44
Total Portfolio Square Feet	8,424,000	8,194,000	8,009,000	7,904,000	7,376,000
Shopping Center Square Feet	7,218,000	6,988,000	6,803,000	6,698,000	6,170,000 ^c
Office Square Feet	1,206,000	1,206,000	1,206,000	1,206,000	1,206,000
Average Percentage Leased	92% ^d	95%	96%	97%	95%

(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 and New Market).

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

(d) Average percentage leased would have been 93% if the 2009 development properties, Northrock and Westview Village, were excluded from the calculation for the entire year.



Smallwood Village



Thruway



Kentlands Square



Thruway

MESSAGE

TO OUR SHAREHOLDERS

The challenging economic environment of the past few years continued to negatively impact the commercial real estate business during all of 2009. Rising unemployment and falling consumer confidence resulted in further declines in retail spending and diminished demand for office space. While the impact was felt throughout our nation, the relative strength of the Washington D.C. metropolitan area was apparent. When nationwide unemployment peaked at 10.1% in October 2009, the Washington area jobless rate was 6.2%. The Saul Centers retail and office portfolio of 8.4 million square feet produces over 82% of its property operating income from the Washington area marketplace. Consequently, while some markets suffered significantly from low occupancy levels, our portfolio was more resilient. Portfolio leasing percentage, exclusive of development properties, has declined modestly from over 95% during the spring of 2008, to a year end 2009 total of 92.7%. Indicators of a potential bottoming out of our leasing percentage were evident with

quarterly declines leveling off in the second half of the year. In addition, leases signed increased from 376,000 square feet for January through June to 689,000 square feet for the last six months of the year, when tenant delinquencies moderated. Debt markets showed continued improvement through the mid and latter parts of 2009, and year end real estate investment trust ("REIT") stock prices rebounded dramatically from March 2009 lows.

The 2009 year closed with heavy snowfall in the Mid-Atlantic states during the important retail holiday season of late December, and 2010 commenced with another historic snow event spread over a full week in early February. Coupled with the current challenging small shop retail landscape, these events have had an impact on earnings. However, we remain confident that our Washington metropolitan area property locations and service oriented grocery-anchored shopping center focus will provide us with a solid foundation looking ahead.

Balance Sheet Summary

During 2009, we refinanced all \$76 million of our fixed-rate mortgage debt that was due to mature in 2011. We closed on five new 15-year, non-recourse mortgage loans totaling \$118 million. These loans, which provided net cash proceeds of over \$35 million, require monthly payments using a 25-year amortization schedule, and have a weighted average interest rate of 7.5%. The debt that was repaid had average interest rates slightly above 8.0%. As a result of these refinancings, none of our remaining fixed-rate mortgage debt matures prior to October 2012. We also extended the maturity date of our \$150 million revolving credit line to June 2012, with a further one-year extension option available. As of March 2010, we had no balances outstanding on the credit line. The weighted average interest rate of all our debt outstanding at year end was 6.34%, and our interest expense coverage was 3.3x for 2009.



White Oak

Leverage, as measured by debt/total capitalization, was 40.0% at December 31, 2009. In recent years, we have followed a practice of setting the common dividend at a level approximately equal to taxable income to comply with REIT regulations, and not pay Federal corporate income tax. This practice allows us to retain the maximum amount of excess cash flow to fund development and acquisition activities, or to retire debt. Continuing this appropriately conservative practice, in October, 2009 we decreased the quarterly common stock dividend by \$0.03 per share, or 7.7%, from the \$0.39 per share paid in the prior quarter. This also represents a 23.4% decrease from the quarterly \$0.47 per share paid a year earlier. We believe the dividend reduction was prudent and appropriate for the challenging economic and credit market conditions of the past year. Since increasing tenant delinquencies have negatively impacted income, adequate cash balances are necessary to maintain our strong capital and liquidity position.

Financial Results

For the year ended December 31, 2009, total revenue increased 0.5% to \$161,113,000 compared to \$160,345,000 in 2008. Operating income decreased 2.7% to \$45,111,000 compared to \$46,365,000 in 2008, primarily due to decreased base rent, as a result of tenant vacancies, and increased property operating expenses (net of expenses recoverable from tenants). Net income available to common stockholders decreased to \$21,573,000 or \$1.20 per diluted share in 2009, compared to \$26,241,000 or \$1.46 per diluted share for the prior year.

Also, FFO available to common shareholders for 2009 decreased 10.6% to \$56,025,000 (\$2.40 per diluted share) from \$62,695,000 (\$2.68 per diluted share) in 2008. The FFO decrease was caused by (1) expenses associated with refinancing activities (\$2,490,000), (2) the

full-year effect of dividends on the Company's Series B preferred stock issued in March 2008 (\$1,690,000), (3) decreased property operating income (\$1,145,000), (4) increased general and administrative expenses (\$635,000) and (5) reduced investment income (\$580,000).

Same property revenue for the total portfolio decreased 0.6% in 2009 compared to 2008, and same property operating income decreased 2.4%. Same property comparisons exclude the results of properties not in operation for each full year.



Beacon Center



Seabreeze Plaza



Seven Corners



Ashburn Village

MESSAGE

TO OUR SHAREHOLDERS

Retail Highlights

Despite the economic obstacles present during all of 2009, the Saul Centers retail portfolio achieved satisfactory results. We signed a total of 211 new and renewal leases for 1,065,000 square feet of space. This compared to an annual average of 224 leases signed for 1,060,000 square feet of space during the preceding 3 years. However, while deal volumes remained nearly constant, rental rates declined. On a same space basis for 2009 retail lease deals, new and renewal cash rent decreased by 1.2% over expiring rents. This compared to a 3-year average same space cash rent increase of 10.3% from 2006 through 2008. On a same center basis, the retail leasing percentage decreased from 93.9% at the end of 2008 to 93.0% at December 31, 2009. This 90 basis point drop compared to a 140 basis point decrease during 2008. The retail leasing percentage remains unchanged at March 1, 2010. The occupancy loss over the past year was generally a result of delinquencies or closings of small shop tenants. Of the 68,000

square foot reduction of leased space since December 31, 2008, only one junior anchor, a 37,000 square foot Circuit City store, contributed to this total. Most of the increased vacancies were closings of shop tenants consisting primarily of restaurants, tanning salons, small fitness centers, video stores, and other service oriented categories.

While weak and underperforming tenants closed, the overall sales production of our tenant base remains relatively solid. Overall retail sales reported by our tenants during 2009 averaged \$325 per square foot, and on a same store basis, retail sales decreased by a modest 3.1% from 2008 levels. Over 74% of our expiring retail square footage was renewed during 2009, compared to a 70% average renewal rate over the preceding three years.

Thirty-one of our 47 retail properties are anchored by grocery stores. These 31 centers produce 84% of the property operating income for our retail portfolio. Since grocers generally drive a large portion of the customer traffic to neighborhood shopping centers, grocery sales

volume is a general indicator of the health of the center. During 2009, our grocery stores reported average sales of \$450 per square foot. On a same store basis, grocery sales decreased only 3.5% from 2008 totals, a minor decrease considering the very difficult retail environment.

Office Performance

Our 1.2 million square feet of office assets in five properties produced 23.2% of the total property operating income in 2009. The three mid-rise office buildings are weathering the economic downturn better than our 1-story flex properties, ending the year at an average 96.6% leased. Only 65,900 square feet of space in these mid-rise properties (10.7% of their gross leasable square feet) expires during 2010. Property operating income at these three Washington, DC metropolitan area properties grew by over 3% in 2009 and comprises 74% of the office portfolio. Weakness continues in our 1-story flex properties, the largest being the 391,000 square foot Avenel Business Park. The park finished 2009 at one of its historical low leasing percentages of 87%. Prior to 2009, approximately 50% of the park's square footage was leased to biotechnology tenants, many of which relied on venture capital funding for life science projects in research and clinical stages of development. Venture capital sources ceased funding several of the lab tenants during the year.



Seven Corners

Redevelopment and Development Update

In 2009, construction was completed at two retail redevelopment projects (Boulevard and Smallwood Village Center) and two development projects (Northrock and Westview Village). Currently, one development project remains under construction and on schedule, the mixed-use Clarendon Center, adjacent to the Clarendon Metro station in Arlington, Virginia. A description of each follows:

Redevelopments

During 2009, we completed a redevelopment of Boulevard Shopping Center, located in Fairfax, Virginia. A pad building was replaced with a Chevy Chase Bank building and an additional 8,000 square feet of in-line shop space was constructed and leased.

Completed in mid-2009, we redeveloped the Smallwood Village Center, located in Waldorf, Maryland. Improvements included constructing a more convenient signalized entranceway to improve access to the center, reconfiguring portions of the in-line shop space and upgrading the center's façade and common areas. The center is 76% leased with approximately 40,000 square feet of shop space currently available to lease.

Developments

Northrock

Northrock is a 103,000 square foot neighborhood shopping center located in Warrenton, Virginia. It is anchored by a Harris Teeter supermarket store which opened in June 2009. Approximately 8,000 square feet of the 38,200 square feet of in-line shop space has been leased. In addition, Chevy Chase Bank and Longhorn Steakhouse lease 8,900 square feet of the 12,500 square feet of retail pad area. In total, the development is 67% leased.

Westview Village

Westview Village is a 101,000 square foot commercial project located in Frederick, Maryland. It contains 59,000 square feet of retail shop space, 30,000 square feet of professional office space, a 7,500 square foot free-standing Mimi's Café and approximately 4,500 square feet of future retail pads. As a result of the challenging economic environment, only 28% of the total space is currently leased.



Northrock



Westview Village



Boulevard



Westview Village

MESSAGE

TO OUR SHAREHOLDERS

Clarendon Center

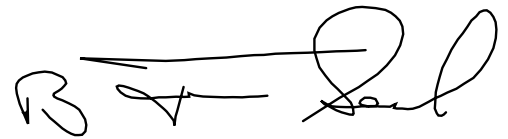
Clarendon Center is an urban mixed-use development situated on two city blocks in Arlington, Virginia. It includes 42,000 square feet of ground level retail space, 172,000 square feet of office space, 244 luxury apartments and underground parking for 600 vehicles. Base building construction has topped-out, pre-cast details and the façade brick are being installed, while interior partitions and building systems are being completed. Of the estimated \$195 million total project cost, \$125 million has been incurred as of March 2010. The construction loan is available to fund all of the remaining project costs. We estimate construction will be substantially complete in late 2010, at which time the residential component is expected to be operational and ready for occupancy. The retail and office spaces will be operational as tenant improvements are built-out.

The project will offer a vibrant street-level retail environment for restaurants and other retailers. It will benefit from one of the best demographic profiles in the country, as well as its location adjacent to a Metro Station and major roadways. Office tenants will be attracted by the project's close proximity to downtown Washington, DC, Reagan National Airport and Tyson's Corner. Apartment tenants will enjoy amenities such as a terrace-level indoor pool, fitness center, community room, business center and views of the Washington, DC monuments.

Two retail spaces totaling 8,000 square feet (18.8% of the total retail area) have been leased and negotiations continue for a majority of the remaining space.

We believe our attractive operating properties and solid capital structure provide a strong foundation for our Company to succeed in an extended and gradual economic recovery in 2010 and beyond. Deal volume has accelerated during the last six months and there has been stabilization of leasing percentages. However, the continuing struggles of small retailers indicate that rental rate pressures will remain. Regardless, our core portfolio of well-located Washington, DC metropolitan area properties and our sound balance sheet with no near term debt maturities position our Company to successfully navigate the economic challenges to come.

For the Board



B. Francis Saul II
March 12, 2010



Above: Clarendon Center under construction with Metro Station in foreground; Top left: Rendering, South Block; Bottom left: View of Washington, DC from apartments



Washington Square



AS OF DECEMBER 31, 2009, SAUL CENTERS' PORTFOLIO PROPERTIES WERE LOCATED IN VIRGINIA, MARYLAND, WASHINGTON, DC, NORTH CAROLINA, DELAWARE, FLORIDA, GEORGIA, KENTUCKY, NEW JERSEY AND OKLAHOMA. PROPERTIES IN THE METROPOLITAN WASHINGTON, DC/BALTIMORE AREA REPRESENT OVER 71% OF THE PORTFOLIO'S GROSS LEASABLE AREA.

PORTFOLIO PROPERTIES

PROPERTY/LOCATION GROSS LEASABLE SQUARE FEET

Shopping Centers

ASHBURN VILLAGE, ASHBURN, VA	221,687
ASHLAND SQUARE, PHASE I, MANASSAS, VA	16,550
BEACON CENTER, ALEXANDRIA, VA	356,115
BJ'S WHOLESALE CLUB, ALEXANDRIA, VA	115,660
BELVEDERE, BALTIMORE, MD	54,941
BOCA VALLEY PLAZA, BOCA RATON, FL	121,269
BOULEVARD, FAIRFAX, VA	49,140
BRIGGS CHANEY MARKETPLACE, SILVER SPRING, MD	194,347
BROADLANDS VILLAGE I, II & III, ASHBURN, VA	159,734
COUNTRYSIDE, STERLING, VA	141,696
CRUSE MARKETPLACE, CUMMING, GA	78,686
FLAGSHIP CENTER, ROCKVILLE, MD	21,500
FRENCH MARKET, OKLAHOMA CITY, OK	244,724
GERMANTOWN, GERMANTOWN, MD	27,241
GIANT, BALTIMORE, MD	70,040
THE GLEN, LAKE RIDGE, VA	134,317
GREAT EASTERN, DISTRICT HEIGHTS, MD	255,398
GREAT FALLS CENTER, GREAT FALLS, VA	91,666
HAMPSHIRE LANGLEY, TAKOMA PARK, MD	131,700
HUNT CLUB CORNERS, APOPKA, FL	101,522
JAMESTOWN PLACE, ALTAMONTE SPRINGS, FL	96,372
KENTLANDS SQUARE, GAITHERSBURG, MD	114,381
KENTLANDS PLACE, GAITHERSBURG, MD	40,648
LANSDOWNE TOWN CENTER, LEESBURG, VA	189,355
LEESBURG PIKE, BAILEYS CROSSROADS, VA	97,752
LEXINGTON PADS, LEXINGTON, KY	13,646
LUMBERTON PLAZA, LUMBERTON, NJ	193,044
SHOPS AT MONOCACY, FREDERICK, MD	109,144

PROPERTY/LOCATION

GROSS LEASABLE SQUARE FEET

NORTHROCK, WARRENTON, VA	103,440
OLDE FORTE VILLAGE, FT. WASHINGTON, MD	143,062
OLNEY, OLNEY, MD	53,765
ORCHARD PARK, DUNWOODY, GA	87,782
PALM SPRINGS CENTER, ALTAMONTE SPRINGS, FL	126,446
RAVENWOOD, BALTIMORE, MD	93,328
SEABREEZE PLAZA, PALM HARBOR, FL	146,673
MARKETPLACE AT SEA COLONY, BETHANY BEACH, DE	21,677
SEVEN CORNERS, FALLS CHURCH, VA	574,831
SHOPS AT FAIRFAX, FAIRFAX, VA	68,743
SMALLWOOD VILLAGE CENTER, WALDORF, MD	172,817
SOUTHDAL, GLEN BURNIE, MD	484,115
SOUTHSIDE PLAZA, RICHMOND, VA	373,651
SOUTH DEKALB PLAZA, ATLANTA, GA	163,418
THRUWAY, WINSTON-SALEM, NC	361,388
VILLAGE CENTER, CENTREVILLE, VA	143,109
WEST PARK, OKLAHOMA CITY, OK	76,610
WESTVIEW VILLAGE, FREDERICK, MD	100,997
WHITE OAK, SILVER SPRING, MD	480,156

TOTAL SHOPPING CENTERS 7,218,283

Office Properties

AVENEL BUSINESS PARK, GAITHERSBURG, MD	390,579
CROSTOWN BUSINESS CENTER, TULSA, OK	197,135
601 PENNSYLVANIA AVE., WASHINGTON, DC	226,604
VAN NESS SQUARE, WASHINGTON, DC	156,493
WASHINGTON SQUARE, ALEXANDRIA, VA	235,042

TOTAL OFFICE PROPERTIES 1,205,853

TOTAL PORTFOLIO 8,424,136

FINANCIAL SECTION

TABLE OF CONTENTS

Selected Financial Data	Page 10
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	Pages 11-26
Management's Report on Internal Control Over Financial Reporting	Page 26
Report of Independent Registered Public Accounting Firm	Page 27
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting.....	Page 28
Consolidated Balance Sheets.....	Page 29
Consolidated Statements of Operations.....	Page 30
Consolidated Statements of Stockholders' Equity.....	Page 31
Consolidated Statements of Cash Flows	Page 32
Notes to Consolidated Financial Statements.....	Pages 33-52

SELECTED FINANCIAL DATA

(In thousands, except per share data)

	Years Ended December 31,				
	2009	2008	2007	2006	2005
Operating Data					
Total revenue	\$ 161,113	\$ 160,345	\$ 150,585	\$ 137,978	\$ 127,015
Operating expenses	116,002	113,980	105,203	97,505	89,990
Operating income	45,111	46,365	45,382	40,473	37,025
Non-operating income					
Loss on early extinguishment of debt	(2,210)	–	–	–	–
Gain on property dispositions	329	1,301	139	–	–
Net income	43,230	47,666	45,521	40,473	37,025
Income attributable to the noncontrolling interest	(6,517)	(7,972)	(8,818)	(7,793)	(7,798)
Net income attributable to Saul Centers, Inc.	36,713	39,694	36,703	32,680	29,227
Preferred dividends	(15,140)	(13,453)	(8,000)	(8,000)	(8,000)
Net income available to common stockholders	\$ 21,573	\$ 26,241	\$ 28,703	\$ 24,680	\$ 21,227
Per Share Data (diluted)					
Net income available to common stockholders	\$ 1.20	\$ 1.46	\$ 1.62	\$ 1.43	\$ 1.27
Basic and diluted shares outstanding					
Weighted average common shares – basic	17,904	17,816	17,589	17,075	16,663
Effect of dilutive options	39	145	180	158	107
Weighted average common shares – diluted	17,943	17,961	17,769	17,233	16,770
Weighted average convertible limited partnership units	5,416	5,416	5,416	5,395	5,233
Weighted average common shares and fully converted limited partnership units – diluted	23,359	23,377	23,185	22,628	22,003
Dividends Paid					
Cash dividends to common stockholders ⁽¹⁾	\$ 27,358	\$ 33,450	\$ 31,026	\$ 28,579	\$ 26,542
Cash dividends per share	\$ 1.53	\$ 1.88	\$ 1.77	\$ 1.68	\$ 1.60
Balance Sheet Data					
Real estate investments					
(net of accumulated depreciation)	\$ 834,914	\$ 774,718	\$ 657,258	\$ 627,651	\$ 567,417
Total assets	925,574	853,873	727,443	700,537	631,469
Total debt, including accrued interest	639,405	570,184	535,319	525,125	484,902
Preferred stock	179,328	179,328	100,000	100,000	100,000
Total stockholders' equity	226,063	227,887	153,524	137,876	114,482
Other Data					
Cash flow provided by (used in):					
Operating activities	\$ 69,025	\$ 73,101	\$ 71,197	\$ 62,174	\$ 58,674
Investing activities	\$ (80,469)	\$ (115,070)	\$ (52,036)	\$ (65,699)	\$ (73,805)
Financing activities	\$ 19,045	\$ 49,210	\$ (21,457)	\$ 3,579	\$ (10,423)
Funds from operations ⁽²⁾					
Net income	\$ 43,230	\$ 47,666	\$ 45,521	\$ 40,473	\$ 37,025
Real estate depreciation and amortization	28,264	29,783	26,464	25,648	24,197
Gain on property dispositions	(329)	(1,301)	(139)	–	–
Funds from operations	71,165	76,148	71,846	66,121	61,222
Preferred dividends	(15,140)	(13,453)	(8,000)	(8,000)	(8,000)
Funds from operations available to common shareholders	\$ 56,025	\$ 62,695	\$ 63,846	\$ 58,121	\$ 53,222

(1) For the years 2009, 2008, 2007, 2006 and 2005, shareholders reinvested \$4,137, \$3,941, \$18,725, \$14,842 and \$15,330, respectively, in newly issued common stock by operation of the Company's dividend reinvestment plan.

(2) Funds from operations (FFO) is a non-GAAP financial measure. For a definition of FFO, see page 23.

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 14, discusses the Company's results of operations for the past two years. Beginning on page 17, 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 23, 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 this Annual Report on Form 10-K, including the consolidated financial statements and notes thereto appearing in this report. Historical results set forth in Selected Financial Information, the Consolidated Financial Statements and Supplemental Data 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 investments.

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.

In light of the limited amount of quality properties for sale that the Company has been presented with or inquired about over the past year, management believes acquisition and development opportunities for investment in existing and new shopping center and office properties in the near future is uncertain. However, because of its conservative capital structure, including its undrawn credit line and cash balances, management believes that the Company is positioned to take advantage of investment opportunities when market conditions change. It is management's view that several of the sub-markets in which the Company operates have attractive supply/demand characteristics. The Company will continue to evaluate acquisition, development and redevelopment as an integral part of its overall business plan.

Although there has been a downturn in the national real estate market, to date, the effects on the office and retail markets in the metropolitan Washington, D.C. area, where the majority of the Company's properties are located, have been less severe. However, continued deterioration in the local economies where the Company's properties are located may lead to increased tenant bankruptcies, increased vacancies and decreased rental rates.

With a severe decline in overall consumer spending, retailers continue to struggle with declining sales and limited access to capital. Vacancies have increased from a year ago. Our overall portfolio leasing percentage, on a comparative same center basis, ended the year at 92.7%, a decrease from 94.1% at year end 2008, a space leased reduction of approximately 130,000 square feet. Five properties, three shopping centers and two office properties, caused the decline in leased space. The Shopping Center Properties: (1) Southdale decreased by 42,000 SF resulting primarily from the big box retailer Circuit City terminating its business; (2) Southside Plaza decreased by 19,000 SF resulting from several businesses which chose not to renew their leases; and (3) Lansdowne Town Center which decreased by 11,000 SF when a fitness center and two small shop tenants ceased rent payments and vacated their spaces prior to lease expiration. Office Properties: (1) Crosstown Business Park decreased by 31,000 SF resulting from two tenants choosing not to renew their leases; and (2) Avenel Business Park, which decreased by 26,000 SF when a 15,000 SF life science tenant lost its financial support and several other small tenants ceased rent payments and vacated their spaces prior to lease expiration.

The Company's tenants have been further impacted by winter weather, as heavy snowfall in the Mid-Atlantic states during the retail holiday season in late December 2009 hindered the ability of customers to shop. Additionally, the costs of removing the snow from the shopping centers and office buildings approached \$1 million. Approximately 70% of the costs are historically billable to tenants, which could further strain their ability to operate profitably. Compounding the costs of the December storm were two major storms impacting the Mid-Atlantic region during February 2010. It is estimated the costs of removing snow from the February storms may be triple the amount of the December 2009 storm.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In addition, because of the Company's conservative capital structure, the Company has not been significantly affected by the recent turmoil in the credit markets. First, the Company maintains a ratio of total debt to total assets value of under 50%, which allows the Company to obtain additional secured borrowings if necessary. Second, as of December 31, 2009, amortizing fixed-rate mortgage debt represented approximately 90% of the Company's notes payable, thus minimizing refinancing risk. Third, the Company's earliest fixed-rate debt maturity is not until October 2012. The Company's two construction loans for Northrock and Clarendon Center may be extended, under certain conditions, until May 2013. Finally, as of December 31, 2009, the Company has loan availability of more than \$149,000,000 under its \$150,000,000 unsecured revolving line of credit.

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 2007 through 2009, the Company also acquired a grocery-anchored neighborhood shopping center in Georgia totaling 88,000 square feet.

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 less depreciation. The Company intends to own its real estate investment properties over a long term. No real estate investment properties have been sold since the Company's formation in 1993. Management believes that these assets have generally appreciated in value since their acquisition or development 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 U.S. GAAP, they do not report the current value of the Company's 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. 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.

If there is an event or change in circumstance that indicates an impairment in the value of a real estate investment property, the Company prepares an impairment analysis to assess the carrying value of the real estate investment property relative to its estimated fair value. The Company considers both quantitative and qualitative factors in identifying impairment indicators including recurring operating losses, significant decreases in occupancy, and significant adverse changes in legal factors and business climate. If impairment indicators are present, the Company performs a comparison of the projected cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying value of that property. The Company assesses its undiscounted projected cash flows based upon estimated capitalization rates, historic operating results and market conditions that may affect the property. If such carrying value is greater than the undiscounted projected cash flows, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its then estimated fair market value. The value of any property is sensitive to the actual results of any of the aforementioned estimated factors, either individually or taken as a whole. Should the actual results differ from management's projections, the valuation could be negatively or positively affected.

When incurred, the Company capitalizes the cost of improvements that extend the useful life of property and equipment. All repair and maintenance expenditures are expensed when incurred. In addition, we capitalize leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvement. Tenant improvements we own are depreciated over the life of the respective lease or the estimated useful life of the improvements, whichever is shorter.

Interest, real estate taxes, development-related salary costs 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.

Deferred Leasing 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. Deferred 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 successful 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. In addition, deferred leasing costs include amounts attributed to in-place leases associated with acquisition properties.

Revenue Recognition

Rental and interest income is accrued as earned except when doubt exists as to collectability, 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 break-point specified in the lease agreement.

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 its 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

(Dollars in thousands)	Revenue					
	For the year ended December 31,			Percentage Change		
	2009	2008	2007	2009 to 2008	2008 to 2007	
Base rent	\$ 125,845	\$ 124,999	\$ 118,806	0.7%	5.2%	
Expense recoveries	29,462	29,066	26,090	1.4%	11.4%	
Percentage rent	1,326	1,509	1,497	(12.1)%	0.8%	
Other	4,480	4,771	4,192	(6.1)%	13.8%	
Total revenue	\$ 161,113	\$ 160,345	\$ 150,585	0.5%	6.5%	

Note: Base rent includes \$1,303, \$753 and \$1,672, for the years 2009, 2008 and 2007, respectively, to recognize base rent on a straight-line basis. In addition, base rent includes \$1,249, \$1,445 and \$472, for the years 2009, 2008 and 2007, respectively, to recognize income from the amortization of in-place leases.

Total revenue increased 0.5% in 2009 compared to 2008. The revenue increase for the 2009 Period resulted from the operations of the Development Properties (Northrock and Westview Village) and three 2008 acquisition properties (Great Falls Center, BJ's Wholesale Club and Marketplace at Sea Colony), together defined as the "2009/2008 Development and Acquisition Properties," (approximately \$2,355,000), offset in part by declining revenues from the "Core Properties" (properties which were in operation for the entirety of both periods) due to decreased occupancy levels and the resulting loss of base rent (approximately \$957,000) and reduced interest income on invested cash balances (approximately \$582,000).

Total revenue increased 6.5% in 2008 compared to 2007 primarily due to (1) the contribution of operating revenue from three operating properties acquired during 2008 (Great Falls Center, BJ's Wholesale Club and Marketplace at Sea Colony), (2) an operating property acquired July 2007 (Orchard Park) and (3) a development property (Ashland Square Phase I) placed in service during the fourth quarter of 2007, together defined as the "2008/2007 Development and Acquisition Properties," whose operating results are included in 2008's operating income but not fully in the previous year's results. The 2008/2007 Development and Acquisition Properties contributed \$4,943,000, or 50.6%, of the increase in revenue. Also contributing to the 2008 revenue increase was a revenue increase of \$1,575,000, or 16.1%, from the stabilization of Lansdowne Town Center. The balance of 2008's revenue growth resulted from rental rate growth, increased parking revenue and increased lease termination fees in the remainder of the Company's Core Properties. A discussion of the components of revenue follows.

Base rent

The \$846,000 increase in base rent in 2009 over 2008 was primarily attributable to leases in effect at the 2009/2008 Development and Acquisition Properties (approximately \$1,931,000) which was offset by base rent decline (approximately \$1,085,000) throughout the Core Properties in 2009 from 2008 due to increased vacancy attributable to the challenging market conditions, particularly an anchor space vacant at Seven Corners in Falls Church, Virginia, during the first half of 2009

and small shop vacancies at two Loudoun County shopping centers, Broadlands Village and Lansdowne Town Center.

The \$6,193,000 increase in base rent in 2008 from 2007 was primarily attributable (68.8% or approximately \$4,258,000) to leases in effect at the 2008/2007 Development and Acquisition Properties and the stabilization of Lansdowne Town Center (18.1% or approximately \$1,123,000). The balance of the increase was provided by rental rate growth in the Core Properties, particularly Southdale, Seven Corners and Leesburg Pike shopping centers, offset in part by base rent decreases at Broadlands Village, South Dekalb Plaza and Ashburn Village resulting from tenant vacancies.

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 operation of the 2009/2008 Development and Acquisition Properties contributed the majority of the \$396,000 increase in expense recovery income in 2009 compared to 2008 (90.7% or approximately \$359,000).

The \$2,976,000 increase in expense recovery income in 2008 compared to 2007 resulted primarily from billings to tenants for their share of increased real estate tax expense in the Core Properties (58.0% or approximately \$1,727,000). The operation of the 2008/2007 Development and Acquisition Properties (21.5% or approximately \$639,000) and property operating expenses (20.5% or approximately \$610,000) throughout the Core Properties accounted for the balance of the increase.

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 \$183,000 in 2009 from 2008 primarily as a result of timing differences in the receipt of sales reports used to calculate percentage rent from two retail tenants (82.0% or approximately \$150,000).

Other revenue

Other revenue consists primarily of parking revenue at three of the Office Properties, temporary lease rental revenue, payments associated with early termination of leases and interest income from the investment of cash balances. Other revenue decreased \$291,000 in 2009 from 2008 as a result of decreased interest income from short-term investments (approximately \$582,000) offset in part by increased parking revenue in the office portfolio (approximately \$278,000).

The increase in other revenue for 2008 compared to 2007 resulted primarily from increased parking revenue primarily at 601 Pennsylvania Avenue (38.2% or approximately \$221,000), increased lease termination fees (29.7% or approximately \$172,000), and interest income resulting from the investment of increased cash balances (23.7% or approximately \$137,000).

(Dollars in thousands)	Operating Expenses				
	For the year ended December 31,			Percentage Change	
	2009	2008	2007	2009 to 2008	2008 to 2007
Property operating expenses	\$ 21,408	\$ 19,877	\$ 18,758	7.7%	6.0%
Provision for credit losses	919	1,113	376	(17.4)%	196.0%
Real estate taxes	17,766	16,608	14,084	7.0%	17.9%
Interest expense and amortization of deferred debt	34,689	34,278	33,855	1.2%	1.2%
Depreciation and amortization	28,264	29,783	26,464	(5.1)%	12.5%
General and administrative	12,956	12,321	11,666	5.2%	5.6%
Total operating expenses	\$ 116,002	\$ 113,980	\$ 105,203	1.8%	8.3%

Property Operating Expenses

Property operating expenses consist primarily of repairs and maintenance, utilities, payroll, insurance and other property related expenses. The largest single item contributing to the \$1,531,000 increase in 2009 property operating expenses compared to the 2008 year was snow removal expense (88.0% or approximately \$1,347,000) resulting primarily from a heavy snowfall in the Mid-Atlantic states during the December 2009 retail holiday season.

The largest single item contributing to the \$1,119,000 increase in 2008 property operating expenses compared to the 2007 year was utility expense in the Core Properties (41.4% or approximately \$463,000), a 10.8% increase over the prior year's amount. The operation of the 2008/2007 Development and Acquisition Properties contributed 32.3% or approximately \$361,000. The balance of the 2008 increase represents a 2.0% increase in repairs and maintenance, payroll, insurance and other property related expenses for the Core Properties.

Provision for Credit Losses

The provision for credit losses represents the Company's estimate of amounts owed by tenants that may not be collectible. The provision for credit losses decreased \$194,000 primarily due to a one-time provision for a rent dispute with a former anchor tenant of \$409,000 in 2008, partially offset by \$215,000 of increased credit losses related to small shop delinquencies in 2009.

The \$737,000 credit loss increase in 2008 compared to 2007 was primarily due to a rent dispute with a former anchor tenant (55.5% or approximately \$409,000). The Company also established credit loss reserves for tenant rents receivable the majority of which were independent, small shop retailers, primarily at the Company's Loudoun County, Northern Virginia shopping centers. The provision for credit losses of approximately seven tenths of one percent (0.7%) and three tenths of one percent (0.3%) of total revenue for 2008 and 2007, respectively, reflects the deteriorating impact of the declining housing conditions and frozen credit market.

Real Estate Taxes

The \$1,158,000 increase in real estate taxes resulted primarily from a 5.8% increase in real estate tax expense throughout the Core Properties (82.0% or approximately \$949,000). The operation of the 2009/2008 Development and Acquisition Properties contributed the remainder of the real estate tax increase (18.0% or approximately \$209,000).

The \$2,524,000 increase in real estate taxes in 2008 compared to 2007 was primarily due to a same property shopping center increase of \$1,619,000 (64.1% of total real estate tax increase), a 16.5% increase over 2007's amount, impacted largely by increased expense at several of the Company's Northern Virginia shopping centers. The Office Properties, particularly Van Ness Square and 601 Pennsylvania Avenue, accounted for \$564,000 of the increase, a 13.6% increase over 2007's amount, and the 2008/2007 Development and Acquisition Properties accounted for approximately \$341,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Interest and Amortization of Deferred Debt Costs

Interest expense increased \$411,000 in 2009 from 2008. The Company incurred increased interest expense of approximately \$1,700,000, primarily resulting from increased fixed-rate borrowings of \$41,500,000, when the Company obtained five new mortgage loans totaling \$118,000,000 to pay-off \$76,500,000 of debt scheduled to mature in November 2011. Also increasing interest expense were loan modification fees of \$363,000 related to the amendment and extension of the revolving credit facility. Partially offsetting these increases was a \$1,830,000 increase in capitalized interest related to construction and development projects resulting primarily from construction activity at Clarendon Center, Northrock and Westview Village. Increased deferred debt cost amortization increased interest expense by approximately \$161,000.

Interest expense increased \$423,000 in 2008 from 2007 due to increased borrowing for the 2008/2007 Development and Acquisition Properties offset in part by increased capitalized interest on development projects. Average outstanding borrowings increased approximately \$35,785,000 (average fixed-rate borrowings increased approximately \$38,678,000 while average variable rate borrowings (revolving credit line and construction loans) decreased approximately \$2,893,000). The new borrowings reduced the average interest rate by approximately 0.13%. The combined impact of the new borrowings, at a lower average rate, resulted in an approximately \$1,700,000 increase in interest expense. Interest capitalized as a cost of construction and development projects increased during 2008 compared to 2007 which resulted in a decrease of interest expense by approximately \$1,270,000 (\$4,159,000 from \$2,889,000) resulting primarily from construction activity at Clarendon Center, Northrock and Westview Village. Increased deferred debt cost amortization increased interest expense by approximately \$13,000 (\$1,162,000 versus \$1,149,000).

Depreciation and Amortization

Depreciation and amortization of deferred leasing costs decreased \$1,519,000 in 2009 compared to 2008 due primarily to the absence of \$1,406,000 of asset retirements that occurred in 2008 in conjunction with the redevelopment of Smallwood Village Center and Clarendon Center development in the prior year period.

The \$3,319,000 increase in depreciation and amortization of deferred leasing costs in 2008 compared to 2007 resulted primarily from asset retirements in 2008 in conjunction with the redevelopment of Smallwood Village Center and Clarendon Center development (42.4% or approximately \$1,406,000) and the commencement of depreciation on the 2008/2007 Development and Acquisition Properties placed in service during the preceding twelve months (22.0% or approximately \$729,000). The write-off of deferred leasing costs and undepreciated leasehold improvements from tenants terminating their leases prior to their contractual lease expiration dates contributed to the remaining increase.

General and Administrative

General and administrative expenses consists of payroll, administrative and other overhead expenses. The \$635,000 increase in general and administrative expenses for 2009 compared to 2008 resulted from increased staff expenses totaling approximately \$1,092,000, resulting in part from one-time severance expenses of approximately \$270,000, the expensing of development personnel costs and increased health care expense, partially offset by reduced abandoned acquisition costs, professional fees and option expense, together totaling approximately \$411,000.

The \$655,000 increase in general and administrative expenses for 2008 compared to 2007 resulted from increased staff expenses (88.9% or approximately \$582,000) and real estate tax on land held for investment (31.0% or approximately \$203,000), offset in part by reduced professional fees.

GAIN ON PROPERTY DISPOSITION

Gain on property dispositions in 2009 totaling \$329,000 is comprised of (a) the excess of insurance proceeds received over carrying value of assets damaged at three shopping center properties during 2009 and 2008 and (b) condemnation proceeds received in connection with the taking of land at one shopping center. The insurance proceeds funded substantially all of the restoration of the damaged property.

Gain on property dispositions totaling \$1,301,000 in 2008 represents the excess of insurance proceeds received over the carrying value of assets damaged at three shopping centers.

Gain on property dispositions totaling \$139,000 in 2007 represents condemnation proceeds received in connection with the taking of land at one shopping center.

IMPACT OF INFLATION

Inflation has remained relatively low during 2009 and 2008, with the exception of energy costs which fluctuated widely during these periods. Rising energy prices caused increases in utility expense, primarily gas and electric costs. The impact of rising operating expenses on the operating performance of the Company's portfolio, however, has been mitigated by terms of substantially all of the Company's leases which contain provisions designed to increase revenues to offset 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.

In addition, 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 \$20,607,000 and \$13,006,000 at December 31, 2009 and 2008, respectively. The changes in cash and cash equivalents during the years ended December 31, 2009 and 2008 were attributable to operating, investing and financing activities, as described below.

(Dollars in thousands)	Year Ended December 31,	
	2009	2008
Cash provided by operating activities	\$ 69,025	\$ 73,101
Cash used in investing activities	(80,469)	(115,070)
Cash provided by financing activities	19,045	49,210
Increase in cash and cash equivalents	\$ 7,601	\$ 7,241

Operating Activities

Cash provided by operating activities decreased \$4,076,000 to \$69,025,000 for the year ended December 31, 2009 compared to \$73,101,000 for the year ended December 31, 2008, primarily reflecting decreased operating income of 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 \$34,601,000 to \$80,469,000 for the year ended December 31, 2009 compared to \$115,070,000 for the year ended December 31, 2008. Investing activities for 2009 primarily reflect the construction of new and renovated shopping center properties (Clarendon Center, Northrock and Westview Village developments and the Smallwood Village Center and Boulevard renovations), tenant improvements and property capital expenditures throughout the portfolio.

Investing activities for 2008 primarily reflects the acquisition of properties (Great Falls Center, BJ's Wholesale and Marketplace at Sea Colony), the construction of new and renovated shopping center properties (Clarendon Center, Northrock and Westview Village developments and the Smallwood Village Center and Boulevard renovations), tenant improvements and property capital expenditures throughout the portfolio.

Tenant improvement and property capital expenditures totaled \$7,256,000 and \$9,986,000, for 2009 and 2008, respectively.

Financing Activities

Cash provided by financing activities for the years ended December 31, 2009 and 2008, was \$19,045,000 and \$49,210,000, respectively. Cash provided by financing activities for the year ended December 31, 2009 primarily reflects:

- proceeds received from five new mortgage notes payable and the final funding of a 2008 mortgage forward commitment totaling \$119,882,000;
- amounts borrowed from construction loans payable totaling \$41,507,000;
- amounts borrowed from the revolving credit facility totaling \$30,000,000; and
- \$4,185,000 of proceeds received from the issuance of common stock under the dividend reinvestment program and from the exercise of stock options;

which was partially offset by:

- the repayment of mortgage notes payable totaling \$92,078,000;
- the repayments of the revolving credit facility totaling \$30,000,000;
- distributions made to common stockholders and holders of convertible limited partnership units in the Operating Partnership during the year totaling \$35,645,000;
- distributions made to preferred stockholders during the year totaling \$15,140,000; and
- payments of \$3,666,000 for financing costs of new mortgage loans and the amendment and extension of the Revolving Credit Agreement.

Cash provided by financing activities for the year ended December 31, 2008 primarily reflects:

- proceeds from the issuance of Series B preferred stock (net of issuance costs) totaling \$76,321,000;
- amounts borrowed from the revolving credit facility totaling \$19,000,000;
- proceeds received from mortgage notes payable totaling \$29,775,000;
- amounts borrowed from construction loans payable totaling \$19,230,000; and
- \$4,543,000 of proceeds received from the issuance of common stock under the dividend reinvestment program and from the exercise of stock options;

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

which was partially offset by:

- the scheduled repayment (amortization) of mortgage notes payable totaling \$16,585,000;
- the repayments of the revolving credit facility totaling \$27,000,000;
- distributions made to common stockholders and holders of convertible limited partnership units in the Operating Partnership during the year totaling \$43,633,000;
- distributions made to preferred stockholders during the year totaling \$11,668,000; and
- payments of \$773,000 for financing costs of new mortgage loans during 2008.

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 consist 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,
- may develop additional freestanding outparcels or expansions within certain of the Shopping Centers,
- will continue to develop its construction in progress properties.

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, 2009, the Company had unfunded contractual payment obligations of approximately \$67.0 million, excluding operating obligations, due within the next 12 months. The table below specifies the total contractual payment obligations as of December 31, 2009.

Contractual Obligations					
(Dollars in thousands)	Payments Due By Period				
	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
Notes Payable	\$ 636,806	\$ 15,675	\$ 190,888	\$ 75,374	\$ 354,869
Operating Leases ⁽¹⁾	10,936	169	349	352	10,066
Corporate Headquarters Lease ⁽¹⁾	1,873	850	1,023	–	–
Development Obligations	56,272	50,272	6,000	–	–
Total Contractual Cash Obligations	\$ 705,887	\$ 66,966	\$ 198,260	\$ 75,726	\$ 364,935

(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 fluctuates.

Management believes that the Company's cash flow from operations and its capital resources, which at December 31, 2009 included cash balances of \$20.6 million, borrowing availability of approximately \$149.8 million on its revolving line of credit and borrowing availability

of approximately \$118.6 million of unfunded capacity on its two construction loans will be sufficient to meet its contractual obligations for the foreseeable future.

Preferred Stock Issues

In March 2008, the Company sold, in an underwritten public offering, 3,173,115 depositary shares, each representing 1/100th of a share of 9% Series B Cumulative Redeemable Preferred Stock, providing net cash proceeds of \$76.3 million. The depositary shares may be redeemed at the Company's option, in whole or in part, at the \$25.00 liquidation preference on or after March 15, 2013. The depositary shares pay an annual dividend of \$2.25 per share, equivalent to 9% of the \$25.00 liquidation preference. The first dividend was paid on July 15, 2008 and covered the period from March 27, 2008 through June 30, 2008. The Series B 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.

Approximately \$22.0 million of the net proceeds were used to fully repay the outstanding amount under the Company's revolving credit facility and approximately \$31.5 million was used to acquire three operating shopping center properties (\$61.1 million acquisition cost less financing proceeds of \$29.6 million from loans secured by the properties). The remaining \$22.8 million was initially invested in short-term certificates of deposit and subsequently used to fund certain of the Company's development and redevelopment projects.

In November 2003, the Company sold 4,000,000 depositary shares, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock. The depositary shares may be redeemed at the Company's option, in whole or in part from time to time, at the \$25.00 liquidation preference. The depositary shares pay an annual dividend of \$2.00 per share, equivalent to 8% of the \$25.00 liquidation preference. 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 125,956 and 74,215 shares under the Plan at a weighted average discounted price of \$30.21 and \$47.44 per share during the years ended December 31, 2009 and 2008, respectively. The Company also credited 10,491 and 9,605 shares to directors pursuant to the reinvestment of dividends specified by the Directors' Deferred Compensation Plan at a weighted average discounted price of \$31.69 and \$43.71 per share, during the years ended December 31, 2009 and 2008, respectively.

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, 2009.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a summary of notes payable as of December 31, 2009 and 2008:

Notes Payable				
(Dollars in thousands)	December 31,		Interest	Scheduled
	2009	2008	Rate *	Maturity *
Fixed rate mortgages:	\$ – (a)	\$ 78,489	–	–
	110,874 (b)	115,271	7.67%	Oct-2012
	10,658 (c)	10,846	6.12%	Jan-2013
	27,533 (d)	28,837	7.88%	Jan-2013
	7,694 (e)	7,919	5.77%	Jul-2013
	15,184 (f)	15,576	5.40%	May-2014
	18,506 (g)	18,987	7.45%	Jun-2015
	37,376 (h)	38,263	6.01%	Feb-2018
	42,265 (i)	43,413	5.88%	Jan-2019
	13,671 (j)	14,043	5.76%	May-2019
	18,876 (k)	19,391	5.62%	Jul-2019
	18,702 (l)	19,195	5.79%	Sep-2019
	16,706 (m)	17,165	5.22%	Jan-2020
	12,127 (n)	12,337	5.60%	May-2020
	11,279 (o)	11,576	5.30%	Jun-2020
	9,698 (p)	9,925	5.81%	Feb-2021
	6,693 (q)	6,791	6.01%	Aug-2021
	38,625 (r)	39,198	5.62%	Jun-2022
	11,661 (s)	11,817	6.08%	Sep-2022
	12,504 (t)	12,655	6.43%	Apr-2023
	17,977 (u)	16,571	6.28%	Feb-2024
	18,368 (v)	–	7.35%	Jun-2024
	15,891 (w)	–	7.60%	Jun-2024
	16,923 (x)	–	8.11%	Jul-2024
	33,305 (y)	–	7.45%	Jul-2024
	33,000 (z)	–	7.30%	Jan-2025
Total fixed rate	576,069	548,265	6.66%	8.9 Years
Variable rate loans:				
Revolving credit facility	– (aa)	–	LIBOR + 3.725%	Jun-2012
Northrock construction loan	19,118 (bb)	12,817	LIBOR + 3.00%	May-2011
Clarendon construction loan	41,619 (cc)	6,413	LIBOR + 2.50%	Nov-2011
Total variable rate	60,737	19,230	3.29%	1.7 Years
Total notes payable	\$ 636,806	\$ 567,495	6.34%	8.2 Years

* Interest rate and scheduled maturity data presented as of December 31, 2009. Totals computed using weighted averages.

(a) The loan was collateralized by Avenel Business Park, Van Ness Square, Ashburn Village, Leesburg Pike, Lumberton Plaza and Village Center and was repaid during 2009.

(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 \$4,424,000 was amortized during 2009.

- (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 \$188,000 was amortized during 2009.
- (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 \$1,304,000 was amortized during 2009.
- (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 \$225,000 was amortized during 2009.
- (f) The loan is collateralized by Seabreeze Plaza and requires equal monthly principal and interest payments totaling \$102,000 based upon a weighted average 26-year amortization schedule and a final payment of \$13,278,000 is due at loan maturity. Principal of \$392,000 was amortized during 2009.
- (g) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires equal monthly principal and interest payments totaling \$156,000 based upon a weighted average 23-year amortization schedule and a final payment of \$15,168,000 is due at loan maturity. Principal of \$481,000 was amortized during 2009.
- (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 \$887,000 was amortized during 2009.
- (i) The loan is collateralized by three shopping centers, Broadlands Village, 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 \$1,148,000 was amortized during 2009.
- (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 \$372,000 was amortized during 2009.
- (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 \$515,000 was amortized during 2009.
- (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 \$493,000 was amortized during 2009.
- (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 \$459,000 was amortized during 2009.
- (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 \$210,000 was amortized during 2009.
- (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 \$297,000 was amortized during 2009.
- (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 \$227,000 was amortized during 2009.
- (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 \$98,000 was amortized during 2009.
- (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 \$573,000 was amortized during 2009.
- (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 \$156,000 was amortized during 2009.
- (t) The loan is collateralized by BJs Wholesale and requires equal monthly principal and interest payments of \$80,000 based upon a 30-year amortization schedule and a final payment of \$9,305,000 at loan maturity. Principal of \$151,000 was amortized during 2009.
- (u) The loan is collateralized by Great Falls shopping center. In May 2009, the Company closed on the final portion of a forward commitment in the amount of \$1,881,617. The loan consists of three notes which require equal monthly principal and interest payments of \$138,000 based upon a weighted average 26-year amortization schedule. The loan matures February 1, 2024 at which time a final payment of \$6,349,000 will be due. Principal of \$476,000 was amortized during 2009.
- (v) The loan, closed on June 2, 2009, is collateralized by Leesburg Pike and requires equal monthly principal and interest payments of \$135,000 based upon a 25-year amortization schedule and a final payment of \$11,506,000 at loan maturity. Principal of \$132,000 was amortized during 2009.
- (w) The loan, closed on May 28, 2009, is collateralized by Village Center and requires equal monthly principal and interest payments of \$119,000 based upon a 25-year amortization schedule and a final payment of \$10,060,000 at loan maturity. Principal of \$109,000 was amortized during 2009.
- (x) The loan, closed on June 12, 2009, is collateralized by Van Ness Square and requires equal monthly principal and interest payments of \$132,000 based upon a 25-year amortization schedule and a final payment of \$11,453,000 at loan maturity. Principal of \$77,000 was amortized during 2009.
- (y) The loan, closed on June 19, 2009, is collateralized by Avenel Business Park and requires equal monthly principal and interest payments of \$246,000 based upon a 25-year amortization schedule and a final payment of \$20,926,000 at loan maturity. Principal of \$195,000 was amortized during 2009.
- (z) The loan, closed on December 17, 2009, is collateralized by Ashburn Village and requires equal monthly principal and interest payments of \$240,000 based upon a 25-year amortization schedule and a final payment of \$20,478,000 at loan maturity.
- (aa) The loan is an unsecured revolving credit facility totaling \$150,000,000. Interest expense is calculated based upon the 1 month LIBOR rate plus a spread of 3.725%. 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.
- (bb) The loan is a secured construction loan facility totaling \$21,822,000 to fund the development of Northrock shopping center. Interest charges are funded by the construction loan and are calculated based upon the 1 month LIBOR rate plus a spread of 3.00%. The loan may be extended two years, at the Company's option, subject to the completion of construction and certain debt coverage requirements.
- (cc) The loan is a secured construction loan facility totaling \$157,500,000 to fund the development of Clarendon Center. Interest charges are funded by the construction loan and are calculated based upon the 1 month LIBOR rate plus a spread of 2.50%. The loan may be extended for two additional 9-month periods, subject to the satisfaction of certain conditions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The December 31, 2009 and 2008 depreciation adjusted cost of properties collateralizing the mortgage notes payable totaled \$746,377,000 and \$693,205,000, respectively. The Company's credit facility requires the Company and its subsidiaries to maintain certain financial covenants. As of December 31, 2009, 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 the Company's 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 2.2x on a trailing 12-full calendar month basis (interest expense coverage);
- limit the amount of debt so that interest and scheduled principal amortization coverage exceeds 1.6x (debt service coverage);
- limit the amount of debt so that interest, scheduled principal amortization and preferred dividend coverage exceeds 1.4x (fixed charge coverage); 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, 2009, the Company was in compliance with all such covenants.

2009 Financing Activity

On April 30, 2009, the Company entered into a Modification Agreement, in effect until August 1, 2009, which reduced the Debt Service Coverage ratio under its Line of Credit from 1.6x to 1.5x. The interest rate on the line of credit, which is based on the Company's leverage, was increased to LIBOR plus 3.725%, with a LIBOR floor of 1.50%, from the former terms of LIBOR plus 1.475%. The maximum commitment under the Line of Credit was reduced from \$150,000,000 to \$120,000,000. On July 9, 2009, the Company entered into a Second Modification Agreement which extended the maturity date of the facility from December 19, 2010 to June 30, 2012, with an option for the Company to extend for one additional year subject to the Company's satisfaction of certain conditions. The modification reduced the interest expense coverage for the facility from 2.5x to 2.2x, reduced the existing debt service coverage from 1.5x to 1.4x (and recharacterized the test as fixed charge coverage) and created a new debt service coverage (exclusive of preferred stock dividends) of 1.6x. On July 28, 2009, Company entered into a Third Modification Agreement increasing the maximum commitment under the facility from \$120,000,000 to \$150,000,000 with the addition of a fourth lender. Also in July 2009, the Company repaid in full the outstanding balance of \$15,000,000 on the unsecured revolving credit facility.

The Company also financed and refinanced mortgage notes payable. On May 14, 2009, the Company closed on the final portion of its April 2008 forward commitment secured by the Great Falls Center. The addi-

tional funding totaled \$1,882,000 which was based upon the achievement of certain leasing requirements. The loan matures February 1, 2024, requires equal monthly principal and interest payments of \$12,518, based upon a 7.00% interest rate and 30-year principal amortization, and requires a final principal payment of approximately \$1,414,000 at maturity.

Also during May and June 2009, the Company refinanced the mortgage debt secured by four properties. The Company replaced mortgage debt, due to mature December 2011, with new 15-year fixed-rate mortgage debt. The amount borrowed on the new loans totaled \$85,000,000 and replaced balances outstanding of \$48,059,000. In conjunction with the early repayment of the in-place debt, the Company incurred prepayment penalties of \$1,442,000 and wrote-off unamortized deferred debt costs totaling \$218,000. Because the refinanced properties were included in a cross-collateralized pool of six properties, the Company was required to pay down outstanding debt balances of two remaining properties in the amount of \$4,806,000. Terms of the new mortgage debt are as follows:

On May 28, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$16,000,000, secured by Village Center. The loan matures June 1, 2024, requires equal monthly principal and interest payments of \$119,282, based upon a 7.6% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$10,060,000 at maturity.

On June 2, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$18,500,000, secured by Leesburg Pike. The loan matures June 1, 2024, requires equal monthly principal and interest payments of \$134,913, based upon a 7.35% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$11,506,000 at maturity.

On June 12, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$17,000,000, secured by Van Ness Square. The loan matures July 1, 2024, requires equal monthly principal and interest payments of \$132,450, based upon a 8.11% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$11,453,000 at maturity. A portion of the loan proceeds are held in escrow by the lender to fund up to \$1,500,000 of future tenant improvements and leasing commissions. Additional loan proceeds of \$1,564,000 are also held in a second escrow to be released pending the achievement of certain annualized base rent levels. The escrows are classified as other assets on the Consolidated Balance Sheets.

On June 19, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$33,500,000, secured by Avenel Business Park. The loan matures July 1, 2024, requires equal monthly principal and interest payments of \$246,474, based upon a 7.45% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$20,926,000 at maturity.

On December 17, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$33,000,000, secured by Ashburn Village. The loan matures January 1, 2025, requires equal monthly principal and interest payments of \$239,590, based upon a 7.30% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$20,478,000 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.

Funds From Operations

In 2009, the Company reported Funds From Operations (FFO) available to common shareholders (common stockholders and limited partner unitholders) of \$56,025,000, a 10.6% decrease from 2008 FFO available to common shareholders of \$62,695,000. The following table presents a reconciliation from net income to FFO available to common shareholders for the periods indicated:

Funds from Operations					
(Dollars in thousands)	For the Year Ended December 31,				
	2009	2008	2007	2006	2005
Net income	\$ 43,230	\$ 47,666	\$ 45,521	\$ 40,473	\$ 37,025
Subtract:					
Gain on property dispositions	(329)	(1,301)	(139)	–	–
Add:					
Real estate depreciation and amortization	28,264	29,783	26,464	25,648	24,197
FFO	71,165	76,148	71,846	66,121	61,222
Subtract:					
Preferred dividends	(15,140)	(13,453)	(8,000)	(8,000)	(8,000)
FFO available to common shareholders	\$ 56,025	\$ 62,695	\$ 63,846	\$ 58,121	\$ 53,222
Average shares and units used to compute FFO per share	23,359	23,377	23,185	22,628	22,003

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 real estate depreciation and amortization, and excluding extraordinary items and gains or losses from property dispositions. 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 an 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ACQUISITIONS, REDEVELOPMENTS AND RENOVATIONS

Management anticipates that during the coming year the Company: (i) may redevelop certain of the Current Portfolio Properties, (ii) may develop additional freestanding outparcels or expansions within certain of the Shopping Centers, and (iii) will continue to develop its construction in progress properties. 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 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, development, 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 Hunt Club, Smallwood Village Center and Boulevard. The following describes the acquisitions, developments, redevelopments and renovations which affected the Company's financial position and results of operations in 2009, 2008 and 2007.

Ashland Square Phase I

On December 15, 2004, the Company purchased for \$6.3 million, a 19.3 acre parcel of land in Manassas, Prince William County, Virginia. The Company received site plan approval during the third quarter of 2006 to develop a grocery-anchored neighborhood shopping center totaling 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 fourth quarter of 2007, the Company completed preliminary site work consisting of clearing, grading and site utility construction. A ground lease has been executed with Chevy Chase Bank, which built a branch, on a pad site, that opened for business October 2007. During 2009, the Company executed a lease with CVS, which is subject to the tenant obtaining site plan and special use permits from Prince William County. It is uncertain whether these lease contingencies will be fulfilled as permit submissions are in progress. If successful, CVS is expected to commence operations in late 2011. The balance of the center is being marketed to grocers and other retail businesses, with a development timetable yet to be finalized.

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 76% leased at December 31, 2009. The Company commenced construction during the first quarter of 2008 on a capital improvement project to improve access to the center, reconfigure portions of the center and upgrade the center's façade and common areas. The redeveloped center totals approximately 173,000 square feet. Substantial completion of construction was achieved during the second quarter of 2009. Project costs totaled approximately \$6.9 million.

Hunt Club Corners

On June 1, 2006, the Company purchased for \$11.1 million the 101,500 square foot Publix-anchored Hunt Club Corners shopping center located in Apopka, Florida (metropolitan Orlando). The center was 96% leased at December 31, 2009. The Company completed a façade renovation of Hunt Club during 2008 for a total cost of approximately \$0.9 million.

Clarendon Center

The Company owns an assemblage of land parcels (including its former operating properties, Clarendon and Clarendon Station) 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 total development costs are expected to be approximately \$195.0 million, a portion of which will be funded with the \$157.5 million construction loan that the Company closed in May 2008. The south block's four-level sub-surface parking garage was structurally completed during the second quarter of 2009 and structural concrete work was completed to the top of the residential building (12th floor) and the top of the office building (9th floor) during the third quarter of 2009. Exterior wall brick laying and the installation of exterior pre-cast panels and windows is proceeding. Construction of the north block sub-surface parking garage was structurally completed during the fourth quarter of 2009 and structural concrete work has been completed for the six story office building. The Company estimates construction on both blocks will be substantially complete in late 2010, at which time the residential component is expected to be operational and ready for occupancy. The retail and office spaces will be operational as tenant improvements are built-out.

Westview Village

In November 2007, the Company purchased for \$5.0 million, a 10.4 acre site in the Westview development on Buckeystown Pike (MD Route 85) in Frederick, Maryland. Construction was substantially completed in the second quarter of 2009 on a development that totals approximately 101,000 square feet of commercial space, including 59,000 square feet of retail shop space, 12,000 square feet of retail pads and 30,000 square feet of professional office space and is expected to cost approximately \$26.5 million. The Company is currently marketing the space and as of December 31, 2009, has executed leases for 24,200 square feet, or approximately 32% of the total retail space.

Great Eastern Plaza Land Parcel

On June 6, 2007, the Company purchased, for \$1.3 million, 8.0 acres of undeveloped land adjacent to its Great Eastern Plaza shopping center in District Heights, Maryland. 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 purchased, for \$17.0 million, the 88,000 square foot Kroger-anchored Orchard Park shopping center located in Dunwoody, Georgia. The center is 91% leased as of December 31, 2009.

Northrock

In January 2008, the Company purchased for \$12.5 million, approximately 15.4 acres of undeveloped land in Warrenton, Virginia, located at the southwest corner of the U. S. Route 29/211 and Fletcher Drive intersection. The Company constructed Northrock shopping center, a neighborhood shopping center totaling approximately 103,000 square feet of leasable area. Approximately 67% of the project is leased at December 31, 2009, including a 52,700 square foot Harris Teeter super-market store, 8,000 square feet of small shop space, and pad leases with Chevy Chase Bank and Longhorn Steakhouse. The Chevy Chase Bank opened February 2009. The Longhorn Steakhouse restaurant is under construction by the tenant, who expects to commence operations during the summer of 2010. Total construction and development costs, including land, lease-up and tenant improvement costs, are projected to be approximately \$27.9 million, the majority of which were funded with the \$21.8 million construction loan the Company closed in May 2008. Substantial completion of construction was achieved during the first quarter of 2009.

Great Falls Center

On March 28, 2008, the Company completed the acquisition of the Safeway-anchored Great Falls Center located in Great Falls, Virginia. The center was 93% leased at December 31, 2009 and was acquired for a purchase price of \$36.6 million, subject to the assumption of a \$10.3 million mortgage loan.

BJ's Wholesale Club

On March 28, 2008, the Company purchased for \$21.0 million, the single tenant property anchored by BJ's Wholesale Club, located in Alexandria, Virginia. The center was 100% leased at December 31, 2009.

Marketplace at Sea Colony

On March 28, 2008, the Company purchased for \$3.0 million, Marketplace at Sea Colony, located in Bethany Beach, Delaware. The center was 91% leased at December 31, 2009.

Boulevard

During the second quarter of 2008, permits were issued for the redevelopment of a portion of the Boulevard shopping center. A vacant pad building previously occupied by a furniture store was demolished, the center's in-line shop space was expanded by approximately 8,000 square feet for small shop retail and a Chevy Chase Bank pad building was constructed and commenced operations. As of December 31, 2009, all six shop spaces and the bank pad were leased, totaling 11,610 square feet. Substantial completion of construction was achieved during the first quarter of 2009, and total construction and development costs were approximately \$2.8 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Portfolio Leasing Status

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

As of December 31,	<u>Total Properties</u>		<u>Total Square Footage</u>		<u>Percent Leased</u>	
	Shopping Centers	Office	Shopping Centers	Office	Shopping Centers	Office
2009	47	5	7,218,000	1,206,000	91.7%	90.6%
2008	45	5	6,988,000	1,206,000	93.9%	95.8%
2007	43	5	6,803,000	1,206,000	95.3%	95.2%

The 2009 shopping center percentage leased includes recently constructed but not yet fully leased Northrock and Westview Village, which were 67% and 24% leased as of December 31, 2009, respectively. On a same property basis, shopping center leasing percentages decreased to 93.0% from 93.9% and office property leasing percentages decreased to 90.6% from 95.8%. Overall portfolio leasing percentage, on a comparative same center basis, ended the year at 92.7%, a decrease from 94.1% at year end 2008, a space leased reduction of approximately 130,000 square feet. Five properties, three shopping centers and two office properties, caused the decline in leased space. Shopping Center Properties: (1) Southdale decreased by 42,000 SF resulting primarily from the big box retailer Circuit City terminating its business; (2) Southside Plaza decreased by 19,000 SF resulting from several businesses which chose not to renew their leases; and (3) Lansdowne Town Center which decreased by 11,000 SF when a fitness center and two small shop tenants ceased rent payments and vacated their spaces prior to lease expiration.

Office Properties: (1) Crosstown Business Park decreased by 31,000 SF resulting from two tenants choosing not to renew their leases; and (2) Avenel Business Park, which decreased by 26,000 SF when a 15,000 SF life science tenant lost its financial support and several other small tenants ceased rent payments and vacated their spaces prior to lease expiration.

The 2008 same property leasing percentages decreased due to a net decrease of approximately 99,000 square feet of leased space. The largest contributor to the leasing decrease, approximately 29,000 square feet, occurred at South Dekalb Plaza in Atlanta, Georgia. Leasing also decreased approximately 14,000 square feet at Village Center, approximately 13,000 square feet at Broadlands Village and approximately 10,000 square feet at Ashburn Village, located in the Northern Virginia suburbs of Washington, DC.

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

assessments, the Company's management has concluded that, as of December 31, 2009, the Company's internal control over financial reporting was effective. The Company's independent registered public accounting firm has issued a report on the effectiveness of the Company's internal control over financial reporting, which appears on page 28 in this Annual Report.

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, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2(b). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

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, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2010 expressed an unqualified opinion thereon.

Ernst & Young LLP
McLean, Virginia

March 15, 2010

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, 2009, 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 accompanying 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 based on the assessed risk, 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, 2009, 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, 2009 and 2008 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 of Saul Centers, Inc. and our report dated March 15, 2010 expressed an unqualified opinion thereon.

Ernst & Young LLP
McLean, Virginia

March 15, 2010

CONSOLIDATED BALANCE SHEETS

	December 31, 2009	December 31, 2008
<i>(Dollars in thousands, except per share amounts)</i>		
Assets		
Real estate investments		
Land	\$ 223,193	\$ 215,407
Buildings and equipment	740,442	713,154
Construction in progress	147,589	98,920
	1,111,224	1,027,481
Accumulated depreciation	(276,310)	(252,763)
	834,914	774,718
Cash and cash equivalents	20,607	13,006
Accounts receivable and accrued income, net	37,503	37,495
Deferred leasing costs, net	15,609	16,901
Prepaid expenses, net	3,096	2,981
Deferred debt costs, net	7,537	5,875
Other assets	6,308	2,897
Total assets	\$ 925,574	\$ 853,873
Liabilities		
Mortgage notes payable	\$ 576,069	\$ 548,265
Construction loans payable	60,737	19,230
Dividends and distributions payable	12,220	12,864
Accounts payable, accrued expenses and other liabilities	23,395	22,394
Deferred income	27,090	23,233
Total liabilities	699,511	625,986
Stockholders' equity		
Preferred stock, 1,000,000 shares authorized:		
Series A Cumulative Redeemable, 40,000 shares issued and outstanding	100,000	100,000
Series B Cumulative Redeemable, 31,731 shares issued and outstanding	79,328	79,328
Common stock, \$0.01 par value, 30,000,000 shares authorized, 18,012,416 and 17,863,214 shares issued and outstanding, respectively	180	179
Additional paid-in capital	169,363	164,278
Accumulated deficit	(124,167)	(118,865)
Total Saul Centers, Inc. stockholders' equity	224,704	224,920
Noncontrolling interest	1,359	2,967
Total stockholders' equity	226,063	227,887
Total liabilities and stockholders' equity	\$ 925,574	\$ 853,873

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)	For The Year Ended December 31,		
	2009	2008	2007
Revenue			
Base rent	\$ 125,845	\$ 124,999	\$ 118,806
Expense recoveries	29,462	29,066	26,090
Percentage rent	1,326	1,509	1,497
Other	4,480	4,771	4,192
Total revenue	161,113	160,345	150,585
Operating expenses			
Property operating expenses	21,408	19,877	18,758
Provision for credit losses	919	1,113	376
Real estate taxes	17,766	16,608	14,084
Interest expense and amortization of deferred debt costs	34,689	34,278	33,855
Depreciation and amortization of deferred leasing costs	28,264	29,783	26,464
General and administrative	12,956	12,321	11,666
Total operating expenses	116,002	113,980	105,203
Operating income before loss on early extinguishment of debt and gain on property dispositions	45,111	46,365	45,382
Non-operating items:			
Loss on early extinguishment of debt	(2,210)	–	–
Gain on property dispositions	329	1,301	139
Net income	43,230	47,666	45,521
Noncontrolling interest			
Income attributable to the noncontrolling interest	(6,517)	(7,972)	(8,818)
Net income attributable to Saul Centers, Inc.	36,713	39,694	36,703
Preferred dividends	(15,140)	(13,453)	(8,000)
Net income available to common stockholders	\$ 21,573	\$ 26,241	\$ 28,703
Per share net income available to common stockholders			
Basic	\$ 1.20	\$ 1.47	\$ 1.63
Diluted	\$ 1.20	\$ 1.46	\$ 1.62
Distributions declared per common share outstanding	\$ 1.50	\$ 1.80	\$ 1.82

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total Saul Centers, Inc.	Noncontrolling Interest	Total
<i>(Dollars in thousands, except per share amounts)</i>							
Stockholders' equity:							
Balance, December 31, 2006	\$ 100,000	\$ 173	\$ 141,554	\$ (109,636)	\$ 132,091	\$ 5,785	\$ 137,876
Issuance of 406,088 shares of common stock:							
389,197 shares due to dividend reinvestment plan	–	5	18,720	–	18,725	–	18,725
16,891 shares due to employee stock options and directors' deferred stock plan and stock option awards	–	–	1,344	–	1,344	–	1,344
Net income	–	–	–	36,703	36,703	8,818	45,521
Distributions of preferred stock, Series A	–	–	–	(6,000)	(6,000)	–	(6,000)
Common stock distributions	–	–	–	(23,743)	(23,743)	(7,312)	(31,055)
Distributions payable preferred stock, Series A (\$50.00 per share)	–	–	–	(2,000)	(2,000)	–	(2,000)
Distributions payable common stock (\$0.47 per share) and distributions payable partnership units (\$0.47/share)	–	–	–	(8,341)	(8,341)	(2,546)	(10,887)
Balance, December 31, 2007	100,000	178	161,618	(113,017)	148,779	4,745	153,524
Issuance of 31,731 shares of Series B preferred stock	79,328	–	(3,007)	–	76,321	–	76,321
Issuance of 115,685 shares of common stock:							
83,820 shares due to dividend reinvestment plan	–	1	3,940	–	3,941	–	3,941
31,865 shares due to employee stock options and directors' deferred stock plan and stock option awards	–	–	1,727	–	1,727	–	1,727
Net income	–	–	–	39,694	39,694	7,972	47,666
Distributions of preferred stock:							
Series A	–	–	–	(6,000)	(6,000)	–	(6,000)
Series B	–	–	–	(3,668)	(3,668)	–	(3,668)
Common stock distributions	–	–	–	(25,122)	(25,122)	(7,637)	(32,759)
Distributions payable preferred stock:							
Series A, \$50.00 per share	–	–	–	(2,000)	(2,000)	–	(2,000)
Series B, \$56.25 per share	–	–	–	(1,785)	(1,785)	–	(1,785)
Distributions payable common stock (\$0.39 per share) and distributions payable partnership units (\$0.39/share)	–	–	–	(6,967)	(6,967)	(2,113)	(9,080)
Balance, December 31, 2008	179,328	179	164,278	(118,865)	224,920	2,967	227,887
Issuance of 149,202 shares of common stock:							
136,447 shares due to dividend reinvestment plan	–	1	4,136	–	4,137	–	4,137
12,755 shares due to employee stock options and directors' deferred stock plan and stock option awards	–	–	949	–	949	–	949
Net income	–	–	–	36,713	36,713	6,517	43,230
Distributions of preferred stock:							
Series A	–	–	–	(6,000)	(6,000)	–	(6,000)
Series B	–	–	–	(5,355)	(5,355)	–	(5,355)
Common stock distributions	–	–	–	(20,390)	(20,390)	(6,175)	(26,565)
Distributions payable preferred stock:							
Series A, \$50.00 per share	–	–	–	(2,000)	(2,000)	–	(2,000)
Series B, \$56.25 per share	–	–	–	(1,785)	(1,785)	–	(1,785)
Distributions payable common stock (\$0.36 per share) and distributions payable partnership units (\$0.36/share)	–	–	–	(6,485)	(6,485)	(1,950)	(8,435)
Balance, December 31, 2009	179,328	180	169,363	(124,167)	224,704	1,359	226,063

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	For the Year Ended December 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net income	\$ 43,230	\$ 47,666	\$ 45,521
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on property dispositions	(329)	(1,301)	(139)
Depreciation and amortization of deferred leasing costs	28,264	29,783	26,464
Amortization of deferred debt costs	2,004	1,162	1,149
Non cash compensation costs from stock grants and options	901	1,125	1,111
Provision for credit losses	919	1,113	376
Increase in accounts receivable and accrued income	(820)	(3,850)	(1,095)
Increase in deferred leasing costs	(3,061)	(3,382)	(2,692)
Increase in prepaid expenses	(115)	(410)	(64)
(Increase) decrease in other assets	(3,411)	2,531	177
Increase (decrease) in accounts payable, accrued expenses and other liabilities	1,277	(698)	598
Increase (decrease) in deferred income	165	(638)	(209)
Net cash provided by operating activities	69,024	73,101	71,197
Cash flows from investing activities:			
Acquisitions of real estate investments, net ⁽¹⁾	–	(63,406)	(23,744)
Additions to real estate investments	(7,256)	(9,986)	(7,302)
Additions to development and redevelopment activities	(73,464)	(42,513)	(20,990)
Proceeds from property disposition	251	835	–
Net cash used in investing activities	(80,469)	(115,070)	(52,036)
Cash flows from financing activities:			
Proceeds from mortgage notes payable	119,882	29,775	52,000
Repayments on mortgage notes payable	(92,078)	(16,585)	(14,717)
Proceeds from construction loans payable	41,507	19,230	–
Proceeds from revolving credit facility	30,000	19,000	20,000
Repayments on revolving credit facility	(30,000)	(27,000)	(47,000)
Additions to deferred debt costs	(3,666)	(773)	(2,085)
Proceeds from the issuance of:			
Series B preferred stock, net of issuance costs	–	76,321	–
Common Stock	4,185	4,543	18,958
Distributions to:			
Series A preferred stockholders	(8,000)	(8,000)	(8,000)
Series B preferred stockholders	(7,140)	(3,668)	–
Common stockholders	(27,358)	(33,450)	(31,026)
Noncontrolling interest	(8,287)	(10,183)	(9,587)
Net cash provided by (used in) financing activities	19,045	49,210	(21,457)
Net increase (decrease) in cash and cash equivalents	7,600	7,241	(2,296)
Cash and cash equivalents, beginning of period	13,006	5,765	8,061
Cash and cash equivalents, end of period	\$ 20,606	\$ 13,006	\$ 5,765
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 40,973	\$ 37,179	\$ 35,684

* Supplemental discussion of non-cash investing and financing activities:
(1) The 2008 real estate acquisition costs of \$63,406 are presented exclusive of a mortgage loan assumed of \$10,349.

The accompanying notes are an integral part of these statements.

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"). The Company is required to annually distribute at least 90% of its REIT taxable income (excluding net capital gains) to its stockholders and meet 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 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, 2006. The following are operating shopping centers ("Shopping Centers"). Two shopping centers, Northrock and Westview, have been recently constructed and only a portion of their total square footage has been leased and placed in service.

Name of Property	Location	Date of Acquisition/Development
Acquisitions		
Orchard Park	Dunwoody, GA	2007
Great Falls Shopping Center	Great Falls, VA	2008
BJ's Wholesale Club	Alexandria, VA	2008
Marketplace at Sea Colony	Bethany Beach, DE	2008
Developments		
Ashland Square Phase I	Manassas, VA	2007
Northrock	Warrenton, VA	2009
Westview Village	Frederick, MD	2009

As of December 31, 2009, the Company's properties (the "Current Portfolio Properties") consisted of 47 operating shopping center properties (the "Shopping Centers"), five predominantly office operating properties (the "Office Properties") and four (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.

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.

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2009, thirty-one of the Shopping Centers were anchored by a grocery store and offer primarily day-to-day necessities and services. Three retail tenants, Giant Food (4.4%), a tenant at eight Shopping Centers, Safeway (3.2%), a tenant at eight Shopping Centers and Chevy Chase Bank (2.7%), a tenant at twenty properties, and one office tenant, the United States Government (2.8%), a tenant at seven properties, individually accounted for more than 2.5% of the Company's total revenue for the year ended December 31, 2009.

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 records assets acquired and liabilities assumed, including land, buildings, and intangibles related to in-place leases and customer relationships, based on their fair values. The Company determines the estimated fair values of the assets and liabilities in accordance with current GAAP fair value provisions. The Company estimates the fair value of buildings on an as-if-vacant basis upon acquisition and then 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 estimates 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 renew-

al 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 estimates 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 values of the intangibles are amortized over the lives of the customer relationships. The Company has never recorded a customer relationship intangible asset. Effective January 1, 2009, acquisition-related transaction costs will be expensed as incurred.

If there is an event or change in circumstance that indicates an impairment in the value of a real estate investment property, the Company prepares an impairment analysis to assess that the carrying value of the real estate investment property does not exceed its estimated fair value. The Company considers both quantitative and qualitative factors including recurring operating losses, significant decreases in occupancy, and significant adverse changes in legal factors and business climate. If impairment indicators are present the Company performs a comparison of the projected cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying value of that property. The Company assesses its undiscounted projected cash flows based upon estimated capitalization rates, historic operating results and market conditions that may affect the property. If such carrying value is greater than the undiscounted projected cash flows, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its then estimated fair market value. The value of any property is sensitive to the actual results of any of the aforementioned estimated factors, either individually or taken as a whole. Should the actual results differ from management's projections, the valuation could be negatively or positively affected. The Company did not recognize an impairment loss on any of its real estate in 2009, 2008 or 2007. Interest, real estate taxes, development related salary costs 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 \$5,989,000, \$4,159,000 and \$2,889,000, for 2009, 2008 and 2007, 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. Tenant 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, 2009, 2008 and 2007 was \$23,911,000, \$24,761,000 and \$21,638,000, respectively. Repairs and maintenance expense totaled \$10,111,000, \$9,106,000 and \$8,926,000, for 2009, 2008 and 2007, respectively, and is included in property operating expenses in the accompanying consolidated financial statements.

Deferred Leasing Costs

Deferred leasing costs consist of commissions paid to third-party leasing agents, internal direct costs such as employee compensation and payroll-related fringe benefits directly related to time spent performing leasing-related activities for successful leases and amounts attributed to in place leases associated with acquired properties. Leasing related 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 these costs is written-off to expense if the applicable lease is terminated prior to expiration of the initial lease term. Deferred leasing costs are amortized over the initial term of the lease or remaining initial term of acquired leases. Collectively, deferred leasing costs totaled \$15,609,000 and \$16,901,000, net of accumulated amortization of approximately \$14,889,000 and \$15,196,000, as of December 31, 2009 and 2008, respectively. Amortization expense, included in depreciation and amortization in the consolidated statements of operations, totaled approximately \$4,353,000, \$5,022,000 and \$4,826,000, for the years ended December 31, 2009, 2008 and 2007, respectively.

Construction in Progress

Construction in progress includes preconstruction and development costs of active projects. Preconstruction costs 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, 2009 and 2008 are as follows:

Construction in Progress		
	December 31,	
(In thousands)	2009	2008
Clarendon Center	\$ 115,810	\$ 49,836
Northrock	11,910	21,656
Westview Village	18,730	17,240
Smallwood Village Center	–	6,290
Boulevard	–	2,925
Other	1,139	973
Total	\$ 147,589	\$ 98,920

As of December 31, 2009, 64% of the leasable area at Northrock had been placed in operation. The development costs related to the area in operation have been reclassified to land and buildings. The costs reported in Construction in Progress above reflect the costs incurred as of December 31, 2009 and 2008, for the remaining 36% and 100% of the leasable area, respectively. As of December 31, 2009, 15% of the leasable area at Westview Village had been placed in operation. The development costs related to the area in operation have been reclassified to land and buildings. The costs reported in Construction in Progress above reflect the costs incurred as of December 31, 2009 and 2008, for the remaining 85% and 100% of the leasable area, respectively.

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 \$1,265,000 and \$914,000, at December 31, 2009 and 2008, respectively.

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS

Allowance for Doubtful Accounts

(In thousands)	For the Year Ended December 31,		
	2009	2008	2007
Beginning Balance	\$ 914	\$ 387	\$ 479
Provision for Credit Losses	919	1,113	376
Charge-offs	(568)	(586)	(468)
Ending Balance	\$1,265	\$ 914	\$ 387

In addition to rents due currently, accounts receivable also includes \$27,154,000 and \$25,766,000, at December 31, 2009 and 2008, respectively, net of allowance for doubtful accounts totaling \$15,000 and \$155,000, respectively, representing minimum rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments. Short-term investments include money market accounts and other investments which generally mature within three months, measured from the acquisition date, and/or are readily convertible to cash. Substantially all of the Company's cash balances at December 31, 2009 are held in non-interest bearing accounts at various banks.

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 on a straight-line basis over the terms of the respective loans or agreements, which approximates the effective interest method. Deferred debt costs totaled \$7,537,000 and \$5,875,000, net of accumulated amortization of \$5,161,000 and \$5,079,000, at December 31, 2009 and 2008, 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, including tenant prepayment of rent for future periods, real estate taxes when the taxing jurisdiction has a fiscal year differing from the calendar year reimbursements specified in the lease agreement and tenant construction work provided by the Company. In addition, deferred income includes the fair value of certain below market leases.

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. 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 in which 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 the Code, commencing with its taxable year ended December 31, 1993. A REIT generally will not be subject to federal income taxation, provided that distributions to its stockholders equal or exceed its REIT taxable income and complies with certain other requirements. Therefore, no provision has been made for federal income taxes in the accompanying consolidated financial statements.

As of December 31, 2009, the Company had no material unrecognized tax benefits and there exist no potentially significant unrecognized tax benefits which are reasonably expected to occur within the next twelve months. The Company recognizes penalties and interest accrued related to unrecognized tax benefits, if any, as general and administrative expense. No penalties and interest have been accrued in years 2009, 2008 and 2007. The tax basis of the Company's real estate investments was approximately \$750,188,000 and \$745,700,000, as of December 31, 2009 and 2008, respectively. With few exceptions, the Company is no longer subject to U.S. federal, state, and local tax examinations by tax authorities for years before 2005.

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. 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 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 of the options is based on prior exercise history, scheduled vesting and the expiration date; (3) Expected Dividend Yield determined by management 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) a Risk-free Interest Rate 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.

At the annual meeting of the Company's stockholders in 2004, the stockholders approved the adoption of the 2004 stock plan for the purpose of attracting and retaining executive officers, directors and other key personnel. The 2004 stock plan was subsequently amended by the Company's stockholders at the 2008 Annual Meeting (the "Amended 2004 Plan") and terminates in April 2018. Pursuant to the Amended 2004 Plan, the Compensation Committee established a Deferred Compensation Plan for Directors for the benefit of its directors and their beneficiaries, which replaced a previous Deferred Compensation and Stock Plan for Directors. A director may make an annual election 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, 2009, 219,000 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, 2009, 2008 and 2007. 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 \$85,000, \$120,000 and \$130,000, for the years ended December 31, 2009, 2008 and 2007, respectively.

Noncontrolling Interest

Saul Centers is the sole general partner of the Operating Partnership, owning a 76.9% common interest as of December 31, 2009. Noncontrolling interest in the Operating Partnership is comprised of limited partnership units owned by The Saul Organization. Noncontrolling interest as reflected on the accompanying consolidated balance sheets is increased for earnings allocated to limited partnership interests and distributions reinvested in additional units, and is decreased for limited partner distributions. Noncontrolling interest as reflected on the consolidated statements of operations represent earnings allocated to limited partnership interests held by The Saul Organization.

Per Share Data

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, 2009, 2008 and 2007 certain 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			
	December 31		
(In thousands)	2009	2008	2007
Weighted average common shares outstanding – Basic	17,904	17,816	17,589
Effect of dilutive options	39	145	180
Weighted average common shares outstanding – Diluted	17,943	17,961	17,769
Average Share Price	\$ 30.63	\$ 45.98	\$ 52.22

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. Upon determination that a loss is probable to occur and can be reasonably estimated, the estimated amount of the loss is recorded in the financial statements.

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS

New Accounting Standards

The Company adopted provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Consolidation Topic on January 1, 2009. These provisions of the Consolidation Topic establish new accounting and reporting requirements for a noncontrolling (or minority) interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, these provisions require (i) the reclassification of minority interest in the consolidated balance sheets of the Company to noncontrolling interest, a component of permanent equity, (ii) the reclassification of minority interest expense to net income attributable to noncontrolling interest on the consolidated statements of operations, (iii) the inclusion of noncontrolling interest in the statement of stockholders' equity, and (iv) additional disclosures, including noncontrolling interest activity. Adoption of these provisions in the Consolidation Topic did not have a material impact on the Company's reported consolidated financial position, results of operations or cash flows.

The Company adopted provisions of the ASC Business Combinations Topic on January 1, 2009. These provisions require most identifiable assets and liabilities acquired in a business combination be recorded at "full fair value." Transaction costs are no longer included in the measurement of the business acquired. Instead, these items are expensed as incurred. These provisions apply prospectively to business combinations.

In the second quarter of 2009, the Company adopted provisions of the ASC Subsequent Events Topic. These provisions establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued.

3. REAL ESTATE ACQUIRED

Orchard Park

On July 19, 2007, the Company purchased for \$17.0 million the Kroger-anchored Orchard Park shopping center located in Dunwoody, GA.

Westview Village

In November 2007, the Company purchased for \$5.0 million a land parcel in the Westview development in Frederick, Maryland. In 2009, the Company completed construction of a neighborhood retail and office center.

Northrock

In January 2008, the Company purchased for \$12.5 million an undeveloped land parcel in Warrenton, Virginia. In 2009, the Company completed construction of a neighborhood shopping center which is anchored by a Harris Teeter supermarket.

Great Falls Center

On March 28, 2008, the Company purchased for \$36.6 million (including the assumption of a \$10.3 million mortgage loan) the Safeway-anchored Great Falls Center located in Great Falls, Virginia. As of the date of acquisition, management determined the mortgage loan was fairly valued because the terms of the loan were not materially different from market terms.

BJ's Wholesale Club

On March 28, 2008, the Company purchased for \$21.0 million the single tenant property anchored by BJ's Wholesale Club, located in Alexandria, Virginia.

Marketplace at Sea Colony

On March 28, 2008, the Company purchased for \$3.0 million Marketplace at Sea Colony, located in Bethany Beach, Delaware.

Allocation of Purchase Price for Real Estate Acquired

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. See Note 2. Significant Accounting Policies-Real Estate Investment Properties. Of the combined \$61,100,000 total cost of the operating property acquisitions in 2008, which excludes amounts related to acquisitions of undeveloped land, which includes the properties' purchase price and closing costs, a total of \$2,351,000 was allocated to lease intangible assets and included in lease acquisition costs at December 31, 2008. The lease intangible assets are being amortized over the remaining periods of the leases acquired, a weighted average term of 16 years. The values of below market leases, totaling \$8,724,000, are being amortized over a weighted average term of 20 years, and are included in deferred income. The values of above market leases, totaling \$148,000, are being amortized over a weighted average term of 5 years, and are included as a deferred asset in accounts receivable. The Company did not acquire any properties in 2009.

The gross carrying amount of lease intangible assets included in deferred leasing costs was \$13,736,000 at both December 31, 2009 and 2008, and accumulated amortization was \$10,711,000 and \$9,506,000, for December 31, 2009 and 2008, respectively. Amortization expense totaled \$1,205,000, \$1,908,000 and \$1,918,000, for the years ended December 31, 2009, 2008 and 2007, respectively. The gross carrying amount of below market lease intangible liabilities included in deferred income was \$18,402,000 at both December 31, 2009 and 2008, and accumulated amortization was \$4,474,000 and \$3,151,000, respectively. Accretion income totaled \$1,323,000, \$1,552,000 and \$580,000, for the years ended December 31, 2009, 2008 and 2007, respectively. The gross carrying amount of above market lease intangible assets included in accounts receivable was \$874,000 at both December 31, 2009 and 2008, and accumulated amortization was \$746,000 and \$670,000 respectively. Amortization expense totaled \$76,000, \$106,000 and \$107,000, for the years ended December 31, 2009, 2008 and 2007, respectively.

As of December 31, 2009, scheduled amortization of intangible assets and deferred income related to in place leases is as follows:

Amortization of Intangible Assets and Deferred Income Related to In-place Leases				
(In thousands)	Lease acquisition costs	Above market leases	Below market leases	Total
2010	\$ (738)	\$ (62)	\$ 1,086	\$ 286
2011	(433)	(29)	865	403
2012	(268)	(25)	771	478
2013	(203)	(12)	714	499
2014	(124)	–	706	582
Thereafter	(1,259)	–	9,786	8,527
Total	\$ (3,025)	\$ (128)	\$ 13,928	\$ 10,775

The results of operations of the acquired properties are included in the consolidated statements of operations as of the acquisition date. The following unaudited pro-forma consolidated condensed statements of operations set forth the consolidated results of operations for the years ended December 31, 2008 and 2007 as if the above described operating property acquisitions had occurred on January 1, 2008 and 2007. The unaudited pro-forma information does not purport to be indicative of the results that actually would have occurred if the combinations had been in effect for the years ended December 31, 2008 and 2007.

Pro-Forma Consolidated Condensed Statement of Operations			
(In thousands, except per share data)	Year Ended December 31,		
	2009	2008	2007
Real estate revenue	\$ 161,113	\$ 161,610	\$ 155,353
Net income available to common shareholders	\$ 21,573	\$ 26,337	\$ 28,264
Net income per common share – basic	\$ 1.20	\$ 1.48	\$ 1.61
Net income per common share – diluted	\$ 1.20	\$ 1.47	\$ 1.59

4. NONCONTROLLING INTEREST – HOLDERS OF CONVERTIBLE LIMITED PARTNERSHIP UNITS IN THE OPERATING PARTNERSHIP

The Saul Organization holds a 23.1% limited partnership interest, represented by 5,416,000 convertible limited partnership units in the Operating Partnership, as of December 31, 2009. 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 impact of The Saul Organization's 23.1% limited partnership interest in the Operating Partnership is reflected as Noncontrolling Interest in the accompanying consolidated financial statements. Fully converted partnership units and diluted weighted average shares outstanding for the years ended December 31, 2009, 2008 and 2007, were 23,359,000, 23,377,000 and 23,185,000, respectively.

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

The Company's outstanding debt totaled \$636,806,000 at December 31, 2009, of which \$576,069,000 was fixed rate debt and \$60,737,000 was variable rate debt. At December 31, 2008, outstanding debt totaled \$567,495,000, of which \$548,265,000 was fixed rate debt and \$19,230,000 was variable rate debt. At December 31, 2009, the Company had a \$150 million unsecured revolving credit facility, which can be used for working capital, property acquisitions or development projects, with no outstanding borrowings. The revolving credit facility matures on June 30, 2012, and may be extended by the Company for one additional year subject to the Company's satisfaction of certain conditions. Saul Centers and certain consolidated subsidiaries of the Operating Partnership have guaranteed the payment obligations of the Operating Partnership under the revolving credit facility. Letters of credit may be issued under the revolving credit facility. On December 31, 2009, of the \$150,000,000 available for borrowing, approximately \$224,000 was committed for letters of credit, and approximately \$149,776,000 was available under the line. Interest rate pricing under the facility is primarily determined by operating income from the Company's existing unencumbered properties and, to a lesser extent, certain leverage tests. As of December 31, 2009, operating income from the unencumbered properties determined the interest rate for up to \$105,000,000 of the line's available borrowings, with interest expense to be calculated based upon the 1, 2, 3 or 6 month LIBOR plus a spread of 3.65% to 3.90%. The interest rate on the remaining \$45,000,000 of the line's availability is determined 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 4.45% to 5.25%, determined by certain leverage tests. The Company may elect to use the 1, 2, 3 or 6 month LIBOR, but in no event shall LIBOR be less than 1.5%.

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS

Saul Centers is a guarantor of the revolving credit facility, of which the Operating Partnership is the borrower. Saul Centers is also the guarantor of 50% of the Northrock construction loan (approximately \$9,559,000 of the \$19,118,000 outstanding at December 31, 2009) and the Clarendon Center construction loan (approximately \$41,619,000 outstanding at December 31, 2009). The fixed-rate notes payable are all non-recourse debt except for \$3,882,000 of the Great Falls Center mortgage, which is guaranteed by Saul Centers.

On April 30, 2009, the Company entered into a Modification Agreement, in effect until August 1, 2009, which reduced the Debt Service Coverage ratio under its Line of Credit from 1.6x to 1.5x. The interest rate for borrowings under the line of credit that are based on the Company's leverage was increased to LIBOR plus 3.725%, with a LIBOR floor of 1.50%, from LIBOR plus 1.475%. The maximum availability under the Line of Credit was reduced to \$120,000,000 from \$150,000,000. On July 9, 2009, the Company entered into a Second Modification Agreement which extended the maturity date of the facility to June 30, 2012 from December 19, 2010, with an option for the Company to extend for one additional year subject to the Company's satisfaction of certain conditions. The modification reduced the interest expense coverage ratio to 2.2x from 2.5x, reduced the debt service coverage to 1.4x from 1.5x (and recharacterized the test as fixed charge coverage) and created a new debt service coverage (exclusive of preferred stock dividends) of 1.6x. On July 28, 2009, Company entered into a Third Modification Agreement increasing the maximum availability under the facility to \$150,000,000 from \$120,000,000 with the addition of a fourth lender. Also in July 2009, the Company repaid the full outstanding balance of \$15,000,000 on the unsecured revolving credit facility.

On May 14, 2009, the Company closed on the final portion of its April 2008 forward commitment secured by the Great Falls Center. The additional funding totaled \$1,882,000 which was based upon the achievement of certain leasing requirements. The loan matures February 1, 2024, requires equal monthly principal and interest payments of \$12,518, based upon a 7.00% interest rate and 30-year principal amortization, and requires a final principal payment of approximately \$1,414,000 at maturity.

Also during May and June 2009, the Company refinanced \$48.1 million of mortgage debt secured by four properties, due to mature December 2011, with \$85 million of new 15-year fixed-rate mortgage debt. In conjunction with the early repayment of the in-place debt, the Company incurred prepayment penalties of \$1,442,000 and wrote-off unamortized deferred debt costs totaling \$218,000. Because the refinanced properties were included in a cross-collateralized pool of six properties, the Company was required to pay down outstanding debt balances of two remaining properties in the amount of \$4,806,000. Terms of the new mortgage debt are as follows:

On May 28, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$16,000,000, secured by Village Center. The loan matures June 1, 2024, requires equal monthly principal and interest payments of \$119,282, based upon a 7.6% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$10,060,000 at maturity.

On June 2, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$18,500,000, secured by Leesburg Pike. The loan matures June 1, 2024, requires equal monthly principal and interest payments of \$134,913, based upon a 7.35% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$11,506,000 at maturity.

On June 12, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$17,000,000, secured by Van Ness Square. The loan matures July 1, 2024, requires equal monthly principal and interest payments of \$132,450, based upon an 8.11% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$11,453,000 at maturity. A portion of the loan proceeds are held in escrow by the lender to fund up to \$1,500,000 of future tenant improvements and leasing commissions. Additional loan proceeds of \$1,564,000 are held in a second escrow to be released pending the achievement of certain annualized base rent levels. The escrows are classified as other assets on the Consolidated Balance Sheets.

On June 19, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$33,500,000, secured by Avenel Business Park. The loan matures July 1, 2024, requires equal monthly principal and interest payments of \$246,474, based upon a 7.45% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$20,926,000 at maturity.

On December 17, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$33,000,000, secured by Ashburn Village. The loan matures January 1, 2025, requires equal monthly principal and interest payments of \$239,590, based upon a 7.30% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$20,478,000 at maturity.

During 2008, the Company obtained increases to two fixed-rate mortgages totaling \$10,500,000, assumed a mortgage note of \$10,349,000 in conjunction with the acquisition of Great Falls Center, obtained additional fixed-rate mortgage financing totaling \$23,575,000 and obtained construction financing for its Clarendon Center and Northrock shopping center projects.

On February 29, 2008, the Company closed on a \$7,500,000 increase to a fixed-rate mortgage secured by Shops at Fairfax and Boulevard shopping centers. The loan matures June 1, 2015 (same as the original financing), requires monthly interest only payments of \$38,000, based upon a 6.08% interest rate, and requires a final principal payment of \$7,500,000 at maturity.

On March 23, 2008, the Company closed on a \$3,000,000 increase to a fixed-rate mortgage secured by Seabreeze Plaza. The loan matures May 1, 2014 (same as the original financing), requires equal monthly principal and interest payments of \$17,794, based upon a 5.90% interest rate and 30-year principal amortization, and requires a final principal payment of approximately \$2,738,000 at maturity.

On March 28, 2008, in connection with the acquisition of Great Falls Center, the Company assumed a \$10.3 million fully amortizing fixed-rate mortgage loan which is secured by the property. The loan matures February 1, 2024 and requires equal monthly principal and interest payments of \$83,113, based upon a 5.80% interest rate and 20-year principal amortization. Management determined the mortgage loan was fairly valued at acquisition because the terms of the loan were not materially different from current market terms.

On March 31, 2008, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$12,750,000, secured by the BJ's Wholesale Club center. The loan matures April 1, 2023, requires equal monthly principal and interest payments of \$80,003, based upon a 6.43% interest rate and 30-year principal amortization, and requires a final principal payment of approximately \$9,255,000 at maturity.

In April 2008, the Company closed on a \$10,825,000 additional financing secured by the Great Falls Center. Funding in the amount of \$6,525,000 occurred on April 6, 2008, payable at an interest rate of 6.80%, interest only for the first year, after which amortization will commence on a 30-year amortization schedule, requiring monthly payments of principal and interest totaling \$42,538. A final principal payment of approximately \$1,274,000 will be due at maturity on February 1, 2024. The Company has initially guaranteed \$2,000,000 of this loan, with the amount of any additional advance to also be guaranteed until certain debt service coverage tests are achieved. The balance totaling \$4,300,000 is a forward commitment to be funded in 2009, subject to achieving certain re-leasing requirements.

In May 2008, the Company closed on a \$21,822,000 secured construction loan to fund the development of Northrock shopping center in Warrenton, Virginia. Funding in the amount of approximately \$6,495,000 occurred at closing. The loan accrues interest at the sum of LIBOR and 3.0%. The loan matures on May 1, 2011, and can be extended for two years at the Company's option subject to completion of improvements and certain debt service coverage requirements. The loan is 100% guaranteed by the Company until such time as the construction is complete, at which time the guarantee will be limited to 50% of the total principal outstanding. Approximately \$19,118,000 was outstanding as of December 31, 2009.

Also in May 2008, the Company closed a \$157,500,000 secured construction loan to finance the development of Clarendon Center, a mixed-use development adjacent to the Clarendon Metro station in Arlington, Virginia. The Company has guaranteed the loan, with the guarantee to be reduced subject to certain conditions related to pre-leasing, completion of construction and net operating income from the project. The loan accrues interest at the sum of LIBOR and 2.5% and matures on November 14, 2011, and may be extended by the Company for two additional 9-month periods, subject to the satisfaction of certain conditions. Approximately \$41,619,000 was outstanding as of December 31, 2009.

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of notes payable as of December 31, 2009 and 2008:

Notes Payable				
(Dollars in thousands)	December 31,		Interest	Scheduled
	2009	2008	Rate *	Maturity *
Fixed rate mortgages:	\$ – (a)	\$ 78,489	–	–
	110,874 (b)	115,271	7.67%	Oct-2012
	10,658 (c)	10,846	6.12%	Jan-2013
	27,533 (d)	28,837	7.88%	Jan-2013
	7,694 (e)	7,919	5.77%	Jul-2013
	15,184 (f)	15,576	5.40%	May-2014
	18,506 (g)	18,987	7.45%	Jun-2015
	37,376 (h)	38,263	6.01%	Feb-2018
	42,265 (i)	43,413	5.88%	Jan-2019
	13,671 (j)	14,043	5.76%	May-2019
	18,876 (k)	19,391	5.62%	Jul-2019
	18,702 (l)	19,195	5.79%	Sep-2019
	16,706 (m)	17,165	5.22%	Jan-2020
	12,127 (n)	12,337	5.60%	May-2020
	11,279 (o)	11,576	5.30%	Jun-2020
	9,698 (p)	9,925	5.81%	Feb-2021
	6,693 (q)	6,791	6.01%	Aug-2021
	38,625 (r)	39,198	5.62%	Jun-2022
	11,661 (s)	11,817	6.08%	Sep-2022
	12,504 (t)	12,655	6.43%	Apr-2023
	17,977 (u)	16,571	6.28%	Feb-2024
	18,368 (v)	–	7.35%	Jun-2024
	15,891 (w)	–	7.60%	Jun-2024
	16,923 (x)	–	8.11%	Jul-2024
	33,305 (y)	–	7.45%	Jul-2024
	33,000 (z)	–	7.30%	Jan-2025
Total fixed rate	576,069	548,265	6.66%	8.9 Years
Variable rate loans:				
Revolving credit facility	– (aa)	–	LIBOR + 3.725%	Jun-2012
Northrock construction loan	19,118 (bb)	12,817	LIBOR + 3.00%	May-2011
Clarendon construction loan	41,619 (cc)	6,413	LIBOR + 2.50%	Nov-2011
Total variable rate	60,737	19,230	3.29%	1.7 Years
Total notes payable	\$ 636,806	\$ 567,495	6.34%	8.2 Years

* Interest rate and scheduled maturity data presented as of December 31, 2009. Totals computed using weighted averages.

(a) The loan was collateralized by Avenel Business Park, Van Ness Square, Ashburn Village, Leesburg Pike, Lumberton Plaza and Village Center and was repaid during 2009.

(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 \$4,424,000 was amortized during 2009.

- (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 \$188,000 was amortized during 2009.
- (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 \$1,304,000 was amortized during 2009.
- (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 \$225,000 was amortized during 2009.
- (f) The loan is collateralized by Seabreeze Plaza and requires equal monthly principal and interest payments totaling \$102,000 based upon a weighted average 26-year amortization schedule and a final payment of \$13,278,000 is due at loan maturity. Principal of \$392,000 was amortized during 2009.
- (g) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires equal monthly principal and interest payments totaling \$156,000 based upon a weighted average 23-year amortization schedule and a final payment of \$15,168,000 is due at loan maturity. Principal of \$481,000 was amortized during 2009.
- (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 \$887,000 was amortized during 2009.
- (i) The loan is collateralized by three shopping centers, Broadlands Village, 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 \$1,148,000 was amortized during 2009.
- (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 \$372,000 was amortized during 2009.
- (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 \$515,000 was amortized during 2009.
- (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 \$493,000 was amortized during 2009.
- (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 \$459,000 was amortized during 2009.
- (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 \$210,000 was amortized during 2009.
- (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 \$297,000 was amortized during 2009.
- (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 \$227,000 was amortized during 2009.
- (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 \$98,000 was amortized during 2009.
- (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 \$573,000 was amortized during 2009.
- (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 \$156,000 was amortized during 2009.
- (t) The loan is collateralized by BJs Wholesale and requires equal monthly principal and interest payments of \$80,000 based upon a 30-year amortization schedule and a final payment of \$9,305,000 at loan maturity. Principal of \$151,000 was amortized during 2009.
- (u) The loan is collateralized by Great Falls shopping center. In May 2009, the Company closed on the final portion of a forward commitment in the amount of \$1,881,617. The loan consists of three notes which require equal monthly principal and interest payments of \$138,000 based upon a weighted average 26-year amortization schedule. The loan matures February 1, 2024 at which time a final payment of \$6,349,000 will be due. Principal of \$476,000 was amortized during 2009.
- (v) The loan, closed on June 2, 2009, is collateralized by Leesburg Pike and requires equal monthly principal and interest payments of \$135,000 based upon a 25-year amortization schedule and a final payment of \$11,506,000 at loan maturity. Principal of \$132,000 was amortized during 2009.
- (w) The loan, closed on May 28, 2009, is collateralized by Village Center and requires equal monthly principal and interest payments of \$119,000 based upon a 25-year amortization schedule and a final payment of \$10,060,000 at loan maturity. Principal of \$109,000 was amortized during 2009.
- (x) The loan, closed on June 12, 2009, is collateralized by Van Ness Square and requires equal monthly principal and interest payments of \$132,000 based upon a 25-year amortization schedule and a final payment of \$11,453,000 at loan maturity. Principal of \$77,000 was amortized during 2009.
- (y) The loan, closed on June 19, 2009, is collateralized by Avenel Business Park and requires equal monthly principal and interest payments of \$246,000 based upon a 25-year amortization schedule and a final payment of \$20,926,000 at loan maturity. Principal of \$195,000 was amortized during 2009.
- (z) The loan, closed on December 17, 2009, is collateralized by Ashburn Village and requires equal monthly principal and interest payments of \$240,000 based upon a 25-year amortization schedule and a final payment of \$20,478,000 at loan maturity.
- (aa) The loan is an unsecured revolving credit facility totaling \$150,000,000. Interest expense is calculated based upon the 1 month LIBOR rate plus a spread of 3.725%. 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.
- (bb) The loan is a secured construction loan facility totaling \$21,822,000 to fund the development of Northrock shopping center. Interest charges are funded by the construction loan and are calculated based upon the 1 month LIBOR rate plus a spread of 3.00%. The loan may be extended two years, at the Company's option, subject to the completion of construction and certain debt coverage requirements.
- (cc) The loan is a secured construction loan facility totaling \$157,500,000 to fund the development of Clarendon Center. Interest charges are funded by the construction loan and are calculated based upon the 1 month LIBOR rate plus a spread of 2.50%. The loan may be extended for two additional 9-month periods, subject to the satisfaction of certain conditions.

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS

The carrying value of the properties which collateralize the mortgage notes payable at December 31, 2009 and 2008 totaled \$746,377,000 and \$693,205,000, respectively. The Company's credit facility requires the Company and its subsidiaries to maintain certain financial covenants. As of December 31, 2009, 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 the Company's 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 2.2x on a trailing 12-full calendar month basis (interest expense coverage);
- limit the amount of debt so that interest and scheduled principal amortization coverage exceeds 1.6x (debt service coverage);
- limit the amount of debt so that interest, scheduled principal amortization and preferred dividend coverage exceeds 1.4x (fixed charge coverage); 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, 2009, the Company was in compliance with all such covenants.

Notes payable at December 31, 2009 and 2008, totaling \$138,381,000 and \$144,108,000, respectively, are guaranteed by members of The Saul Organization. As of December 31, 2009, the scheduled maturities of all debt including scheduled principal amortization for years ended December 31, are as follows:

Debt Maturity Schedule			
<i>(In thousands)</i>			
	Balloon Payments	Scheduled Principal Amortization	Total
2010	\$ –	\$ 15,675	\$ 15,675
2011	60,737 ^(a)	16,823	77,560
2012	96,300	17,028	113,328
2013	39,440	11,404	50,844
2014	13,176	11,354	24,530
2015	15,012	11,459	26,471
Thereafter	252,470	75,928	328,398
Total	\$ 477,135	\$ 159,671	\$ 636,806

(a) Represents the Clarendon Center and Northrock construction loan balances as of December 31, 2009.

Interest Expense and Amortization of Deferred Debt Costs

<i>(In thousands)</i>	Year ended December 31,		
	2009	2008	2007
Interest incurred	\$ 38,992	\$ 37,275	\$ 35,595
Amortization of deferred debt costs	1,323	1,162	1,149
Revolving credit line amendment	363	–	–
Capitalized interest	(5,989)	(4,159)	(2,889)
Total	\$ 34,689	\$ 34,278	\$ 33,855

The Company incurred and capitalized as construction in progress deferred debt costs related to the Clarendon Center and Northrock construction loans of approximately \$46 and \$2,369, during 2009 and 2008, respectively.

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, 2009, 2008 and 2007, amounted to \$125,845,000, \$124,999,000 and \$118,806,000, 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>	
2010	\$ 123,518
2011	108,202
2012	93,159
2013	75,503
2014	56,954
Thereafter	299,356
Total	\$ 756,692

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, 2009, 2008 and 2007 amounted to \$29,462,000, \$29,066,000 and \$26,090,000, 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 \$1,326,000, \$1,509,000 and \$1,497,000, for the years ended December 31, 2009, 2008 and 2007, 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 \$165,000, \$164,000 and \$164,000, for each of the years ended December 31, 2009, 2008 and 2007, respectively

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

Ground Lease Rental Commitments							
(In thousands)	2010	2011	Annually 2012	2013	2014	Thereafter	Total
Beacon Center	\$ 53	\$ 57	\$ 60	\$ 60	\$ 60	\$ 2,840	\$ 3,130
Olney	56	56	56	56	56	4,041	4,321
Southdale	60	60	60	60	60	3,185	3,485
Total	\$ 169	\$ 173	\$ 176	\$ 176	\$ 176	\$ 10,066	\$ 10,936

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 space is leased by a member of The Saul Organization. The 10-year lease, which commenced in March 2002, provides for base rent increases of 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 based on a percentage proportionate to the number of employees employed by each party. The Company's rent expense for the years ended December 31, 2009, 2008 and 2007 was \$835,000, \$813,000 and \$796,000, respectively. Expenses arising from the lease are included in general and administrative expense (see Note 9 – Related Party Transactions).

8. STOCKHOLDERS' EQUITY AND NONCONTROLLING INTEREST

The Consolidated Statements of Operations for the years ended December 31, 2009, 2008 and 2007 reflect noncontrolling interest of \$6,517,000, \$7,972,000 and \$8,818,000, respectively, representing The Saul Organization's share of the net income for the year.

In November 2003, the Company sold 4,000,000 depositary shares, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock. The depositary shares are redeemable, in whole or in part at the Company's option, from time to time, at \$25.00 per share. The depositary shares pay an annual dividend of \$2.00 per share, equivalent to 8% of the \$25.00 per share liquidation preference. 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.

In March 2008, the Company sold 3,173,115 depositary shares, each representing 1/100th of a share of 9% Series B Cumulative Redeemable Preferred Stock. The depositary shares may be redeemed at the Company's option, on or after March 15, 2013, in whole or in part, at \$25.00 per share. The depositary shares pay an annual dividend of \$2.25 per share, equivalent to 9% of the \$25.00 per share liquidation preference. The first dividend was paid on July 15, 2008 and covered the period from March 27, 2008 through June 30, 2008. The Series B 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.

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS

9. RELATED PARTY TRANSACTIONS

The Chairman and Chief Executive Officer, the President, the Senior Vice President- General Counsel and the Senior 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 Senior 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 401K plan with entities in The Saul Organization which covers those full-time employees who meet the requirements as specified in the plan. Company contributions, which are 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 \$426,000, \$381,000 and \$331,000, for 2009, 2008 and 2007, respectively. All amounts deferred by employees and the Company are fully vested.

The Company also participates in a multiemployer nonqualified deferred compensation plan with entities in The Saul Organization which covers those full-time employees who meet the requirements as specified in the plan. According to the plan, which can be modified or discontinued at any time, participating employees defer 2% of their compensation in excess of a specified amount. For the years ended December 31, 2009, 2008 and 2007, the Company contributed three times the amount deferred by employees. The Company's expense, included in general and administrative expense, totaled \$244,000, \$203,000 and \$106,000, for the years ended December 31, 2009, 2008 and 2007, respectively. All amounts deferred by employees and the Company are fully vested. The cumulative unfunded liability under this plan was \$1,371,000 and \$1,082,000, at December 31, 2009 and 2008, 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, 2009, 2008 and 2007, which included rental expense for the Company's headquarters lease (see Note 7. Long Term Lease Obligations), totaled \$5,804,000, \$5,188,000 and \$4,890,000, 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, 2009 and 2008, accounts payable, accrued expenses and other liabilities included \$525,000 and \$324,000, respectively, represent billings due to The Saul Organization for the Company's share of these ancillary costs and expenses.

The B. F. Saul Insurance Agency of Maryland, Inc., a subsidiary of the B. F. Saul Company and a member of the Saul Organization, is a general insurance agency that receives commissions and counter-signature fees in connection with our insurance program. Such commissions and fees amounted to approximately \$314,000, \$418,000 and \$367,000, for the years ended December 31, 2009, 2008 and 2007, respectively.

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 provides for grants of options to purchase up to 400,000 shares of common stock. 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 for the purpose of attracting and retaining executive officers, directors and other key personnel. The 2004 stock plan was subsequently amended by the Company's stockholders at the 2008 Annual Meeting (the "Amended 2004 Plan"). The Amended 2004 Plan, which terminates in April 2018, provides for grants of options to purchase up to 1,000,000 shares of common stock as well as grants of up to 200,000 shares of common stock to directors. The Amended 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 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"), which expire on April 25, 2014. The officers' 2004 Options vest 25% per year over four years and are subject to early 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.

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 twelve Company directors (the "2005 Options"), which expire on May 5, 2015. The officers' 2005 Options vest 25% per year over four years and are subject to early 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.

Effective May 1, 2006, the Compensation Committee granted options to purchase a total of 30,000 shares (all nonqualified stock options) to twelve Company directors (the "2006 Options"), which were immediately exercisable and expire on April 30, 2016. 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. No options were granted to the Company's officers in 2006.

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"), which expire on April 26, 2017. The officers' 2007 Options vest 25% per year over four years and are subject to early 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.

Effective April 25, 2008, the Compensation Committee granted options to purchase a total of 30,000 shares (all nonqualified stock options) to twelve Company directors (the "2008 Options"), which were immediately exercisable and expire on April 24, 2018. The exercise price of \$50.15 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 2008 Options to be \$254,700. Because the directors' options vest immediately, the entire \$254,700 was expensed as of the date of grant. No options were granted to the Company's officers in 2008.

Effective April 24, 2009, the Compensation Committee granted options to purchase a total of 32,500 shares (all nonqualified stock options) to thirteen Company directors (the "2009 Options"), which were immediately exercisable and expire on April 23, 2019. The exercise price of \$32.68 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 2009 Options to be \$222,950. Because the directors' options vest immediately, the entire \$222,950 was expensed as of the date of grant. No options were granted to the Company's officers in 2009.

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, 2008 and 2009:

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	212,500	115,000	118,750	61,250			507,500	
Exercised	96,422	30,625	6,250	–			133,297	
Forfeited	7,500	7,500	13,750	12,500			41,250	
Exercisable at Dec. 31, 2009	116,078	84,375	112,500	61,250			374,203	
Remaining unexercised	116,078	84,375	112,500	122,500			435,453	
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 previous years	292,843	190,208	164,460	–			647,511	
Expensed in 2007	28,032	64,242	91,648	209,808			393,730	
Expensed in 2008	–	20,400	91,644	314,721			426,765	
Expensed in 2009	–	–	30,548	314,716			345,264	
Future expense	\$ –	\$ –	\$ –	\$ 419,603			\$ 419,603	

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	04/25/2008	04/24/2009		
Total grant	30,000	30,000	30,000	30,000	30,000	32,500	182,500	792,500
Vested	30,000	30,000	30,000	30,000	30,000	32,500	182,500	690,000
Exercised	6,200	2,500	–	–	–	–	8,700	141,997
Forfeited	–	–	–	–	–	–	–	41,250
Exercisable at Dec. 31, 2009	23,800	27,500	30,000	30,000	30,000	32,500	173,800	548,003
Remaining unexercised	23,800	27,500	30,000	30,000	30,000	32,500	173,800	609,253
Exercise price	\$ 25.78	\$ 33.22	\$ 40.35	\$ 54.17	\$ 50.15	\$ 32.68		
Volatility	0.183	0.198	0.206	0.225	0.237	0.344		
Expected life (years)	5.0	10.0	9.0	8.0	7.0	6.0		
Assumed yield	5.75%	6.91%	5.93%	4.39%	4.09%	4.54%		
Risk-free rate	3.57%	4.28%	5.11%	4.65%	3.49%	2.19%		
Total value at grant date	\$ 66,600	\$ 71,100	\$ 143,400	\$ 285,300	\$ 254,700	\$ 222,950	\$ 1,044,050	\$ 3,341,273
Forfeited options	–	–	–	–	–	–	–	64,350
Expensed in previous years	66,600	71,100	143,400	–	–	–	281,100	928,611
Expensed in 2007	–	–	–	285,300	–	–	285,300	679,030
Expensed in 2008	–	–	–	–	254,700	–	254,700	681,465
Expensed in 2009	–	–	–	–	–	222,950	222,950	568,214
Future expense	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 419,603
Weighted average term of future expense (Officer and Director options)							1.3 yrs	

The table below summarizes the option activity for the years 2009, 2008 and 2007:

	2009		2008		2007	
	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding at January 1	593,628	\$ 37.25	586,753	\$ 36.15	430,453	\$ 29.06
Granted	32,500	32.68	30,000	50.15	165,000	54.17
Exercised	(1,875)	25.78	(23,125)	26.02	(8,700)	26.85
Expired/Forfeited	(15,000)	50.68	—	—	—	—
Outstanding December 31	<u>609,253</u>	<u>36.72</u>	<u>593,628</u>	<u>37.25</u>	<u>586,753</u>	<u>36.15</u>
Exercisable at December 31	<u>548,003</u>	<u>34.76</u>	<u>463,003</u>	<u>33.81</u>	<u>354,878</u>	<u>30.74</u>

The intrinsic value of options exercised in 2009, 2008 and 2007 was \$14,000, \$557,000 and \$208,775, respectively. The intrinsic value of options outstanding and exercisable at year end 2009 was \$1,666,000. The intrinsic value measures the 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, 2009, the final trading day of calendar 2009, the closing price of \$32.76 per share 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, 2009 closing price have no intrinsic value. The weighted average remaining contractual life of the Company's exercisable and outstanding options are 5.7 and 5.5 years, respectively.

11. NON-OPERATING ITEMS

Gain on Property Dispositions

Gain on property dispositions in 2009 totaling \$329,000 is comprised of (a) the excess of insurance proceeds received over carrying value of assets damaged at three shopping center properties during 2009 and 2008 and (b) condemnation proceeds received in connection with the taking of land at one shopping center. The insurance proceeds funded substantially all of the restoration of the damaged property.

Gain on property dispositions totaling \$1,301,000 in 2008 represents the excess of insurance proceeds received over the carrying value of assets damaged at three shopping centers.

Gain on property dispositions totaling \$139,000 in 2007 represents condemnation proceeds received in connection with the taking of land at one shopping center.

12. 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 assuming long term interest rates of approximately 7.30% and 7.15%, would be approximately \$553,257,000 and \$525,285,000, as of December 31,

2009 and 2008, respectively, compared to the carrying value of \$576,069,000 and \$548,265,000 at December 31, 2009 and 2008, 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 holders of limited partnership interests the opportunity to buy either additional limited partnership units or common stock shares of the Company.

The Company paid common stock distributions of \$1.53 per share, \$1.88 per share and \$1.77 per share, during 2009, 2008 and 2007, respectively, and paid Series A preferred stock dividends of \$2.00 per depositary share during each of the three years and Series B preferred stock dividends totaling \$2.25 per share and \$1.16 per share, during 2009 and 2008, respectively. For the common stock dividends paid, \$1.53 per share, \$1.842 per share and \$1.77 per share, represented ordinary dividend income for the years 2009, 2008 and 2007. For the common stock dividend paid for the 2008 year, \$0.038 per share, represented return of capital to the shareholders. The 2009 and 2007 common dividends were 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, 2009, 2008 and 2007, and includes activity in the Plan as well as limited partnership units issued from the reinvestment of unit distributions:

<i>(Dollars in thousands)</i>	Total Distributions to			Dividend Reinvestments	
	Preferred Stockholders	Common Stockholders	Limited Partnership Unitholders	Common Stock Shs Issued	Discounted Share Price
Distributions during 2009					
October 30	\$ 3,785	\$ 6,445	\$ 1,950	114,643	\$ 29.96
July 31	3,785	6,971	2,112	6,995	33.08
April 30	3,785	6,973	2,112	7,324	31.30
January 30	3,785	6,969	2,113	7,485	32.42
Total 2009	\$ 15,140	\$ 27,358	\$ 8,287	136,447	
Distributions during 2008					
October 31	\$ 3,785	\$ 8,376	\$ 2,546	8,520	\$ 34.25
July 31	3,883	8,375	2,546	21,712	46.78
April 30	2,000	8,356	2,546	26,915	48.73
January 31	2,000	8,343	2,545	26,673	49.56
Total 2008	\$ 11,668	\$ 33,450	\$ 10,183	83,820	
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	

In December 2009, 2008 and 2007, the Board of Directors of the Company authorized a distribution of \$0.36, \$0.39 and \$0.47 per common share payable in January 2010, 2009 and 2008, to holders of record on January 15, 2010, January 16, 2009 and January 17, 2008, respectively. As a result, \$6,406,000, \$6,967,000 and \$8,343,000, were paid to common shareholders on January 29, 2010, January 30, 2009 and January 31, 2008, respectively. Also, \$1,950,000, \$2,112,000 and \$2,545,000, were paid to limited partnership unitholders on January 29, 2010, January 30, 2009 and January 31, 2008 (\$0.36, \$0.39 and \$0.47 per Operating Partnership unit), respectively. The Board of Directors authorized preferred stock dividends of \$0.50 per Series A

depository share, to holders of record on January 5, 2010, January 5, 2009 and January 2, 2008, respectively and \$0.5625 per Series B depository share to holders of record on January 5, 2010 and 2009. As a result, \$3,785,000 was paid to preferred shareholders on January 15, 2010 and 2009 and \$2,000,000 was paid January 15, 2008. These amounts are reflected as a reduction of stockholders' equity in the case of common stock and preferred stock dividends and noncontrolling interest 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 2009 and 2008.

<i>(In thousands, except per share amounts)</i>				
	2009			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	\$ 39,689	\$ 39,416	\$ 40,273	\$ 41,735
Operating income before loss on early extinguishment of debt, gain on property dispositions and noncontrolling interest	11,550	10,574	11,349	11,638
Net income attributable to Saul Centers, Inc.	9,741	7,719	9,607	9,646
Net income available to common shareholders	5,956	3,934	5,822	5,861
Net income available to common shareholders per share (diluted)	0.33	0.22	0.32	0.33
	2008			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	\$ 38,722	\$ 40,105	\$ 40,947	\$ 40,571
Operating income before loss on early extinguishment of debt, gain on property dispositions and noncontrolling interest	11,073	12,175	11,264	11,853
Net income attributable to Saul Centers, Inc.	9,130	10,229	9,521	10,814
Net income available to common shareholders	7,033	6,443	5,736	7,029
Net income available to common shareholders per share (diluted)	0.39	0.36	0.32	0.39

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 ¹	Consolidated Totals
2009				
Real estate rental operations:				
Revenue	\$ 121,572	\$ 39,532	\$ 9	\$ 161,113
Expenses	(28,670)	(11,423)	–	(40,093)
Income from real estate	92,902	28,109	9	121,020
Interest expense and amortization of deferred debt costs	–	–	(34,689)	(34,689)
General and administrative	–	–	(12,956)	(12,956)
Subtotal	92,902	28,109	(47,636)	73,375
Depreciation and amortization of deferred leasing costs	(20,324)	(7,940)	–	(28,264)
Loss on early extinguishment of debt	–	–	(2,210)	(2,210)
Gain on property dispositions	329	–	–	329
Net income	\$ 72,907	\$ 20,169	\$ (49,846)	\$ 43,230
Capital investment	\$ 24,346	\$ 1,093	\$ 55,030	\$ 80,469
Total assets	\$ 670,455	\$ 116,161	\$ 138,958	\$ 925,574

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS

16. BUSINESS SEGMENTS (continued)

	Shopping Centers	Office Properties	Corporate and Other ¹	Consolidated Totals
<i>(In thousands)</i>				
2008				
Real estate rental operations:				
Revenue	\$ 121,050	\$ 38,704	\$ 591	\$ 160,345
Expenses	(26,636)	(10,962)	–	(37,598)
Income from real estate	94,414	27,742	591	122,747
Interest expense and amortization of deferred debt costs	–	–	(34,278)	(34,278)
General and administrative	–	–	(12,321)	(12,321)
Subtotal	94,414	27,742	(46,008)	76,148
Depreciation and amortization of deferred leasing costs	(21,657)	(8,126)	–	(29,783)
Gain on property dispositions	1,301	–	–	1,301
Net income	\$ 74,058	\$ 19,616	\$ (46,008)	\$ 47,666
Capital investment	\$ 94,917	\$ 1,833	\$ 19,155	\$ 115,905
Total assets	\$ 668,493	\$ 120,410	\$ 64,970	\$ 853,873
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 and amortization of deferred debt costs	–	–	(33,855)	(33,855)
General and administrative	–	–	(11,666)	(11,666)
Subtotal	89,119	27,794	(45,067)	71,846
Depreciation and amortization of deferred leasing costs	(18,320)	(8,144)	–	(26,464)
Gain on property dispositions	139	–	–	139
Net income	\$ 70,938	\$ 19,650	\$ (45,067)	\$ 45,521
Capital investment	\$ 43,325	\$ 1,387	\$ 7,324	\$ 52,036
Total assets	\$ 569,249	\$ 122,908	\$ 35,286	\$ 727,443

¹ Clarendon Center development included because a significant component will be residential.

17. SUBSEQUENT EVENTS

The Company has reviewed operating activities for the period subsequent to December 31, 2009 and prior to the date the financial statements are issued or are available to be issued, March 15, 2010, and determined certain subsequent events are required to be disclosed.

The Company and a former anchor tenant at one of its shopping center properties have been involved in a long-standing dispute arising from the non-payment of the tenant's rent over a period of time. A final order against the former tenant was entered on March 11, 2010, awarding to the Company rent and other damages totaling approxi-

mately \$2,614,000, of which approximately \$669,000 is included in accounts receivable. The former tenant, which is no longer a tenant in any of the Company's properties, has the right to, and has indicated that it will consider, an appeal of the decision. The outcome of the action and the timing of collection is uncertain at this time.

The Company's properties have been impacted by severe winter weather, as heavy snowfall in the Mid-Atlantic states during February 2010 hindered customer's ability to shop. Preliminary costs of removing the snow from the shopping centers and office buildings is expected to approach \$3 million. Approximately 70% of the costs are historically billable to tenants.

DIRECTORS

B. Francis Saul II
Chairman and 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 and 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

Mark Sullivan III
Attorney

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

John R. Whitmore
Financial Consultant

EXECUTIVE OFFICERS

B. Francis Saul II
Chairman and Chief
Executive Officer

B. Francis Saul III
President

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

Joel A. Friedman
Senior 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 and 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
BFS.PrB

TRANSFER AGENT

Continental Stock Transfer and
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 2009, 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

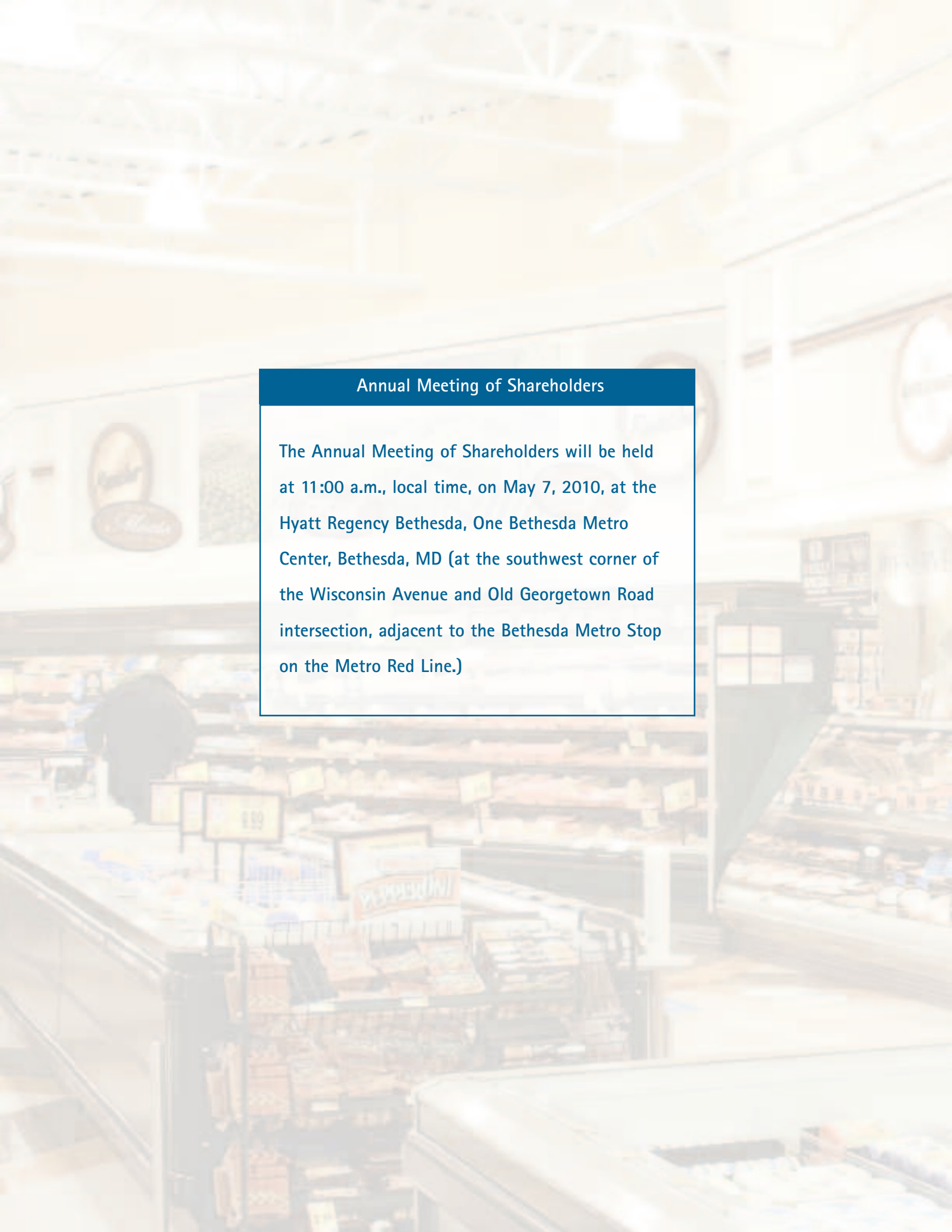
7501 Wisconsin Ave.
Suite 1500
Bethesda, MD 20814-6522
Phone: (301) 986-6200

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 average 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 and 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, 2009 – December 31, 2009	\$33.32	\$28.98
July 1, 2009 – September 30, 2009	\$34.25	\$28.29
April 1, 2009 – June 30, 2009	\$33.00	\$23.16
January 1, 2009 – March 31, 2009	\$39.05	\$20.23
October 1, 2008 – December 31, 2008	\$48.94	\$24.67
July 1, 2008 – September 30, 2008	\$51.39	\$44.14
April 1, 2008 – June 30, 2008	\$54.56	\$46.81
January 1, 2008 – March 31, 2008	\$55.41	\$45.06
On March 12, 2010, the closing price was \$38.87 per share.		
There were approximately 300 holders of record as of that date.		



Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held at 11:00 a.m., local time, on May 7, 2010, 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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