# Saul Centers



# 2010 Annual Report

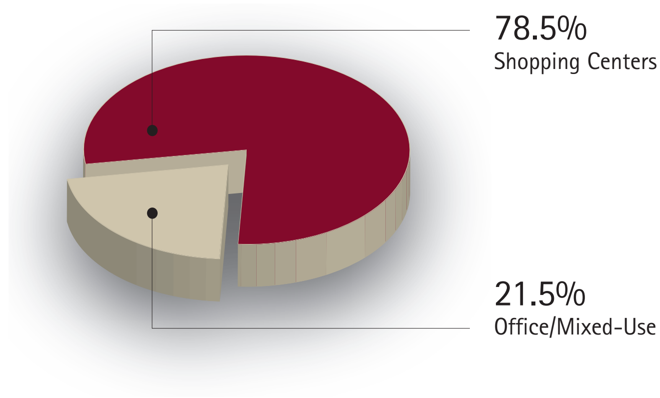
# Saul Centers, Inc.

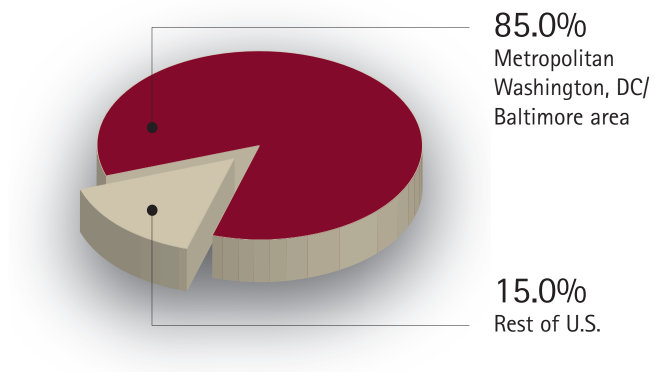
is a self-managed, self-administered equity real estate investment trust headquartered in Bethesda, Maryland. Saul Centers operates and manages a real estate portfolio of 55 community and neighborhood shopping centers and office/mixed-use properties totaling approximately 8.9 million square feet of leasable area. Over 85% 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

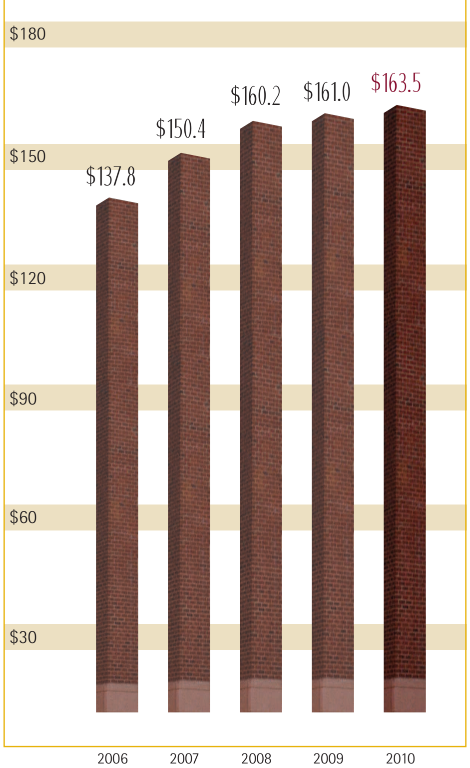
Based on 2010 Property Operating Income




## 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 from Net Income.*

Cover photos: Clarendon Center south block from the Clarendon Metro station entrance, Lyon Place apartments lobby, the crescent courtyard in front of Circa restaurant and south block office building's lobby.

SOUTHDALE, GLEN BURNIE, MD


| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| **Summary Financial Data** | | | | | |
| Total Revenue | $ 163,546,000 | $ 160,968,000 | $ 160,188,000 | $ 150,442,000 | $ 137,830,000 |
| Net Income Available to Common Stockholders | $ 21,623,000 | $ 21,573,000 | $ 26,241,000 | $ 28,703,000 | $ 24,680,000 |
| FFO Available to Common Shareholders | $ 50,556,000 | $ 56,025,000 | $ 62,695,000 | $ 63,846,000 | $ 58,121,000 |
| Weighted Average Common Stock Outstanding | 18,377,000 | 17,943,000 | 17,961,000 | 17,769,000 | 17,233,000 |
| Weighted Average Shares and Units Outstanding | 23,793,000 | 23,359,000 | 23,377,000 | 23,185,000 | 22,628,000 |
| Net Income Available to Common Stockholders Per Share (Diluted) | $ 1.18 | $ 1.20 | $ 1.46 | $ 1.62 | $ 1.43 |
| FFO Available to Common Shareholders Per Share (Diluted) | $ 2.12 | $ 2.40 | $ 2.68 | $ 2.75 | $ 2.57 |
| Common Dividend as a Percentage of FFO (Per Share) | 68% | 64% | 70% | 64% | 65% |
| Interest Expense Coverage[a] | 3.20 | 3.27 | 3.33 | 3.23 | 3.14 |
| **Property Data** | | | | | |
| Number of Properties[b] | 55 | 52 | 50 | 48 | 47 |
| Total Portfolio Square Feet | 8,901,000 | 8,424,000 | 8,194,000 | 8,009,000 | 7,904,000 |
| Shopping Center Square Feet | 7,293,000 | 7,218,000 | 6,988,000 | 6,803,000 | 6,698,000 |
| Office/Mixed-Use Square Feet | 1,608,000 | 1,206,000 | 1,206,000 | 1,206,000 | 1,206,000 |
| Average Percentage Leased | 91%[c] | 92% | 95% | 96% | 97% |

*(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 deferred leasing costs, divided by interest expense.*

*(b) Excludes development parcels (Ashland Square Phase II and New Market).*

*(c) Average percentage leased would have been 92% if the Clarendon Center development was excluded from the calculation.*

# MESSAGE
TO OUR SHAREHOLDERS

Our country's economy and commercial real estate industry continued into 2011 with the stress of stagnant job growth, fragile consumer confidence and uncertainty surrounding the future demand for retail and office space. While our nation still struggles with weak economic growth, the Washington, DC metropolitan area continues to be one of the bright spots in the real estate market. Based on the latest published reports, the nationwide unemployment rate was 8.9%, compared to the Washington area jobless rate of 5.7%. Our shopping center and office/mixed-use portfolio of 8.9 million square feet is concentrated in a 50-mile radius of the nation's capital with over 85% of our 2010 property operating income generated by 40 properties in the Washington, DC/Baltimore metropolitan area. The leasing percentage of our portfolio (exclusive of our new Clarendon Center development) was 91.0% at year-end 2010, off of its 2007 high occupancy levels of 97.3%. Despite these higher vacancy levels, we continue to achieve satisfactory operating results.

In 2010, the number of leasing transactions increased from prior year levels. During the three years 2007, 2008 and 2009, we signed an average of 218 new and renewed leases annually, for an annual average of 1,088,000 square feet of space leased. We signed 261 leases in 2010, a 20% increase over the annual pace of the past three years. These leases represent approximately 16% of our available commercial space or 1,391,000 square feet. Retail leasing levels have stabilized over the last 12 months, tenant sales volumes are showing positive signs, and shop space delinquencies have declined. Our office buildings remain under pressure with an increasing number of tenants downsizing their office space requirements at lease expiration.

While the consequences of the economic downturn have pressured earnings, we remain confident that our Washington, DC metropolitan area focus, the strength of our properties' locations, and a primary concentration of cash flow from pharmacy and grocery service-oriented retail properties will enable us to return to our historically strong property cash flow growth as economic recovery gains momentum.

## Balance Sheet Summary

During 2010, management continued its policy of pushing-out debt maturities in order to further strengthen our balance sheet in this uncertain economic environment. We closed on two new long-term non-recourse loans totaling $62.6 million, which repaid a portion of our fixed-rate debt otherwise maturing in 2012 and produced net cash proceeds of approximately $18.2 million. These new loans, secured by Thruway and Ravenwood shopping centers, have a weighted average interest rate of 5.93%, compared to the retired debt with a rate of 7.67%. In order to extend debt maturities and achieve lower interest rates, we incurred early pre-payment costs totaling $5,405,000, or $0.23 per share. These costs were one of the principal reasons for the downturn in earnings during 2010. Similarly, in 2009, we refinanced all $76 million of our fixed-rate mortgage debt due to mature in 2011, the


THRUWAY, WINSTON-SALEM, NC


RAVENWOOD, BALTIMORE, MD

CLARENDON CENTER, ARLINGTON, VA

WESTVIEW VILLAGE, FREDERICK, MD

costs of which decreased our 2009 earnings by $2,210,000, or $0.09 per share. As a result of these refinancings, no more than $62 million of fixed-rate debt will mature in any future calendar year.

As of March 2011, we had no balances outstanding on our $150 million revolving credit line. The weighted average interest rate of all of our fixed-rate debt outstanding was 6.5% with a weighted average maturity of 8.3 years. Our interest expense coverage ratio was 3.2x for 2010. Leverage, as measured by debt to total capitalization, was 35.2% at December 31, 2010.

In recent years, we have followed a practice of setting the common dividend at a level approximating taxable income to comply with REIT regulations, and not pay Federal corporate income tax. This practice has allowed us to retain excess cash flow to fund development and acquisition activities, or to retire debt. While our taxable income decreased in 2010, primarily as a result of incurring pre-payment penalties for our refinancing activity, we chose to continue paying our quarterly dividend rate of $0.36 per common share.

## Clarendon Center Development

In December 2010, we substantially completed construction of Clarendon Center, a mixed-use development on two blocks adjacent to the Clarendon Metro station in Arlington, Virginia. The project includes 42,000 square feet of retail space, 171,000 square feet of office space, 244 apartments and 600 underground parking spaces. The north block office/ retail building is anchored by the 68,000 square foot Airline Reporting Corporation, commencing operations in March 2011. The south block consists of an office building and 12 floors of apartments and retail space, including units offering spectacular views of the U.S. Capitol, the Washington Monument, the National Cathedral and many other Washington, DC landmarks.

Residents began occupying the apartments during the last week of December. As of March 15, 2011, the apartments were 87% leased, the retail space was 100% leased and office space was 58% leased. Amenities provided to the residents include an indoor lap pool, fitness center, community function room and attractive second-level private courtyard. Residents also enjoy convenient access to the vibrant Clarendon dining and shopping environment, enhanced by the addition of the project's retail tenants. The Circa restaurant opened for business in January and offers dining in the crescent plaza featuring a fountain, a bronze sculpture and accent-lighted landscaping. A Trader Joe's grocery store is scheduled to open in the fall of 2011.

With total development costs projected to be approximately $195 million upon completion of all tenant improvements and final lease-up costs, Clarendon Center is our most significant development and will, upon final lease-up, be our largest asset as measured by property operating income.

# MESSAGE
TO OUR SHAREHOLDERS

## Financial Highlights

Total revenue increased 1.6% in 2010 to $163,546,000, compared to $160,968,000 in 2009. Operating income decreased 3.1% to $43,818,000 compared to $45,199,000 for 2009, primarily due to a single-location office tenant default ($1,400,000), increased snow removal expense from severe winter storms impacting the Mid-Atlantic region ($1,200,000), increased general and administrative expense ($1,000,000) and decreased lease termination fees ($750,000) offset in part by the collection of rents and other past due charges from a former anchor tenant ($1,940,000) and operating income generated from shopping centers recently developed/acquired ($1,000,000). Net income available to common shareholder was $21,623,000 or $1.18 per diluted share in 2010, compared to $21,573,000, or $1.20 per diluted share in 2009.

Same property revenue for the total portfolio increased by 0.6% in 2010 compared to 2009 and same property operating income decreased by 0.7%.

FFO available to common shareholders for 2010 decreased by 9.8% to $50,556,000 from $56,025,000 in 2009. Per share FFO available to common shareholders for 2010 decreased by 11.7% to $2.12 per diluted share compared to $2.40 per diluted share in 2009.

FFO in 2010 decreased primarily due to higher losses on early extinguishment of debt ($3,195,000 or $0.13 per diluted share), a decline in property operating income due to (1) a single-location office tenant default, (2) increased snow removal expense, net of tenant recoveries, (3) increased general and administrative expense and (4) decreased lease termination fees, offset in part by (5) the collection of rents and other past due charges from a former tenant, and (6) operating income generated from shopping centers recently developed/acquired (collectively $1,410,000 or $0.06 per diluted share) and the costs of acquiring two properties (approximately $1,179,000 or $0.05 per diluted share).

In September 2010, we sold our Lexington, Kentucky property for $8,100,000 and recognized a gain of $3,591,000. During the fourth quarter of 2010, we acquired two shopping center properties in Montgomery County, Maryland at an aggregate cost of $48.7 million.

## Retail Operating Results

The economic slowdown which has impacted the country over the past few years continued to present challenges to shopping centers but our portfolio performance held up well. Shopping centers produced over 78% of our property operating income in 2010. The percentage of leased space at our shopping centers increased to 92.0% at December 31, 2010, compared to 91.7% a year earlier. Our same center property operating income increased 1.4% over 2009 levels. Excluding a one time collection of rent from a former anchor tenant, same center operating income decreased 0.7% from the prior year.


THRUWAY, WINSTON-SALEM, NC


SEVEN CORNERS, FALLS CHURCH, VA

# MESSAGE
TO OUR SHAREHOLDERS

During 2010, we signed 221 new and renewal leases in the shopping center portfolio comprising an aggregate of 1,080,000 square feet of space. While leasing volume improved, same space rental rates continue to be under pressure.

Market retail vacancy rates still remain at elevated levels and competition for tenants remains intense. On a same space basis for our 2010 shopping center lease deals, new and renewal cash rents decreased by 6.8% over expiring rents. In 2009, average same space cash rents decreased by 1.2%. By comparison, in 2007 and 2008, we saw average same space base rent increases that exceeded 10%.

Our tenant renewal rate decreased slightly from an average of 71% over the past three years to a 67% retention rate in 2010. Thirty-two of our 48 shopping centers are anchored by grocery stores, and these centers produce over 84% of our overall shopping center operating income. During 2010, reported grocery sales totaled $482 per square foot. On a same store basis, the sales volume of our grocers declined just 0.2% in 2010, after a 3.5% decrease in 2009. Because grocers are the primary driver of customer traffic at our shopping centers, continued healthy sales is one positive sign in a still challenging retail environment.

The recent bankruptcies of chains such as Blockbuster Video, The Great Atlantic and Pacific Tea Company and Borders Books will continue to put pressure on the shopping center industry. While rents from these three tenants in our portfolio amount to less than 1.8% of our 2010 annual revenues, we will likely experience a few closings and challenges as a result. The sales levels of our tenant base have remained solid even though weak and underperforming tenants will likely continue to close stores. Retail sales reported by our tenants during 2010 averaged $322 per square foot, and on a same store basis, retail sales increased by 0.8% from 2009, following a decrease of 3.1% from 2008 to 2009.

## Office/ Mixed-Use Performance

Our office/mixed-use portfolio includes seven properties totaling 1.6 million square feet of office, multi-family residential and complementary retail space. The properties produced 21.5% of the 2010 total property operating income. Same property operating income decreased 7.5% in 2010 compared to 2009. The weak performance was primarily the result of a single-location office tenant default in mid-2010 which resulted in a 40,000 square foot vacancy by year end. Additionally, Avenel Business Park, our 391,000 square foot one-story flex product, continues to underperform with the leasing percentage declining to 81% at year end 2010. With 176,000 square feet of space in the office properties expiring in 2011, further declines in occupancy and cash flow are expected. As of March 2011, 29,000 square feet of these expiring leases have been renewed, 54,000 square feet of tenants have vacated, and the remainder is either uncertain or under negotiation.


NORTHROCK, WARRENTON, VA

601 PENNSYLVANIA AVE

# MESSAGE
TO OUR SHAREHOLDERS


METRO PIKE CENTER, ROCKVILLE, MD


11503 ROCKVILLE PIKE, ROCKVILLE, MD

## 2010 Acquisitions

Throughout 2010, there continued to be only a limited amount of quality shopping centers offered for sale in the Washington, DC metropolitan area. The pricing expectations of the sellers of many of the properties that we considered generally would not allow us to meet our return requirements. We have, however, recently acquired two retail properties, totaling 87,000 square feet, located along the Rockville Pike corridor of Montgomery County, Maryland. These properties will provide current income and in the aggregate are zoned for in excess of one million square feet of mixed-use development. While providing long term growth opportunities, we do not anticipate redeveloping these sites in the foreseeable future.

### 11503 Rockville Pike

In October 2010, we purchased 11503 Rockville Pike, approximately 20,000 square feet of retail space located on the east side of Rockville Pike (Route 355), near the White Flint Metro Station. The property was acquired for $15.5 million and is fully leased to Staples and Casual Male. The site is zoned for up to 297,000 square feet of rentable mixed-use space.

### Metro Pike Center

In December 2010, we acquired Metro Pike Center, approximately 67,000 square feet of retail space on the west side of Rockville Pike, also conveniently located adjacent to the White Flint Metro Station.

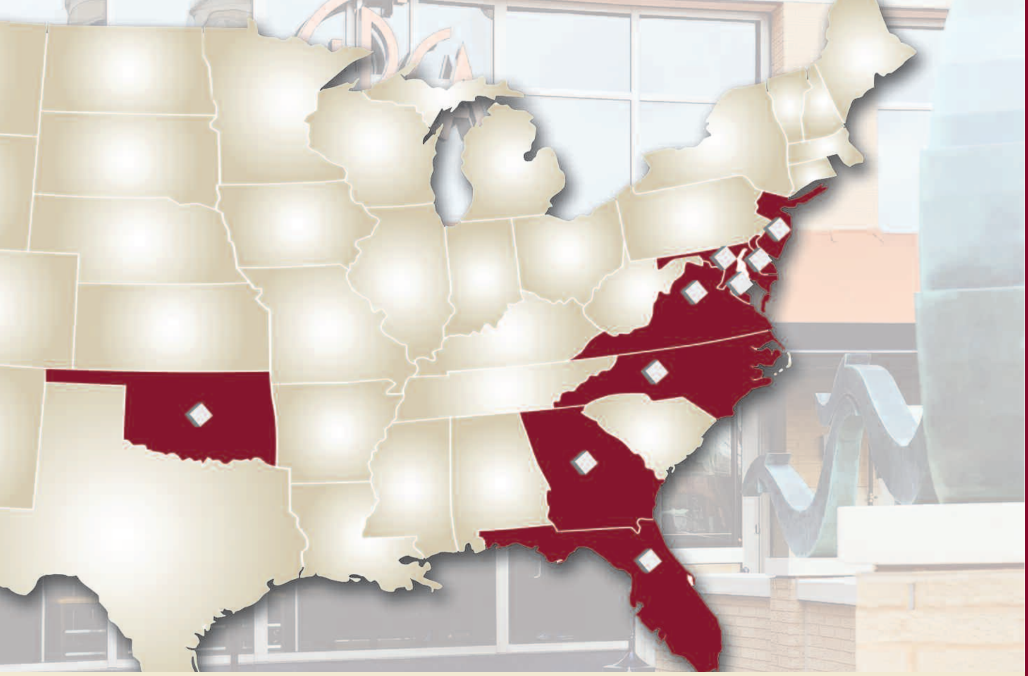
We acquired the center for $34.3 million, subject to a $16.2 million mortgage loan. The property is 89% leased to multiple tenants, and is zoned for up to 807,000 square feet of rentable mixed-use space.

While we anticipate continued pressure on commercial real estate performance throughout 2011, we have prudently positioned our balance sheet by extending debt maturities to minimize exposure to potentially volatile capital markets. The general strength of our portfolio properties' locations, largely within the metropolitan Washington, DC market, should help us deliver acceptable long-term operating results with controlled risk. We are proud of our team of professionals who have collectively worked to address the issues of the past years, and remain committed to meeting the challenges that lie ahead.

For the Board

B. Francis Saul II
March 22, 2011

CLARENDON CENTER,
ARLINGTON, VA



AS OF DECEMBER 31, 2010, SAUL CENTERS' PORTFOLIO PROPERTIES WERE LOCATED IN VIRGINIA, MARYLAND, WASHINGTON, DC, NORTH CAROLINA, DELAWARE, FLORIDA, GEORGIA, NEW JERSEY AND OKLAHOMA. PROPERTIES IN THE METROPOLITAN WASHINGTON, DC/BALTIMORE AREA REPRESENT OVER 73% OF THE PORTFOLIO'S GROSS LEASABLE AREA.

# PORTFOLIO PROPERTIES

## Shopping Centers

| PROPERTY/LOCATION | GROSS LEASABLE SQUARE FEET |
|---|---|
| ASHBURN VILLAGE, ASHBURN, VA | 221,770 |
| 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 | 133,610 |
| 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 |
| LUMBERTON PLAZA, LUMBERTON, NJ | 193,044 |
| METRO PIKE CENTER, ROCKVILLE, MD | 67,487 |
| SHOPS AT MONOCACY, FREDERICK, MD | 109,144 |
| NORTHROCK, WARRENTON, VA | 103,439 |
| OLDE FORTE VILLAGE, FT. WASHINGTON, MD | 143,175 |
| OLNEY, OLNEY, MD | 53,765 |
| ORCHARD PARK, DUNWOODY, GA | 87,885 |
| PALM SPRINGS CENTER, ALTAMONTE SPRINGS, FL | 126,446 |
| RAVENWOOD, BALTIMORE, MD | 93,328 |
| 11503 ROCKVILLE PIKE, ROCKVILLE, MD | 20,149 |
| 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 | 172,861 |
| SOUTHDALE, GLEN BURNIE, MD | 484,115 |
| SOUTHSIDE PLAZA, RICHMOND, VA | 373,651 |
| SOUTH DEKALB PLAZA, ATLANTA, GA | 163,418 |
| THRUWAY, WINSTON-SALEM, NC | 362,600 |
| VILLAGE CENTER, CENTREVILLE, VA | 143,109 |
| WEST PARK, OKLAHOMA CITY, OK | 76,610 |
| WESTVIEW VILLAGE, FREDERICK, MD | 100,997 |
| WHITE OAK, SILVER SPRING, MD | 480,276 |
| **TOTAL SHOPPING CENTERS** | **7,293,240** |

## Office/Mixed-Use Properties

| PROPERTY/LOCATION | GROSS LEASABLE SQUARE FEET |
|---|---|
| AVENEL BUSINESS PARK, GAITHERSBURG, MD | 390,579 |
| CLARENDON CENTER – SOUTH, ARLINGTON, VA | 293,333 |
| CLARENDON CENTER – NORTH, ARLINGTON, VA | 108,387 |
| CROSSTOWN 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/MIXED-USE PROPERTIES** | **1,607,573** |
| **TOTAL PORTFOLIO** | **8,900,813** |

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 Comprehensive Income ........ Page 31

Consolidated Statements of Stockholders' Equity ........ Page 32

Consolidated Statements of Cash Flows ........ Page 33

Notes to Consolidated Financial Statements ........ Pages 34-53

| *(In thousands, except per share data)* | Years Ended December 31, 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| **Operating Data** | | | | | |
| Total revenue | $ 163,546 | $ 160,968 | $ 160,188 | $ 150,442 | $ 137,830 |
| Operating expenses | 119,728 | 115,769 | 113,751 | 105,088 | 97,369 |
| Operating income | 43,818 | 45,199 | 46,437 | 45,354 | 40,461 |
| Non-operating income | | | | | |
| Loss on early extinguishment of debt | (5,405) | (2,210) | – | – | – |
| Gain on property dispositions | 2,475 | 329 | 1,301 | 139 | – |
| Acquisition related costs | (1,179) | – | – | – | – |
| Discontinued operations | 3,476 | (88) | (72) | 28 | 12 |
| Net income | 43,185 | 43,230 | 47,666 | 45,521 | 40,473 |
| Income attibutable to the noncontrolling interest | (6,422) | (6,517) | (7,972) | (8,818) | (7,793) |
| Net income attributable to Saul Centers, Inc. | 36,763 | 36,713 | 36,694 | 36,703 | 32,680 |
| Preferred dividends | (15,140) | (15,140) | (13,453) | (8,000) | (8,000) |
| Net income available to common stockholders | $ 21,623 | $ 21,573 | $ 26,241 | $ 28,703 | $ 24,680 |
| **Per Share Data (diluted)** | | | | | |
| Net income available to common stockholders | $ 1.18 | $ 1.20 | $ 1.46 | $ 1.62 | $ 1.43 |
| Basic and diluted shares outstanding | | | | | |
| Weighted average common shares - basic | 18,267 | 17,904 | 17,816 | 17,589 | 17,075 |
| Effect of dilutive options | 110 | 39 | 145 | 180 | 158 |
| Weighted average common shares - diluted | 18,377 | 17,943 | 17,961 | 17,769 | 17,233 |
| Weighted average convertible limited partnership units | 5,416 | 5,416 | 5,416 | 5,416 | 5,395 |
| Weighted average common shares and fully converted limited partnership units - diluted | 23,793 | 23,359 | 23,377 | 23,185 | 22,628 |
| **Dividends Paid** | | | | | |
| Cash dividends to common stockholders [1] | $ 26,186 | $ 27,358 | $ 33,450 | $ 31,026 | $ 28,579 |
| Cash dividends per share | $ 1.44 | $ 1.53 | $ 1.88 | $ 1.77 | $ 1.68 |
| **Balance Sheet Data** | | | | | |
| Real estate investments (net of accumulated depreciation) | $ 927,250 | $ 834,914 | $ 774,718 | $ 657,258 | $ 627,651 |
| Total assets | 1,013,888 | 925,574 | 853,873 | 727,443 | 700,537 |
| Total debt, including accrued interest | 713,997 | 639,405 | 570,184 | 535,319 | 525,125 |
| Preferred stock | 179,328 | 179,328 | 179,328 | 100,000 | 100,000 |
| Total stockholders' equity | 239,813 | 226,063 | 227,887 | 153,524 | 137,876 |
| **Other Data** | | | | | |
| Cash flow provided by (used in): | | | | | |
| Operating activities | $ 62,887 | $ 69,025 | $ 73,101 | $ 71,197 | $ 62,174 |
| Investing activities | $ (98,239) | $ (80,469) | $ (115,070) | $ (52,036) | $ (65,699) |
| Financing activities | $ 27,713 | $ 19,045 | $ 49,210 | $ (21,457) | $ 3,579 |
| Funds from operations [2] | | | | | |
| Net income | $ 43,185 | $ 43,230 | $ 47,666 | $ 45,521 | $ 40,473 |
| Real property depreciation and amortization | 28,474 | 28,150 | 29,555 | 26,458 | 25,642 |
| Real property depreciation - discontinued operations | 103 | 114 | 114 | 3 | 3 |
| Gain on property dispositions | (6,066) | (329) | (1,301) | (139) | – |
| Funds from operations | 65,696 | 71,165 | 76,034 | 71,843 | 66,118 |
| Preferred dividends | (15,140) | (15,140) | (13,453) | (8,000) | (8,000) |
| Funds from operations available to common shareholders | $ 50,556 | $ 56,025 | $ 62,581 | $ 63,843 | $ 58,118 |

1) *For the years 2010, 2009, 2008, 2007, and 2006, shareholders reinvested $16,696, $4,136, $3,941, $18,725, and $14,842, 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 non-GAAP financial measure of performance of an equity REIT used by the REIT industry.

The MD&A contained in this Annual Report should be read in conjunction with the Company's 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 long term growth in cash flow as existing leases for space in the Shopping Centers and Mixed-Use properties 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 optimize the mix of uses to improve foot traffic through the shopping centers. 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 goals of increasing occupancy, improving overall retail sales, and ultimately increasing cash flow as economic conditions improve. 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 that have 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 and the escalated pricing of these properties that the Company has been presented with or has inquired about over the past year, management believes acquisition opportunities for investment in existing and new shopping center and office properties in the near future is uncertain. The Company has, however, recently acquired two retail properties located adjacent to the White Flint Metro Station on the Rockville Pike corridor of Montgomery County, Maryland. These properties not only provide current income, but are zoned for in the aggregate in excess of one million square feet of mixed-use development. Because of its conservative capital structure, including its cash and unfunded credit line, management believes that the Company is positioned to take advantage of additional investment opportunities as attractive opportunities are located and market conditions improve. It is management's view that several of the sub-markets in which the Company operates have or will in the future 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 generally been less severe. However, continued economic stress in the local economies where the Company's properties are located may lead to increased tenant bankruptcies, increased vacancies and decreased rental rates.

With the decline in overall consumer spending in the past few years, retailers continue to struggle with declining sales and limited access to capital. Vacancies continue to remain elevated compared to pre-recession levels. Our overall portfolio leasing percentage, on a comparative same center basis, ended the year at 92.0%, a decrease from 92.6% at year end 2009, a space leased reduction of approximately 54,000 square feet. The decline in leased space occurred primarily at Van Ness Square and Avenel Business Park.

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, 2010, amortizing fixed-rate mortgage debt with staggered maturities from 2012 to 2026, represented approximately 85% 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 only other debt consists of two construction loans for the Northrock and Clarendon Center developments, both of which may be extended, under certain conditions, until May 2013. Finally, as of December 31, 2010, the Company has loan availability of approximately \$138.8 million under its \$150 million 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.

## CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), which requires management to make certain estimates and assumptions that effects the Company's reported financial position and results of operations. See Note 2 to the Consolidated Financial Statements in this report. The Company has identified the following policies that, due to estimates and assumptions inherent in those policies, involve a relatively high degree of judgment and complexity.

### Real Estate Investments

Real estate investment properties are stated at historic cost less depreciation. Although the Company intends to own its real estate investment properties over a long term, from time to time it will evaluate its market position, market conditions, and other factors and may elect to sell properties that do not conform to the Company's investment profile. 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 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 fair value of buildings is determined as if the buildings were vacant upon acquisition and subsequently leased at market rental rates and 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 in-place lease relative to market terms for similar leases at acquisition taking into consideration the remaining contractual lease period, renewal periods, and 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 the value of a real estate investment property may be impaired, the Company prepares an 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 compares 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 the 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. Leasehold improvements expenditures are capitalized when certain criteria are met, including when we supervise construction and will own the improvement. Tenant improvements owned by the Company 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. Commercial development projects are substantially complete and available for occupancy upon completion of tenant improvements, but no later than one year from the cessation of major construction activity. Residential development projects are considered substantially complete and available for occupancy upon receipt of the certificate of occupancy from the appropriate licensing authority. 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 commercial 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 breakpoint 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, which 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.

## RESULTS OF OPERATIONS

**Revenue**

| | For the year ended December 31, | | | Percentage Change | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | 2010 | 2009 | 2008 | 2010 to 2009 | 2009 to 2008 |
| Base rent | $ 126,518 | $ 125,727 | $ 124,881 | 0.6% | 0.7% |
| Expense recoveries | 29,534 | 29,442 | 29,042 | 0.3% | 1.4% |
| Percentage rent | 1,458 | 1,326 | 1,509 | 10.0% | (12.1)% |
| Other | 6,036 | 4,473 | 4,756 | 34.9% | (6.0)% |
| Total revenue | $ 163,546 | $ 160,968 | $ 160,188 | 1.6% | 0.5% |

*Note: Base rent includes $225, $1,303, and $753, for the years 2010, 2009 and 2008, respectively, to recognize base rent on a straight-line basis. In addition, base rent includes $1,024, $1,249, and $1,445 for the years 2010, 2009 and 2008, respectively, to recognize income from the amortization of in-place leases.*

Total revenue increased 1.6% in 2010 compared to 2009. The revenue increase for the 2010 Period resulted primarily from the collection of past due rents and other damages arising from a long-standing dispute with a tenant over the non-payment of rent over a period of time (approximately $1,939,000), the operations of the 2009 development properties (Northrock and Westview Village) and two 2010 acquisition properties (Metro Pike Center and 11503 Rockville Pike), together defined as the "2010/2009 Development and Acquisition Properties" (approximately $1,675,000), 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 rental income (approximately $1,036,000).

Total revenue increased 0.5% in 2009 compared to 2008. The revenue increase for the 2009 Period resulted from the operations of the 2009 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 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). A discussion of the components of revenue follows.

### Base Rent

The $791,000 increase in base rent in 2010 over 2009 was primarily attributable to leases in effect at the 2010/2009 Development and Acquisition Properties (approximately $1,339,000) which was offset by base rent decreases of approximately $828,000 at the mixed-use properties, primarily due to a single-location office tenant default.

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 partially 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.

### 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. Expense recovery income increased $92,000 in 2010 compared to 2009.

The operation of the 2009/2008 Development and Acquisition Properties contributed the majority of the $400,000 increase in expense recovery income in 2009 compared to 2008 (approximately $359,000).

### Percentage Rent

Percentage rent is rental revenue calculated on the portion of a tenant's sales revenue that exceeds a specified breakpoint. Percentage rent increased $132,000 in 2010 compared to 2009 primarily due to timing differences in the receipt of sales reports used to calculate percentage rent from two shopping center tenants.

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.

### Other Revenue

Other revenue consists primarily of parking revenue at three of the Mixed-Use Properties, temporary lease rental revenue, payments associated with early termination of leases and interest income from the investment of cash balances. The $1,563,000 increase in other revenue for 2010 resulted primarily from the collection of past due rents and other damages arising from a long-standing dispute with a tenant over the non-payment of rent over a period of time (approximately $1,939,000) and increased parking and temporary lease rental income (approximately $246,000) offset in part by decreased lease termination fees (approximately $743,000).

Other revenue decreased $283,000 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 at the mixed use properties portfolio (approximately $278,000).

**Operating Expenses**

| (Dollars in thousands) | For the year ended December 31, 2010 | 2009 | 2008 | Percentage Change 2010 to 2009 | 2009 to 2008 |
|---|---|---|---|---|---|
| Property operating expenses | $ 23,198 | $ 21,301 | $ 19,773 | 8.9% | 7.7% |
| Provision for credit losses | 1,337 | 919 | 1,113 | 45.5% | (17.4)% |
| Real estate taxes | 17,793 | 17,754 | 16,597 | 0.2% | 7.0% |
| Interest expense and amortization of deferred debt | 34,958 | 34,689 | 34,278 | 0.8% | 1.2% |
| Depreciation and amortization | 28,474 | 28,150 | 29,669 | 1.2% | (5.1)% |
| General and administrative | 13,968 | 12,956 | 12,321 | 7.8% | 5.2% |
| Total operating expenses | $ 119,728 | $ 115,769 | $ 113,751 | 3.4% | 1.8% |

### Property Operating Expenses

Property operating expenses, a portion of which is recoverable from tenants, consist primarily of repairs and maintenance, utilities, payroll, insurance and other property related expenses. The largest single item contributing to the $1,897,000 increase in 2010 property operating expenses compared to the 2009 year was snow removal expense (approximately $1,568,000) resulting primarily from heavy snowfall in the Mid-Atlantic states during January and February 2010.

The largest single item contributing to the $1,528,000 increase in 2009 property operating expenses compared to the 2008 year was snow removal expense ( approximately $1,347,000) resulting primarily from a heavy snowfall in the Mid-Atlantic states during the December 2009 retail holiday season.

### 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 $418,000 credit loss increase in 2010 compared to 2009 was primarily caused by the default of a single-location office tenant.

The provision for credit losses decreased $194,000 in 2009 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.

### Real Estate Taxes

The $39,000 increase in real estate taxes in 2010 over 2009 resulted primarily from the operation of the 2010/2009 Development and Acquisition Properties (approximately $259,000), offset in part by decreased real estate tax expense in shopping centers operated more than one year (approximately $230,000).

The $1,157,000 increase in real estate taxes in 2009 over 2008 resulted primarily from a 5.8% increase in real estate tax expense throughout the Core Properties (approximately $948,000). The operation of the 2009/2008 Development and Acquisition Properties contributed the remainder of the real estate tax increase.

### Interest and Amortization of Deferred Debt

Interest expense increased $269,000 in 2010 compared to 2009 primarily due to approximately $53,000,000 of increased debt balances outstanding, resulting from the refinancing of five mortgage loans during 2009 and construction loan draws, less scheduled monthly principal payments. The majority of the interest incurred on the construction loans was capitalized as project costs and had little impact on interest expense for the 2010 Period. The additional amounts borrowed increased interest expense in 2010 compared to 2009 by approximately $3,509,000, which was partially offset by approximately $1,670,000 due to lower interest rates on refinanced debt, increased capitalized interest of approximately $1,207,000 and revolving credit facility modification costs incurred during the 2009 Period of approximately $363,000.

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.

### Depreciation and Amortization

Depreciation and amortization of deferred leasing costs increased $324,000 in 2010 compared to 2009 primarily as a result of depreciation commencement for the 2010/2009 Development and Acquisition Properties.

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 in the prior year period.

### General and Administrative

General and administrative expenses consist of payroll, administrative and other overhead expenses. The $1,012,000 increase in general and administrative expenses in 2010 compared to 2009 resulted from increased staff expenses totaling approximately $725,000, resulting in part from lower capitalization of development personnel costs and increased health care expense, and professional fees (approximately $392,000).

The $635,000 increase in general and administrative expenses in 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.

### Loss on Early Extinguishment of Debt

In June 2010, the Company refinanced its Thruway shopping center, located in Winston-Salem, North Carolina. The new $45,600,000 loan requires principal and interest payments calculated using a 5.83% interest rate and a 25-year amortization schedule, and matures in ten years. In December 2010, the Company refinanced its Ravenwood shopping center, located in Baltimore, Maryland. The new $17,000,000 loan requires principal and interest payments calculated using a 6.18% interest rate and a 25-year amortization schedule, and matures in 15 years. These loans refinanced a portion of a 7.67%, multi-property loan scheduled to mature in October 2012. In conjunction with the refinancings, the Company incurred costs to retire the old Thruway debt totaling $4,479,000 (approximately $4,425,000 to defease the original loan and write-offs of unamortized deferred debt costs of approximately $54,000) and to retire the old Ravenwood debt totaling $926,000 (approximately $912,000 to defease the original loan and write-offs of unamortized deferred debt costs of approximately $14,000). The transactions reduced the Company's future refinancing risk by decreasing the amount of debt maturing in 2012 from $95,700,000 to $62,000,000, and provided net cash proceeds of approximately $17,400,000.

During 2009, the Company refinanced debt with outstanding balances totaling $70,619,000, prior to its December 2011 maturity, in order to obtain new mortgage debt totaling $118,000,000. In conjunction with the refinancings, the Company incurred prepayment penalties (approximately $1,892,000) and wrote off unamortized deferred debt costs related to the repaid mortgages (approximately $318,000).

### Gain on Casualty Settlement

Gain on casualty settlement in 2010 reflects the excess of insurance proceeds over the carrying value of assets damaged during a severe hail storm at French Market. The insurance proceeds funded substantially all of the restoration of the damaged property.

Gain on casualty settlement in 2009 of $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 properties.

The 2008 gain totaling $1,301,000 represents the excess of insurance proceeds received over the carrying value of assets damaged at three shopping centers. The insurance proceeds funded substantially all of the restoration of the damaged properties.

### Acquisition Related Costs

Acquisition related costs relate to the Company's October 1, 2010 purchase of a 20,000 square foot property and December 17, 2010 purchase of a 67,500 square foot property, both located near the White Flint Metro Station in Montgomery County, Maryland.

### Gain on Property Sale

Gain on property sale in 2010 resulted from the sale of the Lexington Center land parcel and Lexington pads.

## IMPACT OF INFLATION

Inflation has remained relatively low during 2010 and 2009, 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 $12,968,000 and $20,607,000 at December 31, 2010 and 2009, respectively. The changes in cash and cash equivalents during the years ended December 31, 2010 and 2009 were attributable to operating, investing and financing activities, as described below.

| | Year Ended December 31, | |
|---|---|---|
| *(Dollars in thousands)* | 2010 | 2009 |
| Net cash provided by operating activities | $ 62,887 | $ 69,025 |
| Net cash used in investing activities | (98,239) | (80,469) |
| Net cash provided by financing activities | 27,713 | 19,045 |
| Increase (decrease) in cash and cash equivalents | $ (7,639) | $ 7,601 |

### Operating Activities

Net cash provided by operating activities decreased $6,138,000 to $62,887,000 for the year ended December 31, 2010 compared to $69,025,000 for the year ended December 31, 2009, primarily reflecting expenses incurred to retire debt prior to its October 2012 maturity. Net 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

Net cash used in investing activities increased $17,770,000 to $98,239,000 for the year ended December 31, 2010 compared to $80,469,000 for the year ended December 31, 2009. Investing activities for 2010 primarily reflect the Clarendon Center construction costs, the purchase of 11503 Rockville Pike and Metro Pike Center, tenant improvements and property capital expenditures throughout the portfolio. Proceeds from the sale of Lexington Center and insurance proceeds from the French Market hailstorm casualty settlement partially offset the cash used for developments, acquisitions and property improvements.

Investing activities for 2009 primarily reflect the construction of new and renovated 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 $6,573,000 and $7,256,000, for 2010 and 2009, respectively.

### Financing Activities

Net cash provided by financing activities for the years ended December 31, 2010 and 2009, was $27,713,000 and $19,045,000, respectively. Cash provided by financing activities for the year ended December 31, 2010 primarily reflects:

- proceeds received from two new mortgage notes payable totaling $62,600,000;
- amounts borrowed from construction loans payable totaling $49,505,000; and
- $19,479,000 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 $53,691,000;
- distributions made to common stockholders and holders of convertible limited partnership units in the Operating Partnership during the year totaling $33,986,000;
- distributions made to preferred stockholders during the year totaling $15,140,000; and
- payments of $1,054,000 for financing costs of new mortgage loans.

Net 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.

## 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. The Company expects to refinance the Clarendon Center construction loan with long term permanent financing as soon as commercially practical.

Any future 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, 2010, the Company had unfunded contractual payment obligations of approximately $182.8 million, excluding operating obligations, due within the next 12 months. The table below specifies the total contractual payment obligations as of December 31, 2010.

**Contractual Payment Obligations**

| | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | Less than 1 Year | 2-3 Years | 4-5 Years | After 5 Years | Total |
| Notes Payable: | | | | | |
| Interest | $ 40,725 | $ 65,308 | $ 51,999 | $ 134,889 | $ 292,921 |
| Scheduled Principal | 16,538 | 29,453 | 25,535 | 85,517 | 157,043 |
| Balloon Payments | 110,242 | 117,212 | 28,295 | 298,597 | 554,346 |
| Subtotal | 167,505 | 211,973 | 105,829 | 519,003 | 1,004,310 |
| Operating Leases (1) | 169 | 352 | 352 | 9,890 | 10,763 |
| Corporate Headquarters Lease (1) | 875 | 148 | – | – | 1,023 |
| Development Obligations | 14,254 | – | – | – | 14,254 |
| Total Contractual Obligations | $ 182,803 | $ 212,473 | $ 106,181 | $ 528,893 | $ 1,030,350 |

*(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, 2010 included cash balances of $13.0 million, borrowing availability of approximately $138.8 million on its revolving line of credit and borrowing availability of approximately $69.1 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.

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 418,512 and 125,956 shares under the Plan at a weighted average discounted price of $39.13 and $30.21 per share during the years ended December 31, 2010 and 2009, respectively. The Company also credited 8,335 and 10,491 shares to directors pursuant to the reinvestment of dividends specified by the Directors' Deferred Compensation Plan at a weighted average discounted price of $38.85 and $31.69 per share, during the years ended December 31, 2010 and 2009, 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, 2010.

The organizational documents of the Company do not limit the absolute amount or percentage of indebtedness that it may incur. The Board of Directors may, from time to time, reevaluate the Company's debt capitalization policy in light of current economic conditions, relative costs of capital, market values of the Company property portfolio, opportunities for acquisition, development or expansion, and such other factors as the Board of Directors then deems relevant. The Board of Directors may modify the Company's debt capitalization policy based on such a reevaluation without shareholder approval and consequently, may increase or decrease the Company's debt to total asset ratio above or below 50% or may waive the policy for certain periods of time. The Company selectively continues to refinance or renegotiate the terms of its outstanding debt in order to achieve longer maturities, and obtain generally more favorable loan terms, whenever management determines the financing environment is favorable.

The following is a summary of notes payable as of December 31, 2010 and 2009:

**Notes Payable**

| *(Dollars in thousands)* | December 31, 2010 | | 2009 | Interest Rate * | Scheduled Maturity * |
|---|---|---|---|---|---|
| Fixed rate mortgages: | $ 68,461 | *(a)* | 110,847 | 7.67% | Oct-2012 |
| | 10,457 | *(b)* | 10,658 | 6.12% | Jan-2013 |
| | 26,123 | *(c)* | 27,533 | 7.88% | Jan-2013 |
| | 16,169 | *(d)* | – | 4.67% | Jun-2013 |
| | 7,456 | *(e)* | 7,694 | 5.77% | Jul-2013 |
| | 14,771 | *(f)* | 15,184 | 5.40% | May-2014 |
| | 17,983 | *(g)* | 18,506 | 7.45% | Jun-2015 |
| | 36,435 | *(h)* | 37,376 | 6.01% | Feb-2018 |
| | 41,047 | *(i)* | 42,265 | 5.88% | Jan-2019 |
| | 13,277 | *(j)* | 13,671 | 5.76% | May-2019 |
| | 18,331 | *(k)* | 18,876 | 5.62% | Jul-2019 |
| | 18,180 | *(l)* | 18,702 | 5.79% | Sep-2019 |
| | 16,222 | *(m)* | 16,706 | 5.22% | Jan-2020 |
| | 11,905 | *(n)* | 12,127 | 5.60% | May-2020 |
| | 10,966 | *(o)* | 11,279 | 5.30% | Jun-2020 |
| | 45,190 | *(p)* | – | 5.83% | Jul-2020 |
| | 9,458 | *(q)* | 9,698 | 5.81% | Feb-2021 |
| | 6,588 | *(r)* | 6,693 | 6.01% | Aug-2021 |
| | 38,018 | *(s)* | 38,625 | 5.62% | Jun-2022 |
| | 11,494 | *(t)* | 11,661 | 6.08% | Sep-2022 |
| | 12,343 | *(u)* | 12,504 | 6.43% | Apr-2023 |
| | 17,435 | *(v)* | 17,977 | 6.28% | Feb-2024 |
| | 18,090 | *(w)* | 18,368 | 7.35% | Jun-2024 |
| | 15,659 | *(x)* | 15,891 | 7.60% | Jun-2024 |
| | 16,717 | *(y)* | 16,923 | 8.11% | Jul-2024 |
| | 32,812 | *(z)* | 33,305 | 7.45% | Jul-2024 |
| | 32,560 | *(aa)* | 33,000 | 7.30% | Jan-2025 |
| | 17,000 | *(bb)* | – | 6.18% | Jan-2026 |
| Total fixed rate | 601,147 | | 576,069 | 6.47% | 8.3 Years |
| Variable rate loans: | | | | | |
| Revolving credit facility | – | *(cc)* | – | LIBOR + 3.725% | Jun-2012 |
| Northrock construction loan | 19,409 | *(dd)* | 19,118 | LIBOR + 3.00% | May-2011 |
| Clarendon construction loan | 90,833 | *(ee)* | 41,619 | LIBOR + 2.50% | Nov-2011 |
| Total variable rate | 110,242 | | 60,737 | 3.08% | 0.7 Years |
| Total notes payable | $ 711,389 | | $ 636,806 | 5.94% | 7.5 Years |

** Interest rate and scheduled maturity data presented as of December 31, 2010. Totals computed using weighted averages.*

*(a) The loan is collateralized by seven shopping centers (Seven Corners, White Oak, Hampshire Langley, Great Eastern, Southside Plaza, Belvedere and Giant) and requires equal monthly principal and interest payments of $734,000 based upon a 25-year amortization schedule and a final payment of $61,960,000 at loan maturity. Principal of $37,973,000 was defeased in conjunction with the Thruway and Ravenwood refinancings and $4,413,000 was amortized during 2010.*

*(b) 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 $201,000 was amortized during 2010.*

*(c) 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 $1,410,000 was amortized during 2010.*

(d) *The loan, together with a corresponding interest-rate swap, was assumed with the December 17, 2010 acquisition of Metro Pike Center. On a combined basis, the loan and the swap require interest only payments of $63,000 until August 1, 2011, then equal monthly payments of $86,000 based upon a 25-year amortization schedule and a final payment of $15,605,000 at loan maturity.*

(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 $238,000 was amortized during 2010.*

(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 $413,000 was amortized during 2010.*

(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 $523,000 was amortized during 2010.*

(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 $941,000 was amortized during 2010.*

(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 $1,218,000 was amortized during 2010.*

(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 $394,000 was amortized during 2010.*

(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 $545,000 was amortized during 2010.*

(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 $522,000 was amortized during 2010.*

(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 $484,000 was amortized during 2010.*

(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 $222,000 was amortized during 2010.*

(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 $313,000 was amortized during 2010.*

(p) *The loan, and a corresponding interest-rate swap, closed on June 30, 2010 and are collateralized by Thruway. On a combined basis, the loan and the interest-rate swap require equal monthly principal and interest payments of $289,000 based upon a 25-year amortization schedule and a final payment of $34,753,000 at loan maturity. Principal of $410,000 was amortized during 2010.*

(q) *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 $240,000 was amortized during 2010.*

(r) *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 $105,000 was amortized during 2010.*

(s) *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 $607,000 was amortized during 2010.*

(t) *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 $167,000 was amortized during 2010.*

(u) *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 $161,000 was amortized during 2010.*

(v) *The loan is collateralized by Great Falls Center. 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 $542,000 was amortized during 2010.*

(w) *The loan 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 $278,000 was amortized during 2010.*

(x) *The loan 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 $232,000 was amortized during 2010.*

(y) *The loan 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 $206,000 was amortized during 2010.*

(z) *The loan 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 $493,000 was amortized during 2010.*

(aa) *The loan 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. Principal of $440,000 was amortized during 2010.*

(bb) *The loan, closed on December 9, 2010, is collateralized by Ravenwood and requires equal monthly principal and interest payments of $111,000 based upon a 25-year amortization schedule and a final payment of $10,065,000 at loan maturity.*

(cc) *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.*

(dd) *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%. On May 1, 2011, a portion of the loan balance may be extended two years, at the Company's option, subject to certain debt coverage requirements.*

(ee) *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.*

The carrying value of properties collateralizing the mortgage notes payable totaled $831,639,000 and $746,377,000, as of December 31, 2010 and 2009, respectively. The Company's credit facility requires the Company and its subsidiaries to maintain certain financial covenants, which are summarized below. As of December 31, 2010, the Company was in compliance with all such covenants.

- 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);
- 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; and
- limit the outstanding debt plus undrawn loan availability to 8.0x trailing twelve month adjusted EBITDA, as defined in the loan agreement.

### 2010 Financing Activity

On June 29, 2010, the Company closed on a new 10-year mortgage loan in the amount of $45,600,000, secured by Thruway. The loan matures July 1, 2020, and bears interest at a variable-rate equal to the sum of one-month LIBOR and 260 basis points. In conjunction with the financing, the Company entered into an interest rate swap agreement with a $45,600,000 notional amount to manage the interest rate risk associated with the above $45,600,000 of variable-rate mortgage debt. The swap agreement was effective June 29, 2010, terminates on July 1, 2020 and effectively fixes the interest-rate on the mortgage debt at 5.83%. The Company has designated this agreement as a cash flow hedge for accounting purposes. The critical terms of the interest rate swap match the terms of the variable-rate mortgage debt and, as a result, the hedge has been deemed to be perfectly effective and the arrangement satisfies the criteria for the so-called "short-cut" method of accounting. The Company, therefore, will recognize interest expense on the combined variable-rate debt and the interest-rate swap at the effective fixed rate of 5.83% and will not test the hedge for effectiveness in future periods. On a combined basis, the loan and the interest-rate swap require equal monthly principal and interest payments of approximately $289,000, based upon an assumed interest rate of 5.83% and a 25-year principal amortization, and requires a final principal payment of approximately $34,753,000 at maturity.

Prior to the refinancing, Thruway was one of nine properties securing a collateralized mortgage-backed security (CMBS) with an outstanding balance of $108,324,000, an interest rate of 7.67% and due to mature October 2012. In order to release Thruway, the Company defeased $30,179,000 of the outstanding balance at a cost of approximately $4,425,000, using proceeds from the new mortgage financing.

On August 24, 2010, the Company entered into an amendment to its Northrock construction loan to provide an option to extend the loan, which matures May 1, 2011, for two years. The extension is available at the Company's option subject to notice to the bank, and to a principal repayment in an amount required to cause property operating income to meet certain debt service coverage levels.

On December 9, 2010, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of $17,000,000 secured by Ravenwood. The loan matures January 2026, requires monthly interest and principal payments of approximately $111,000 based upon a fixed interest rate of 6.18% and a 25-year principal amortization and requires a final principal payment of approximately $10,065,000 at maturity.

Prior to the refinancing, Ravenwood was one of eight remaining properties securing a CMBS with an outstanding balance of $76,254,000, an interest rate of 7.67% and due to mature October 2012. In order to release Ravenwood, the Company defeased $7,794,000 of the outstanding balance at a cost of approximately $900,000, using proceeds from the new mortgage financing.

On December 17, 2010, the Company purchased Metro Pike Center, a 67,000 square foot retail property located in Rockville, Maryland. In conjunction with the acquisition, the Company assumed a mortgage loan with a principal balance of $16,169,000. The loan matures June 30, 2013, bears interest at a variable rate equal to the sum of one-month LIBOR and 245 basis points. In conjunction with the loan assumption, the Company assumed a corresponding interest rate swap agreement with a $16,169,000 notional amount to manage the interest rate risk associated with the variable-rate mortgage debt. The swap agreement was effective at closing, terminates on June 30, 2013 and effectively fixes the interest rate on the mortgage debt at 4.67%. On a combined basis, the loan and the interest-rate swap require interest-only payments of approximately $63,000 until August 1, 2011, equal monthly principal and interest payments of approximately $86,000 based upon a 25-year amortization schedule and a final payment of $15,605,000 at loan 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 2010, the Company reported Funds From Operations (FFO)[1] available to common shareholders (common stockholders and limited partner unitholders) of $50,556,000, a 9.8% decrease from 2009 FFO available to common shareholders of $56,025,000. 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, 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Net income | $ 43,185 | $ 43,230 | $ 47,666 | $ 45,521 | $ 40,473 |
| Subtract: | | | | | |
| Gain on property sale | (3,591) | – | – | – | – |
| Gain on casualty settlement | (2,475) | (329) | (1,301) | (139) | – |
| Add: | | | | | |
| Real estate depreciation – discontinued operations | 103 | 114 | 114 | – | – |
| Real estate depreciation and amortization | 28,474 | 28,150 | 29,669 | 26,464 | 25,648 |
| FFO | 65,696 | 71,165 | 76,148 | 71,846 | 66,121 |
| Subtract: | | | | | |
| Preferred dividends | (15,140) | (15,140) | (13,453) | (8,000) | (8,000) |
| FFO available to common shareholders | $ 50,556 | $ 56,025 | $ 62,695 | $ 63,846 | $ 58,121 |
| Average shares and units used to compute FFO per share | 23,793 | 23,359 | 23,793 | 23,185 | 22,628 |

*[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 a indicator of the Company's operating performance, or as an alternative to cash flows as a measure of liquidity. Management considers FFO a meaningful supplemental measure of operating performance because it primarily excludes the assumption that the value of the real estate assets diminishes predictably over time (i.e. depreciation), which is contrary to what we believe occurs with our assets, and because industry analysts have accepted it as a performance measure. FFO may not be comparable to similarly titled measures employed by other REITs.*

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to certain financial market risks, the most predominant being fluctuations in interest rates. Interest rate fluctuations are monitored by management as an integral part of the Company's overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effect on the Company's results of operations.

The Company may, where appropriate, employ derivative instruments, such as interest rate swaps, to mitigate the risk of interest rate fluctuations. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes. On June 29, 2010, the Company entered into an interest rate swap agreement with a $45,600,000 notional amount to manage the interest rate risk associated with $45,600,000 of variable-rate mortgage debt. The swap agreement was effective July 1, 2010, terminates on July 1, 2020 and effectively fixes the interest rate on the mortgage debt at 5.83%. In conjunction with the purchase of Metro Pike Center, and the assumption of the related variable-rate mortgage loan, the Company assumed an interest-rate swap agreement with a $16,169,000 notional amount to manage the interest rate risk associated with the loan. The swap agreement was effective as of the closing date, terminates on June 30, 2013 and effectively fixes the interest rate on the mortgage debt at 4.67%. The aggregate fair value of these swaps at December 31, 2010 was approximately $1.1 million and is reflected in accounts payable, accrued expenses and other liabilities in the consolidated balance sheet.

The Company is exposed to interest rate fluctuations which will affect the amount of interest expense of its variable rate debt and the fair value of its fixed rate debt. As of December 31, 2010, the Company had variable rate indebtedness totaling $110,242,000. If the interest rates on the Company's variable rate debt instruments outstanding at December 31, 2010 had been one percent higher, our annual interest expense relating to these debt instruments would have increased by $1,102,000, based on those balances. As of December 31, 2010, the Company had fixed-rate indebtedness totaling $601,147,000 with a weighted average interest rate of 6.47%. If interest rates on the Company's fixed-rate debt instruments at December 31, 2010 had been one percent higher, the fair value of those debt instruments on that date would have decreased by approximately $31,931,000.

## 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 2010, 2009 and 2008.

### 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 retail and office space was approved during the fourth quarter of 2007. The Company has completed preliminary site work consisting of clearing, grading and site utility construction. Capital One Bank operates a branch on the site and 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 2012. 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, 2010. The Company completed construction during mid-2009 of capital improvements to improve access to the center, reconfigure portions of the center and upgrade the center's façade and common areas. The cost of the redevelopment was approximately $6.9 million and the redeveloped center totals approximately 173,000 square feet. During 2010, the Company leased 10,750 square feet of the vacant retail shop space, and 32,000 square feet of retail space and 31,000 square feet of second floor professional office space remaining as of year end 2010.

### 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, 2010. The Company completed a façade renovation of Hunt Club during 2008 for a total cost of approximately $0.9 million.

### Clarendon Center

The Company has substantially completed construction of a mixed-use project which includes approximately 42,000 square feet of retail space, 171,000 square feet of office space, 244 apartments and 600 underground parking spaces, on two city blocks, adjacent to the Clarendon Metro Station in Arlington County, Virginia. Development costs are expected to total approximately $195.0 million, of which approximately $169.3 million has been incurred as of December 31, 2010. A portion of the development costs have been funded with the project's $157.5 million construction loan, of which $66.7 million remains available to borrow as of December 31, 2010.

The south block consists of 11 floors of residential area (244 units) alongside 8 floors of office space (76,000 square feet), both atop ground floor retail space (29,000 square feet). Space was turned over to the first office tenant whose occupancy began in mid-December, 2010. Improvements for several retail tenants were under construction at year end, and the first retail occupancy occurred in January 2011, when Circa Restaurant opened. The north block consists of 5 floors of office space (95,000 square feet) atop ground floor retail (13,000 square feet). Construction of the north block was nearing completion at year end and the building shell certificate of occupancy was received in early February. As of February 28, 2011, the combined project retail and office space leased was 141,211 square feet, or 66.3%.

On December 26, 2010, tenants began occupancy of the apartments and, as of February 28, 2011, 153 apartments were occupied. As of February 28, 2011, 202 residential leases had been signed (82.8% leased) and additional deposits have been received for non-binding reservations for 19 units.

### 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 60,000 square feet of retail shop space, 11,000 square feet of retail pads and 30,000 square feet of professional office space. Total construction and development costs, including land, lease-up and tenant improvement costs, are projected to be approximately $26.5 million. As of December 31, 2010, 35,288 square feet of retail space and 1,200 square feet of office space, or approximately 36.1% of the total space, had been leased.

### 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 72.3% of the project was leased at December 31, 2010, including a 52,700 square foot Harris Teeter supermarket store, 13,192 square feet of small shop space, and pad leases with Capital One Bank and Longhorn Steakhouse. The Capital One Bank opened in February 2009 and The Longhorn Steakhouse restaurant opened in July 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, 2010 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, 2010.

### 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, 2010.

### Boulevard

During 2008, the Company redeveloped 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 Capital One Bank pad building was constructed and commenced operations. As of December 31, 2010, 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.

### Seven Corners

During 2010, the Company expanded the Seven Corners shopping center by approximately 6,000 square feet. Red Robin Gourmet Burgers opened in November 2010 in a newly-constructed, free-standing building. The Company also completed construction of parking lot, landscaping and site lighting improvements to enhance the common areas.

### 11503 Rockville Pike

On October 1, 2010, the Company purchased for $15.6 million, including acquisition costs, approximately 20,000 square feet of retail space located on the east side of Rockville Pike (Route 355), near the White Flint Metro Station in Montgomery County, Maryland. The property, which was fully leased to two tenants at December 31, 2010, is zoned for up to 297,000 square feet of rentable mixed use space. The Company does not anticipate redeveloping the property in the foreseeable future.

### Metro Pike Center

On December 17, 2010, the Company purchased for $34.3 million, including acquisition costs, approximately 67,000 square feet of retail space located on the west side of Rockville Pike (Route 355) near the White Flint Metro Station in Montgomery County, Maryland. The property was acquired subject to the assumption of a $16.2 million mortgage loan and a corresponding interest rate swap with a fair value of $0.5 million. The property, which was 87% leased at December 31, 2010 to multiple tenants, is zoned for up to 807,000 square feet of rentable mixed use space. The Company does not anticipate redeveloping the property in the foreseeable future.

### Portfolio Leasing Status

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

| | Total Properties | | Total Square Footage | | Percent Leased | |
|---|---|---|---|---|---|---|
| As of December 31, | Shopping Centers | Mixed-Use | Shopping Centers | Mixed-Use | Shopping Centers | Mixed-Use |
| 2010 | 48 | 6 | 7,293,000 | 1,608,000 | 92.0% | 81.5% |
| 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% |

The 2010 shopping center percentage leased includes recently constructed but not yet fully leased Northrock and Westview Village, which were 72.3% and 36.1% leased as of December 31, 2010, respectively. On a same property basis, shopping center leasing percentages increased to 93.1% from 93.0%. The 2010 mixed-use percentage leased includes Clarendon Center, whose construction was substantially completed at year end 2010 and whose residential component was 43.9% leased and office and retail component was 58.6% leased as of December 31, 2010. Including Clarendon Center, overall mixed-use property leasing percentages decreased to 81.5% from 90.6%. On a comparative same property basis, overall property leasing ended the year at 92.0%, a decrease from 92.7% at year end 2009, a space leased reduction of approximately 55,000 square feet. Shopping center same property leasing was 93.1% and 93.0%, and mixed-use same property leasing was 85.5% and 90.5%, as of December 31, 2010 and 2009, respectively.

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.

## 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, 2010, 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.

Board of Directors and Stockholders
Saul Centers, Inc.

We have audited the accompanying consolidated balance sheets of Saul Centers, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. 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, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, 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, 2010, 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 3, 2011 expressed an unqualified opinion thereon.

Ernst & Young LLP
McLean, Virginia

March 3, 2011

# 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, 2010, 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, 2010, 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, 2010 and 2009 and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010 of Saul Centers, Inc. and our report dated March 3, 2011 expressed an unqualified opinion thereon.

Ernst & Young LLP
McLean, Virginia

March 3, 2011

| (Dollars in thousands, except per share amounts) | December 31, 2010 | December 31, 2009 |
|---|---|---|
| **Assets** | | |
| Real estate investments | | |
| Land | $ 275,044 | $ 223,193 |
| Buildings and equipment | 870,143 | 740,442 |
| Construction in progress | 78,849 | 147,589 |
| | 1,224,036 | 1,111,224 |
| Accumulated depreciation | (296,786) | (276,310) |
| | 927,250 | 834,914 |
| Cash and cash equivalents | 12,968 | 20,607 |
| Accounts receivable and accrued income, net | 36,417 | 37,503 |
| Deferred leasing costs, net | 17,835 | 15,609 |
| Prepaid expenses, net | 3,024 | 3,096 |
| Deferred debt costs, net | 7,192 | 7,537 |
| Other assets | 9,202 | 6,308 |
| Total assets | $ 1,013,888 | $ 925,574 |
| **Liabilities** | | |
| Mortgage notes payable | $ 601,147 | $ 576,069 |
| Construction loans payable | 110,242 | 60,737 |
| Dividends and distributions payable | 12,415 | 12,220 |
| Accounts payable, accrued expenses and other liabilities | 23,544 | 23,395 |
| Deferred income | 26,727 | 27,090 |
| Total liabilities | 774,075 | 699,511 |
| **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, 18,557,059 and 18,012,416 shares issued and outstanding, respectively | 186 | 180 |
| Additional paid-in capital | 189,787 | 169,363 |
| Accumulated deficit | (128,926) | (124,167) |
| Accumulated other comprehensive loss | (419) | – |
| Total Saul Centers, Inc. stockholders' equity | 239,956 | 224,704 |
| Noncontrolling interest | (143) | 1,359 |
| Total stockholders' equity | 239,813 | 226,063 |
| Total liabilities and stockholders' equity | $ 1,013,888 | $ 925,574 |

*The accompanying notes are an integral part of these statements.*

| *(Dollars in thousands, except per share amounts)* | For The Year Ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| **Revenue** | | | |
| Base rent | $ 126,518 | $ 125,727 | $ 124,881 |
| Expense recoveries | 29,534 | 29,442 | 29,042 |
| Percentage rent | 1,458 | 1,326 | 1,509 |
| Other | 6,036 | 4,473 | 4,756 |
| Total revenue | 163,546 | 160,968 | 160,188 |
| **Operating expenses** | | | |
| Property operating expenses | 23,198 | 21,301 | 19,773 |
| Provision for credit losses | 1,337 | 919 | 1,113 |
| Real estate taxes | 17,793 | 17,754 | 16,597 |
| Interest expense and amortization of deferred debt costs | 34,958 | 34,689 | 34,278 |
| Depreciation and amortization of deferred leasing costs | 28,474 | 28,150 | 29,669 |
| General and administrative | 13,968 | 12,956 | 12,321 |
| Total operating expenses | 119,728 | 115,769 | 113,751 |
| **Operating income** | 43,818 | 45,199 | 46,437 |
| Loss on early extinguishment of debt | (5,405) | (2,210) | – |
| Gain on casualty settlement | 2,475 | 329 | 1,301 |
| Acquisition related costs | (1,179) | – | – |
| **Income from continuing operations** | 39,709 | 43,318 | 47,738 |
| **Discontinued Operations:** | | | |
| Loss from operations of property sold | (115) | (88) | (72) |
| Gain on sale of property | 3,591 | – | – |
| Income (loss) from discontinued operations | 3,476 | (88) | (72) |
| **Net income** | 43,185 | 43,230 | 47,666 |
| **Noncontrolling interest** | | | |
| Income attributable to noncontrolling interest | (6,422) | (6,517) | (7,972) |
| **Net income attributable to Saul Centers, Inc.** | 36,763 | 36,713 | 39,694 |
| Preferred dividends | (15,140) | (15,140) | (13,453) |
| **Net income available to common stockholders** | $ 21,623 | $ 21,573 | $ 26,241 |
| **Per share net income available to common stockholders** | | | |
| Basic: | $ 0.99 | $ 1.20 | $ 1.47 |
| Continuing Operations | 0.19 | 0.00 | 0.00 |
| Discontinued operations, including gain on sale of real estate | $ 1.18 | $ 1.20 | $ 1.47 |
| Diluted: | $ 0.99 | $ 1.20 | $ 1.46 |
| Continuing Operations | 0.19 | 0.00 | 0.00 |
| Discontinued operations, including gain on sale of real estate | $ 1.18 | $ 1.20 | $ 1.46 |
| **Dividends declared per common share outstanding** | $ 1.44 | $ 1.50 | $ 1.80 |

*The accompanying notes are an integral part of these statements.*

| *(Dollars in thousands, except per share amounts)* | For The Year Ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| **Net income** | $ 43,185 | $ 43,230 | $ 47,666 |
| **Other comprehensive income (loss)** | | | |
| Unrealized loss on cash flow hedge | (543) | – | – |
| **Comprehensive income** | 42,642 | 43,230 | 47,666 |
| Comprehensive income attributable to noncontrolling interests | (6,298) | (6,517) | (7,972) |
| **Comprehensive income attributable to Saul Centers, Inc.** | 36,344 | 36,713 | 36,694 |
| Preferred dividends | (15,140) | (15,140) | (13,453) |
| **Comprehensive income available to common stockholders** | $ 21,204 | $ 21,573 | $ 26,241 |

*The accompanying notes are an integral part of these statements.*

| (Dollars in thousands,except per share amounts) | Preferred Stock | Common Stock | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Saul Centers, Inc. | Noncontrolling Interest | Total |
|---|---|---|---|---|---|---|---|---|
| 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 |
| Preferred stock distributions: | | | | | | | | |
| Series A | – | – | – | (6,000) | – | (6,000) | – | (6,000) |
| Series B | – | – | – | (3,668) | – | (3,668) | – | (3,668) |
| Common stock distributions | – | – | – | (25,122) | – | (25,122) | (7,638) | (32,760) |
| 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/share) and distributions payable partnership units ($0.39/share) | – | – | – | (6,967) | – | (6,967) | (2,112) | (9,079) |
| 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 |
| Preferred stock distributions: | | | | | | | | |
| 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/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 |
| Issuance of 544,643 shares of common stock: | | | | | | | | |
| 426,847 shares pursuant to dividend reinvestment plan | – | 4 | 16,696 | – | – | 16,700 | – | 16,700 |
| 117,796 shares due to exercise of employee stock options and issuance of directors' deferred stock | – | 2 | 3,728 | – | – | 3,730 | – | 3,730 |
| Net income | – | – | – | 36,763 | – | 36,763 | 6,422 | 43,185 |
| Unrealized loss on cash flow hedge | – | – | – | – | (419) | (419) | (124) | (543) |
| Preferred stock distributions: | | | | | | | | |
| Series A | – | – | – | (6,000) | – | (6,000) | – | (6,000) |
| Series B | – | – | – | (5,355) | – | (5,355) | – | (5,355) |
| Common stock distributions | – | – | – | (19,701) | – | (19,701) | (5,850) | (25,551) |
| 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/share) and distributions payable partnership units ($0.36/share) | – | – | – | (6,681) | – | (6,681) | (1,950) | (8,631) |
| Balance, December 31, 2010 | $179,328 | $ 186 | $189,787 | $(128,926) | $ (419) | $239,956 | $ (143) | $239,813 |

*The accompanying notes are an integral part of these statements.*

| (Dollars in thousands) | For the Year Ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income | $ 43,185 | $ 43,230 | $ 47,666 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Gain on casualty settlement, continuing operations | (2,475) | (329) | (1,301) |
| Gain on sale of property, discontinued operations | (3,591) | – | – |
| Depreciation and amortization of deferred leasing costs | 28,576 | 28,264 | 29,783 |
| Amortization of deferred debt costs | 1467 | 2,004 | 1,162 |
| Non cash compensation costs of stock grants and options | 951 | 901 | 1,125 |
| Provision for credit losses | 1,337 | 919 | 1,113 |
| (Increase) decrease in accounts receivable and accrued income | 703 | (820) | (3,850) |
| Increase in deferred leasing costs | (4,902) | (3,061) | (3,382) |
| (Increase) decrease in prepaid expenses | 72 | (115) | (410) |
| (Increase) decrease in other assets | (2,894) | (3,411) | 2,531 |
| Increase (decrease) in accounts payable, accrued expenses and other liabilities | 1,069 | 1,278 | (698) |
| Increase (decrease) in deferred income | (611) | 165 | (638) |
| Net cash provided by operating activities | 62,887 | 69,025 | 73,101 |
| Cash flows from investing activities: | | | |
| Acquisitions of real estate investments, net [1] | (32,747) | – | (63,406) |
| Additions to real estate investments | (6,573) | (7,256) | (9,986) |
| Additions to development and redevelopment activities | (68,867) | (73,464) | (42,513) |
| Proceeds from casualty settlement | 1,816 | 251 | 835 |
| Proceeds from sale of property | 8,132 | – | – |
| Net cash used in investing activities | (98,239) | (80,469) | (115,070) |
| Cash flows from financing activities: | | | |
| Proceeds from mortgage notes payable | 62,600 | 119,882 | 29,775 |
| Repayments on mortgage notes payable | (53,691) | (92,078) | (16,585) |
| Proceeds from revolving credit facility | – | 30,000 | 19,000 |
| Repayments on revolving credit facility | – | (30,000) | (27,000) |
| Proceeds from construction loans payable | 49,505 | 41,507 | 19,230 |
| Additions to deferred debt costs | (1,054) | (3,666) | (773) |
| Proceeds from the issuance of: | | | |
| Series B preferred stock, net of issuance costs | – | – | 76,321 |
| Common Stock | 19,479 | 4,185 | 4,543 |
| Distributions to: | | | |
| Series A preferred stockholders | (8,000) | (8,000) | (8,000) |
| Series B preferred stockholders | (7,140) | (7,140) | (3,668) |
| Common stockholders | (26,186) | (27,358) | (33,450) |
| Noncontrolling interest | (7,800) | (8,287) | (10,183) |
| Net cash provided by financing activities | 27,713 | 19,045 | 49,210 |
| Net increase (decrease) in cash and cash equivalents | (7,639) | 7,601 | 7,241 |
| Cash and cash equivalents, beginning of period | 20,607 | 13,006 | 5,765 |
| Cash and cash equivalents, end of period | $ 12,968 | $ 20,607 | $ 13,006 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest | $ 40,678 | $ 40,973 | $ 37,179 |

* *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 2010 real estate acquisition costs of $32,747 are presented exclusive of a mortgage loan assumed of $16,169 with a $546 swap fair value.*

*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 mixed-used 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 January 1, 2008.

| Name of Property | Location | Type | Date of Acquisition/Development |
|---|---|---|---|
| **Acquisitions** | | | |
| Great Falls Shopping Center | Great Falls, VA | Shopping Center | 2008 |
| BJ's Wholesale Club | Alexandria, VA | Shopping Center | 2008 |
| Marketplace at Sea Colony | Bethany Beach, DE | Shopping Center | 2008 |
| 11503 Rockville Pike | Rockville, MD | Shopping Center | 2010 |
| Metro Pike Center | Rockville, MD | Shopping Center | 2010 |
| **Developments** | | | |
| Ashland Square Phase I | Manassas, VA | Shopping Center | 2007/08 |
| Northrock | Warrenton, VA | Shopping Center | 2009 |
| Westview Village | Frederick, MD | Shopping Center | 2009 |
| Clarendon Center | Arlington, VA | Mixed-Use | 2010 |

As of December 31, 2010, the Company's properties (the "Current Portfolio Properties") consisted of 48 shopping center properties (the "Shopping Centers"), six mixed-use properties which are comprised of office, retail and apartment uses (the "Mixed-Use Properties") and two (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 are presented on the historical cost basis of The Saul Organization because of affiliated ownership and common management and because the assets and liabilities were the subject of a business combination with the Operating Partnership, the Subsidiary Partnerships and Saul Centers, all newly formed entities with no prior operations.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Operations

The Company, which conducts all of its activities through its subsidiaries, the Operating Partnership and Subsidiary Partnerships, engages in the ownership, operation, management, leasing, acquisition, renovation, expansion, development and financing of community and neighborhood shopping centers and mixed-used properties, primarily in the Washington, DC/Baltimore metropolitan area. Because the properties are located primarily in the Washington, DC/Baltimore metropolitan area, a disproportionate economic downturn in the local economy would have a greater negative impact on our overall financial performance than on the overall financial performance of a company with a portfolio that is more geographically diverse. A majority of the Shopping Centers are anchored by several major tenants. As of December 31, 2010, thirty-two of the Shopping Centers were anchored by a grocery store and offer primarily day-to-day necessities and services. Three retail tenants, Giant Food (4.3%), a tenant at seven Shopping Centers, Safeway (3.1%), a tenant at eight Shopping Centers and Capital One Bank (2.8%), a tenant at twenty properties, and one office tenant, the United States Government (2.7%), a tenant at six properties, individually accounted for more than 2.5% of the Company's total revenue for the year ended December 31, 2010.

### Principles of Consolidation

The accompanying consolidated financial statements 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 certain 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 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 in-place lease relative to market terms for similar leases at acquisition taking into consideration the remaining contractual lease period, renewal periods, and 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. Acquisition-related transaction costs are expensed as incurred.

If there is an event or change in circumstance that indicates the value of a real estate investment property may be impaired, the Company prepares an 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 compares 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 the 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 2010, 2009 or 2008.

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 $7,196,000, $5,989,000 and $4,159,000, for 2010, 2009 and 2008, respectively. Commercial development projects are 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. Residential development projects are considered substantially complete and available for occupancy upon receipt of the certificate of occupancy from the appropriate licensing authority.

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. Leasehold improvements expenditures are capitalized when certain criteria are met, including when the Company supervises 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, 2010, 2009 and 2008 was $24,839,000, $23,911,000, and $24,761,000, respectively. Repairs and maintenance expense totaled $11,975,000, $10,111,000, and $9,106,000, for 2010, 2009 and 2008, 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 commercial 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. Unamortized deferred costs are charged 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 $16,755,000 and $15,609,000, net of accumulated amortization of approximately $14,968,000 and $14,889,000, as of December 31, 2010 and 2009, respectively. Amortization expense, included in depreciation and amortization in the consolidated statements of operations, totaled approximately $3,739,000, $4,353,000 and $5,022,000, for the years ended December 31, 2010, 2009 and 2008, 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, 2010 and 2009 are as follows:

**Construction in Progress**

| | December 31, | |
|---|---|---|
| *(In thousands)* | 2010 | 2009 |
| Clarendon Center | $ 78,103 | $ 115,810 |
| Northrock | – | 11,910 |
| Westview Village | – | 18,730 |
| Other | 746 | 1,139 |
| Total | $ 78,849 | $ 147,589 |

As of December 31, 2009, construction in progress included costs related to 100%, 36% and 85% of the leasable area at Clarendon Center, Northrock and Westview Village, respectively. During 2010, the apartments at Clarendon Center and the remaining leasable area at Northrock and Westview Village were placed into operation and associated costs were reclassified to land and buildings. As of December 31, 2010, construction in progress included 100% of the costs incurred to date related to the commercial space at Clarendon Center.

### 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 $898,000 and $1,265,000, at December 31, 2010 and 2009, respectively.

**Allowance for Doubtful Accounts**

| *(In thousands)* | 2010 | For the Year Ended December 31, 2009 | 2008 |
|---|---|---|---|
| Beginning Balance | $1,265 | $ 914 | $ 387 |
| Provision for Credit Losses | 1,337 | 919 | 1,113 |
| Charge-offs | (1,704) | (568) | (586) |
| Ending Balance | $ 898 | $1,265 | $ 914 |

In addition to rents due currently, accounts receivable also includes $27,227,000 and $27,154,000, at December 31, 2010 and 2009, respectively, net of allowance for doubtful accounts totaling $576,000 and $15,000, 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, 2010 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 $7,192,000 and $7,537,000, net of accumulated amortization of $5,367,000 and $5,161,000, at December 31, 2010 and 2009, 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.

### Discontinued Operations

During 2010, the Company sold its Lexington property for $8,132,000 and recognized a gain of $3,591,000. The results of operations for the Lexington property for the years ended December 31, 2010, 2009 and 2008 are shown in the statements of operations as "(Loss) from operations of sold property." The portion of the discontinued operations attributable to Saul Centers for the year ended December 31, 2010 is $2,680,000. The Company has no other discontinued operations.

### 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, 2010, 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 2010, 2009 and 2008. The tax basis of the Company's real estate investments was approximately $798,927,000 and $750,188,000, as of December 31, 2010 and 2009, 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, 2010, 231,000 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, 2010, 2009 and 2008. 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 $101,000, $85,000 and $120,000, for the years ended December 31, 2010, 2009 and 2008, respectively.

### Noncontrolling Interest

Saul Centers is the sole general partner of the Operating Partnership, owning a 77.4% common interest as of December 31, 2010. Noncontrolling interest in the Operating Partnership is comprised of limited partnership units owned by The Saul Organization. Noncontrolling interest 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 reflected on the consolidated statements of operations represents 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, 2010, 2009 and 2008 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)* | 2010 | 2009 | 2008 |
| Weighted average common shares outstanding – Basic | 18,267 | 17,904 | 17,816 |
| Effect of dilutive options | 110 | 39 | 145 |
| Weighted average common shares outstanding – Diluted | 18,377 | 17,943 | 17,961 |
| Average Share Price | $ 40.87 | $ 30.63 | $ 45.98 |

### Legal Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business, which 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.

### Reclassifications

Certain reclassifications have been made to prior year and prior quarter information to conform to the presentation used for the three-months and year ended December 31, 2010.

## 3. REAL ESTATE ACQUIRED

### 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 substantially 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 a 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.

### 11503 Rockville Pike

On October 1, 2010, the Company purchased for $15.1 million a retail property located in Rockville, Maryland, and incurred acquisition costs of $0.5 million.

### Metro Pike Center

On December 17, 2010, the Company purchased for $33.6 million (including the assumption of a $16.2 million mortgage loan and a related interest-rate swap with a value of $0.5 million) the Metro Pike Center located in Rockville, Maryland, and incurred acquisition costs of $0.7 million. As of the date of acquisition, management determined the fair value of the mortgage loan was equaled its outstanding balance because the terms of the loan were market terms.

### Allocation of Purchase Price for Real Estate Acquired

The Company allocates the purchase price of real estate investment properties to various components, such as land, buildings and intangibles related to in-place leases and customer relationships, based on their fair values. 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.

During 2010, the Company purchased two properties at an aggregate cost of $48.7 million, including an assumed mortgage loan with an unpaid principal balance of $16.2 million and a corresponding interest-rate swap with a value of $0.5 million, and incurred acquisition costs of $1.2 million. Of the total purchase price, $248,000 was allocated to below market leases which is included in deferred income and is being accreted to income over the lives of the underlying leases and $100,000 was allocated to above market leases, which is included as a deferred asset in accounts receivable and is being amortized against income over the lives of the underlying leases.

The gross carrying amount of lease intangible assets included in deferred leasing costs as of December 31, 2010 and 2009 was $14,816,000 and $13,736,000, respectively, and accumulated amortization was $11,458,000 and $10,711,000, respectively. Amortization expense totaled $747,000, $1,205,000, and $1,908,000, for the years ended December 31, 2010, 2009 and 2008, respectively. The gross carrying amount of below market lease intangible liabilities included in deferred income as of December 31, 2010 and 2009 was $18,650,000 and $18,402,000, respectively, and accumulated amortization was $5,560,000 and $4,474,000, respectively. Accretion income totaled $1,086,000, $1,323,000, and $1,552,000, for the years ended December 31, 2010, 2009 and 2008, respectively. The gross carrying amount of above market lease intangible assets included in accounts receivable as of December 31, 2010 and 2009 was $974,000 and $874,000, respectively, and accumulated amortization was $808,000 and $746,000, respectively. Amortization expense totaled $62,000, $76,000, and $106,000, for the years ended December 31, 2010, 2009 and 2008, respectively.

As of December 31, 2010, 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 |
|---|---|---|---|---|
| 2011 | $ (712) | $ (60) | $ 970 | $ 198 |
| 2012 | (508) | (52) | 822 | 262 |
| 2013 | (394) | (37) | 749 | 318 |
| 2014 | (274) | (17) | 730 | 439 |
| 2015 | (200) | – | 708 | 508 |
| Thereafter | (1,270) | – | 9,111 | 7,841 |
| Total | $ (3,358) | $ (166) | $13,090 | $ 9,566 |

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 condensed consolidated statements of operations set forth the consolidated results of operations for the year ended December 31, 2008, as if the properties acquired in 2008 had been acquired on January 1, 2008. The impact of the 2010 acquisitions and disposition is not material and pro-forma information is not provided. 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 year ended December 31, 2008.

**Pro-Forma Consolidated Condensed Statement of Operations**

| *(In thousands, except per share data)* | Year Ended December 31, 2008 |
|---|---|
| Real estate revenue | $ 161,610 |
| Net income available to common shareholders | $ 26,337 |
| Net income per common share – basic | $ 1.48 |
| Net income per common share – diluted | $ 1.47 |

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

The Saul Organization holds a 22.6% limited partnership interest, represented by 5,416,000 convertible limited partnership units in the Operating Partnership, as of December 31, 2010. These 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 22.6% 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, 2010, 2009 and 2008, were 23,793,000, 23,359,000, and 23,377,000, respectively.

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

The Company's outstanding debt totaled $711,389,000 at December 31, 2010, of which $601,147,000 was fixed rate debt and $110,242,000 was variable rate debt. At December 31, 2009, outstanding debt totaled $636,806,000, of which $576,069,000 was fixed rate debt and $60,737,000 was variable rate debt. At December 31, 2010, 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, 2010, approximately $138.8 million was available under the line and approximately $177,000 was committed for letters of credit. 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, 2010, operating income from the unencumbered properties determined the interest rate for up to $104,000,000 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 $35,000,000 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%.

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 $9,705,000 of the $19,409,000 outstanding at December 31, 2010) and the Clarendon Center construction loan (approximately $90,833,000 outstanding at December 31, 2010). The fixed-rate notes payable are all non-recourse debt except for $3,882,000 of the Great Falls Center mortgage and 25% of the Metro Pike Center loan (approximately $4.0 million of the $16.2 million outstanding at December 31, 2010), which are 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, the 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.

On June 29, 2010, the Company closed on a new 10-year mortgage loan in the amount of $45,600,000, secured by Thruway. The loan matures July 1, 2020, bears interest at a variable rate equal to the sum of one-month LIBOR and 260 basis points. In conjunction with the financing, the Company entered into an interest rate swap agreement with a $45,600,000 notional amount to manage the interest rate risk associated with the above $45,600,000 of variable-rate mortgage debt. The swap agreement was effective June 29, 2010, terminates on July 1, 2020 and effectively fixes the interest rate on the mortgage debt at 5.83%. The Company has designated this agreement as a cash flow hedge for accounting purposes. The critical terms of the interest rate swap match the terms of the variable-rate mortgage debt and, as a result, the hedge has been deemed to be perfectly effective and the arrangement satisfies the criteria for the so-called "short-cut" method of accounting.

The Company, therefore, will recognize interest expense on the variable-rate debt at the effective fixed rate of 5.83% and will not test the hedge for effectiveness in future periods. On a combined basis, the loan and the interest-rate swap require equal monthly principal and interest payments of $289,081, based upon an assumed interest rate of 5.83% and a 25-year principal amortization, and requires a final principal payment of approximately $34,753,000 at maturity.

Prior to the refinancing, Thruway was one of nine properties securing a collateralized mortgage-backed security (CMBS) with an outstanding balance of $108,324,000, an interest rate of 7.67% and due to mature October 2012. In order to release Thruway, the Company defeased $30,179,000 of the outstanding balance at a cost of approximately $4,425,000, using proceeds from the new mortgage financing.

On August 24, 2010, the Company entered into an amendment to its Northrock construction loan to provide an option to extend the loan, which matures May 1, 2011, for two years. The extension is available at the Company's option subject to notice to the bank, and to a principal repayment in an amount required to cause property operating income to meet certain debt service coverage levels.

On December 9, 2010, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of $17,000,000 secured by Ravenwood. The loan matures January 2026, requires monthly interest and principal payments of $111,409 based upon a fixed interest rate of 6.18% and a 25-year principal amortization and requires a final principal payment of approximately $10,065,000 at maturity.

Prior to the refinancing, Ravenwood was one of eight remaining properties securing a CMBS with an outstanding balance of $76,254,000, an interest rate of 7.67% and due to mature October 2012. In order to release Ravenwood, the Company defeased $7,794,000 of the outstanding balance at a cost of approximately $900,000, using proceeds from the new mortgage financing.

On December 17, 2010, the Company purchased Metro Pike Center, a 62,000 square foot retail property located in Rockville, Maryland. In conjunction with the acquisition, the Company assumed a mortgage loan with a principal balance of $16,169,000. The loan matures June 30, 2013, bears interest at a variable rate equal to the sum of one-month LIBOR and 245 basis points. In conjunction with the loan assumption, the Company assumed a corresponding interest rate swap agreement with a $16,169,000 notional amount to manage the interest rate risk associated with the variable-rate mortgage debt. The swap agreement was effective at closing, terminates on June 30, 2013 and effectively fixes the interest rate on the mortgage debt at 4.67%. Although the swap is an effective hedge of the loan, the Company elected not to designate this agreement as a hedge for accounting purposes. Interest expense on the loan will be recognized at its variable interest rate. The swap agreement will be carried at its fair value with changes in fair value recognized in Other Revenue as they occur. On a combined basis, the loan and the interest-rate swap require interest-only payments of $62,925, based upon an assumed interest rate of 4.67% until August 1, 2011, followed by equal monthly payments of $86,000 based upon a 25-year amortization schedule and a final payment of $15,605,000 at loan maturity.

The following is a summary of notes payable as of December 31, 2010 and 2009:

**Notes Payable**

| *(Dollars in thousands)* | December 31, 2010 | | 2009 | Interest Rate * | Scheduled Maturity * |
|---|---|---|---|---|---|
| Fixed rate mortgages: | $ 68,461 | *(a)* | 110,847 | 7.67% | Oct-2012 |
| | 10,457 | *(b)* | 10,658 | 6.12% | Jan-2013 |
| | 26,123 | *(c)* | 27,533 | 7.88% | Jan-2013 |
| | 16,169 | *(d)* | – | 4.67% | Jun-2013 |
| | 7,456 | *(e)* | 7,694 | 5.77% | Jul-2013 |
| | 14,771 | *(f)* | 15,184 | 5.40% | May-2014 |
| | 17,983 | *(g)* | 18,506 | 7.45% | Jun-2015 |
| | 36,435 | *(h)* | 37,376 | 6.01% | Feb-2018 |
| | 41,047 | *(i)* | 42,265 | 5.88% | Jan-2019 |
| | 13,277 | *(j)* | 13,671 | 5.76% | May-2019 |
| | 18,331 | *(k)* | 18,876 | 5.62% | Jul-2019 |
| | 18,180 | *(l)* | 18,702 | 5.79% | Sep-2019 |
| | 16,222 | *(m)* | 16,706 | 5.22% | Jan-2020 |
| | 11,905 | *(n)* | 12,127 | 5.60% | May-2020 |
| | 10,966 | *(o)* | 11,279 | 5.30% | Jun-2020 |
| | 45,190 | *(p)* | – | 5.83% | Jul-2020 |
| | 9,458 | *(q)* | 9,698 | 5.81% | Feb-2021 |
| | 6,588 | *(r)* | 6,693 | 6.01% | Aug-2021 |
| | 38,018 | *(s)* | 38,625 | 5.62% | Jun-2022 |
| | 11,494 | *(t)* | 11,661 | 6.08% | Sep-2022 |
| | 12,343 | *(u)* | 12,504 | 6.43% | Apr-2023 |
| | 17,435 | *(v)* | 17,977 | 6.28% | Feb-2024 |
| | 18,090 | *(w)* | 18,368 | 7.35% | Jun-2024 |
| | 15,659 | *(x)* | 15,891 | 7.60% | Jun-2024 |
| | 16,717 | *(y)* | 16,923 | 8.11% | Jul-2024 |
| | 32,812 | *(z)* | 33,305 | 7.45% | Jul-2024 |
| | 32,560 | *(aa)* | 33,000 | 7.30% | Jan-2025 |
| | 17,000 | *(bb)* | – | 6.18% | Jan-2026 |
| Total fixed rate | 601,147 | | 576,069 | 6.47% | 8.3 Years |
| Variable rate loans: | | | | | |
| Revolving credit facility | – | *(cc)* | – | LIBOR + 3.725% | Jun-2012 |
| Northrock construction loan | 19,409 | *(dd)* | 19,118 | LIBOR + 3.00% | May-2011 |
| Clarendon construction loan | 90,833 | *(ee)* | 41,619 | LIBOR + 2.50% | Nov-2011 |
| Total variable rate | 110,242 | | 60,737 | 3.08% | 0.7 Years |
| Total notes payable | $ 711,389 | | $ 636,806 | 5.94% | 7.5 Years |

** Interest rate and scheduled maturity data presented as of December 31, 2010. Totals computed using weighted averages.*

*(a) The loan is collateralized by seven shopping centers (Seven Corners, White Oak, Hampshire Langley, Great Eastern, Southside Plaza, Belvedere and Giant) and requires equal monthly principal and interest payments of $734,000 based upon a 25-year amortization schedule and a final payment of $61,960,000 at loan maturity. Principal of $37,973,000 was defeased in conjunction with the Thruway and Ravenwood refinancings and $4,413,000 was amortized during 2010.*

*(b) 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 $201,000 was amortized during 2010.*

*(c) 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 $1,410,000 was amortized during 2010.*

(d) The loan, together with a corresponding interest-rate swap, was assumed with the December 17, 2010 acquisition of Metro Pike Center. On a combined basis, the loan and the swap require interest only payments of $63,000 until August 1, 2011, then equal monthly payments of $86,000 based upon a 25-year amortization schedule and a final payment of $15,605,000 at loan maturity.

(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 $238,000 was amortized during 2010.

(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 $413,000 was amortized during 2010.

(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 $523,000 was amortized during 2010.

(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 $941,000 was amortized during 2010.

(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 $1,218,000 was amortized during 2010.

(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 $394,000 was amortized during 2010.

(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 $545,000 was amortized during 2010.

(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 $522,000 was amortized during 2010.

(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 $484,000 was amortized during 2010.

(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 $222,000 was amortized during 2010.

(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 $313,000 was amortized during 2010.

(p) The loan, and a corresponding interest-rate swap, closed on June 30, 2010 and are collateralized by Thruway. On a combined basis, the loan and the interest-rate swap require equal monthly principal and interest payments of $289,000 based upon a 25-year amortization schedule and a final payment of $34,753,000 at loan maturity. Principal of $410,000 was amortized during 2010.

(q) 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 $240,000 was amortized during 2010.

(r) 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 $105,000 was amortized during 2010.

(s) 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 $607,000 was amortized during 2010.

(t) 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 $167,000 was amortized during 2010.

(u) 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 $161,000 was amortized during 2010.

(v) The loan is collateralized by Great Falls Center. 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 $542,000 was amortized during 2010.

(w) The loan 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 $278,000 was amortized during 2010.

(x) The loan 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 $232,000 was amortized during 2010.

(y) The loan 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 $206,000 was amortized during 2010.

(z) The loan 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 $493,000 was amortized during 2010.

(aa) The loan 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. Principal of $440,000 was amortized during 2010.

(bb) The loan, closed on December 9, 2010, is collateralized by Ravenwood and requires equal monthly principal and interest payments of $111,000 based upon a 25-year amortization schedule and a final payment of $10,065,000 at loan maturity.

(cc) 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.

(dd) 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%. On May 1, 2011, a portion of the loan balance may be extended two years, at the Company's option, subject to certain debt coverage requirements.

(ee) 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.

The carrying value of the properties collateralizing the mortgage notes payable totaled $831,639,000 and $746,377,000, as of December 31, 2010 and 2009, respectively. The Company's credit facility requires the Company and its subsidiaries to maintain certain financial covenants, which are summarized below. The Company was in compliance as of December 31, 2010.

- 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);
- 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; and
- limit the outstanding debt plus undrawn loan availability to 8.0x trailing twelve month adjusted EBITDA, as defined in the loan agreement.

Notes payable at December 31, 2010 and 2009, totaling $104,583,000 and $138,381,000, respectively, are guaranteed by members of The Saul Organization. As of December 31, 2010, the scheduled maturities of all debt including scheduled principal amortization for years ended December 31, are as follows:

**Debt Maturity Schedule**

| (In thousands) | Balloon Payments | Scheduled Principal Amortization | Total |
|---|---|---|---|
| 2011 | $ 110,242 [a] | $ 16,538 | $ 126,780 |
| 2012 | 61,960 | 16,788 | 78,748 |
| 2013 | 55,252 | 12,665 | 67,917 |
| 2014 | 13,218 | 12,685 | 25,903 |
| 2015 | 15,077 | 12,850 | 27,927 |
| 2016 | – | 13,315 | 13,315 |
| Thereafter | 298,597 | 72,202 | 370,799 |
| Total | $ 554,346 | $ 157,043 | $ 711,389 |

*(a) Represents the Clarendon Center and Northrock construction loan balances as of December 31, 2010.*

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

| (In thousands) | Year ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Interest incurred | $ 40,687 | $ 38,992 | $ 37,275 |
| Amortization of deferred debt costs | 1,467 | 1,323 | 1,162 |
| Revolving credit line amendment | – | 363 | – |
| Capitalized interest | (7,196) | (5,989) | (4,159) |
| Total | $ 34,958 | $ 34,689 | $ 34,278 |

The Company incurred and capitalized as construction in progress deferred debt costs related to the Clarendon Center and Northrock construction loans of approximately $46,000 and $2.4 million, during 2009 and 2008, respectively. No deferred debt costs were capitalized during 2010.

## 6. LEASE AGREEMENTS

Lease income includes primarily base rent arising from noncancelable leases. Base rent (including straight-line rent) for the years ended December 31, 2010, 2009 and 2008, amounted to $126,518,000, $125,727,000 and $124,881,000, 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**

| (In thousands) | |
|---|---|
| 2011 | $ 125,278 |
| 2012 | 109,889 |
| 2013 | 91,885 |
| 2014 | 72,126 |
| 2015 | 55,251 |
| Thereafter | 277,988 |
| Total | $ 732,417 |

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, 2010, 2009 and 2008 amounted to $29.5 million, $29.4 million and $29.0 million, 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 $1.5 million, $1.3 million and $1.5 million, for the years ended December 31, 2010, 2009 and 2008, 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 $169,000, $165,000, and $164,000, for the years ended December 31, 2010, 2009 and 2008, respectively.

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

**Ground Lease Rental Commitments**

| | | | Annually | | | | |
|---|---|---|---|---|---|---|---|
| *(In thousands)* | 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter | Total |
| Beacon Center | $ 53 | $ 60 | $ 60 | $ 60 | $ 60 | $ 2,780 | $ 3,073 |
| Olney | 56 | 56 | 56 | 56 | 56 | 3,985 | 4,265 |
| Southdale | 60 | 60 | 60 | 60 | 60 | 3,125 | 3,425 |
| Total | $ 169 | $ 176 | $ 176 | $ 176 | $ 176 | $ 9,890 | $ 10,763 |

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, 2010, 2009 and 2008 was $893,000, $835,000, and $813,000, 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, 2010, 2009 and 2008 reflect noncontrolling interest of $6,422,000, $6,517,000 and $7,972,000, 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.

## 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 $444,000, $426,000 and $381,000, for 2010, 2009 and 2008, 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, 2010, 2009 and 2008, the Company contributed three times the amount deferred by employees. The Company's expense, included in general and administrative expense, totaled $213,000, $244,000, and $203,000, for the years ended December 31, 2010, 2009 and 2008, respectively. All amounts deferred by employees and the Company are fully vested. The cumulative unfunded liability under this plan was $1,623,000 and $1,371,000, at December 31, 2010 and 2009, 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, 2010, 2009 and 2008, which included rental expense for the Company's headquarters lease (see Note 7. Long Term Lease Obligations), totaled $6,513,000, $5,804,000 and $5,188,000, 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, 2010 and 2009, accounts payable, accrued expenses and other liabilities included $606,000 and $525,000, respectively, representing 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 $324,000, $314,000 and $418,000, for the years ended December 31, 2010, 2009 and 2008, 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 vested 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 vested immediately, the entire $67,000 was expensed as of the date of grant. The expense of the officers' options was 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 vested 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 vested immediately, the entire $71,100 was expensed as of the date of grant. The expense of the officers' options was 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 vested 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 vested 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 vested immediately, the entire $222,950 was expensed as of the date of grant. No options were granted to the Company's officers in 2009.

Effective May 7, 2010, the Compensation Committee granted options to purchase a total of 32,500 shares (all nonqualified stock options) to thirteen Company directors (the "2010 Options"), which were immediately exercisable and expire on May 6, 2020. The exercise price of $38.76 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 2010 Options to be $287,950. Because the directors' options vested immediately, the entire $287,950 was expensed as of the date of grant. No options were granted to the Company's officers in 2010.

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, 2010, 2009 and 2008:

## STOCK OPTIONS ISSUED TO OFFICERS

| Grant date | 05/23/2003 | 04/26/2004 | 05/06/2005 | 04/27/2007 | Subtotal |
|---|---|---|---|---|---|
| Total grant | 220,000 | 122,500 | 132,500 | 135,000 | 610,000 |
| Vested | 212,500 | 115,000 | 118,750 | 91,875 | 538,125 |
| Exercised | 188,019 | 41,025 | 13,125 | – | 242,169 |
| Forfeited | 7,500 | 7,500 | 13,750 | 12,500 | 41,250 |
| Exercisable at Dec. 31, 2010 | 24,481 | 73,975 | 105,625 | 91,875 | 295,956 |
| Remaining unexercised | 24,481 | 73,975 | 105,625 | 122,500 | 326,581 |
| 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 | 320,875 | 254,450 | 256,108 | 209,808 | 1,041,241 |
| Expensed in 2008 | – | 20,400 | 91,644 | 314,721 | 426,765 |
| Expensed in 2009 | – | – | 30,548 | 314,716 | 345,264 |
| Expensed in 2010 | – | – | – | 314,712 | 314,712 |
| Future expense | – | – | – | 104,891 | 104,891 |

## STOCK OPTIONS ISSUED TO DIRECTORS AND GRAND TOTALS

| Grant date | 04/26/2004 | 05/06/2005 | 05/01/2006 | 04/27/2007 | 04/25/2008 | 04/24/2009 | 05/07/2010 | Subtotal | Grand Total |
|---|---|---|---|---|---|---|---|---|---|
| Total grant | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 32,500 | 32,500 | 215,000 | 825,000 |
| Vested | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 32,500 | 32,500 | 215,000 | 753,125 |
| Exercised | 6,200 | 2,500 | – | – | – | – | – | 8,700 | 250,869 |
| Forfeited | – | – | – | – | – | – | – | – | 41,250 |
| Exercisable at December 31, 2010 | 23,800 | 27,500 | 30,000 | 30,000 | 30,000 | 32,500 | 32,500 | 206,300 | 502,256 |
| Remaining unexercised | 23,800 | 27,500 | 30,000 | 30,000 | 30,000 | 32,500 | 32,500 | 206,300 | 532,881 |
| Exercise price | $ 25.78 | $ 33.22 | $ 40.35 | $ 54.17 | $ 50.15 | $ 32.68 | $ 38.76 | | |
| Volatility | 0.183 | 0.198 | 0.206 | 0.225 | 0.237 | 0.344 | 0.369 | | |
| Expected life (years) | 5.0 | 10.0 | 9.0 | 8.0 | 7.0 | 6.0 | 5.0 | | |
| Assumed yield | 5.75% | 6.91% | 5.93% | 4.39% | 4.09% | 4.54% | 4.23% | | |
| Risk-free rate | 3.57% | 4.28% | 5.11% | 4.65% | 3.49% | 2.19% | 2.17% | | |
| Total value at grant date | $ 66,600 | $ 71,100 | $143,400 | $285,300 | $254,700 | $222,950 | $287,950 | $ 1,332,000 | $3,629,223 |
| Forfeited options | – | – | – | – | – | – | – | – | 64,350 |
| Expensed in previous years | 66,600 | 71,100 | 143,400 | 285,300 | – | – | – | 566,400 | 1,607,641 |
| Expensed in 2008 | – | – | – | – | 254,700 | – | – | 254,700 | 681,465 |
| Expensed in 2009 | – | – | – | – | – | 222,950 | – | 222,950 | 568,214 |
| Expensed in 2010 | – | – | – | – | – | – | 287,950 | 287,950 | 602,662 |
| Future expense | – | – | – | – | – | – | – | – | 104,891 |
| Remaining term of future expense | | | | | | | | | 0.3 years |

The table below summarizes the option activity for the years 2010, 2009 and 2008:

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | Shares | Wtd Avg Exercise Price | Shares | Wtd Avg Exercise Price | Shares | Wtd Avg Exercise Price |
| Outstanding at January 1 | 609,253 | $ 36.72 | 593,628 | $ 37.25 | 586,753 | $ 36.15 |
| Granted | 32,500 | 38.76 | 32,500 | 32.68 | 30,000 | 50.15 |
| Exercised | (108,872) | 25.52 | (1,875) | 25.78 | (23,125) | 26.02 |
| Expired/Forfeited | – | – | (15,000) | 50.68 | – | – |
| Outstanding December 31 | 532,881 | 39.13 | 609,253 | 36.72 | 593,628 | 37.25 |
| Exercisable at December 31 | 502,256 | 38.21 | 548,003 | 34.76 | 463,003 | 33.81 |

The intrinsic value of options exercised in 2010, 2009 and 2008 was $1,988,000, $14,000 and $557,000, respectively. The intrinsic value of options outstanding and exercisable at year end 2010 was $5,505,000. 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, 2010, the final trading day of calendar 2010, the closing price of $47.35 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, 2010 closing price have no intrinsic value. The weighted average remaining contractual life of the Company's exercisable and outstanding options at December 31, 2010 are 5.3 and 5.4 years, respectively.

## 11. NON-OPERATING ITEMS

### Gain on Casualty Settlement

Gain on casualty settlement in 2010 reflects the excess of insurance proceeds over the carrying value of assets damaged during a severe hail storm at French Market. The insurance proceeds funded substantially all of the restoration of the damaged property. Gain on casualty settlement 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 casualty settlements in 2008 totaling $1,301,000 represents the excess of insurance proceeds received over the carrying value of assets damaged at three shopping centers.

## 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 5.26% and 7.30%, would be approximately $642,124,000 and $553,257,000, as of December 31, 2010 and 2009, respectively, compared to the carrying value of $601,147,000 and $576,069,000 at December 31, 2010 and 2009, respectively.

The Company carries its interest rate swaps at fair value. The Company has determined the majority of the inputs used to value its derivative fall within Level 2 of the fair value hierarchy with the exception of the impact of counter-party risk, which was determined using Level 3 inputs and are not significant. As of December 31, 2010, the fair value of the interest-rate swaps was approximately $1.1 million and is included in "Accounts payable, accrued expenses and other liabilities" in the consolidated balance sheets. The decrease in value from inception of the swap designated as a cash flow hedge is reflected in "Other Comprehensive Income" in the Consolidated Statements of Comprehensive Income.

## 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 $1.44 per share, $1.53 per share and $1.88 per share, during 2010, 2009 and 2008, respectively, and paid Series A preferred stock dividends of $2.00 per depositary share during each of the three years in the period ended December 31, 2010, and Series B preferred stock dividends totaling $2.25 per share, $2.25 per share and $1.16 per share, during 2010, 2009 and 2008, respectively. For the common stock dividends paid, $1.008 per share, $1.53 per share and $1.842 per share, represented ordinary dividend income for the years 2010, 2009 and 2008, respectively. For the common stock dividend paid for 2010 and 2008, $0.432 per share and $0.038 per share represented return of capital to the shareholders. The 2009 common dividends were 100% taxable. All of the preferred stock dividends paid were considered ordinary dividend income.

The following summarizes distributions paid during the years ended December 31, 2010, 2009 and 2008, and includes activity in the Plan as well as limited partnership units issued from the reinvestment of unit distributions:

| | Total Distributions to | | | Dividend Reinvestments | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | Preferred Stockholders | Common Stockholders | Limited Partnership Unitholders | Common Stock Shs Issued | Discounted Share Price |
| **Distributions during 2010** | | | | | |
| October 31 | $ 3,785 | $ 6,608 | $ 1,950 | 112,852 | $ 41.14 |
| July 31 | 3,785 | 6,567 | 1,950 | 105,965 | 41.27 |
| April 30 | 3,785 | 6,525 | 1,950 | 101,428 | 39.07 |
| January 31 | 3,785 | 6,485 | 1,950 | 98,267 | 34.58 |
| Total 2010 | $ 15,140 | $ 26,185 | $ 7,800 | 418,512 | |
| **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 | |

In December 2010, the Board of Directors of the Company authorized a distribution of $0.36 per common share payable in January 2011, to holders of record on January 17, 2011. As a result, $6,680,000 was paid to common shareholders on January 31, 2011. Also, $1,950,000 was paid to limited partnership unitholders on January 31, 2011 ($0.36 per Operating Partnership unit). The Board of Directors authorized preferred stock dividends of $0.50 per Series A depositary share, to holders of record on January 4, 2011 and $0.5625 per Series B depositary share to holders of record on January 4, 2011. As a result, $3,785,000 was paid to preferred shareholders on January 14, 2011. 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)

TThe following summary presents the results of operations of the Company for the quarterly periods of calendar years 2010 and 2009.

| *(In thousands, except per share amounts)* | 2010 | | | |
|---|---|---|---|---|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| Revenue | $ 43,613 | $ 40,087 | $ 39,551 | $ 40,295 |
| Operating income before loss on early extinguishment of debt, gain on casualty settlement, acquisition costs, discontinued operations and noncontrolling interest | 12,612 | 10,746 | 10,411 | 10,049 |
| Net income attributable to Saul Centers, Inc. | 10,591 | 5,702 | 9,269 | 7,724 |
| Net income available to common shareholders | 6,806 | 1,917 | 5,484 | 3,939 |
| Net income available to common shareholders per share (diluted) | 0.37 | 0.10 | 0.30 | 0.21 |
| | 2009 | | | |
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| Revenue | $ 39,654 | $ 39,381 | $ 40,235 | $ 41,698 |
| Operating income before loss on early extinguishment of debt, gain on casualty settlement, acquisition costs, discontinued operations and noncontrolling interest | 11,575 | 10,620 | 11,344 | 11,660 |
| Net income attributable to Saul Centers, Inc. | 9,766 | 7,765 | 9,602 | 9,668 |
| Net income available to common shareholders | 5,981 | 3,980 | 5,817 | 5,883 |
| Net income available to common shareholders per share (diluted) | 0.33 | 0.22 | 0.32 | 0.33 |

## 16. BUSINESS SEGMENTS

The Company has two reportable business segments: Shopping Centers and Mixed-Use 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. Certain reclassifications have been made to prior year information to conform to the 2010 presentation.

| *(In thousands)* | Shopping Centers | Mixed-Use Properties | Corporate and Other | Consolidated Totals |
|---|---|---|---|---|
| 2010 | | | | |
| Real estate rental operations: | | | | |
| Revenue | $ 125,453 | $ 38,060 | $ 33 | $ 163,546 |
| Expenses | (30,276) | (12,052) | – | (42,328) |
| Income from real estate | 95,177 | 26,008 | 33 | 121,218 |
| Interest expense and amortization of deferred debt costs | – | – | (34,958) | (34,958) |
| General and administrative | – | – | (13,968) | (13,968) |
| Subtotal | 95,177 | 26,008 | (48,893) | 72,292 |
| Depreciation and amortization of deferred leasing costs | (20,586) | (7,888) | – | (28,474) |
| Loss on early extinguishment of debt | – | – | (5,405) | (5,405) |
| Acquisition related costs | (1,179) | – | – | (1,179) |
| Gain on casualty settlement | 2,475 | – | – | 2,475 |
| (Loss) income from operations of property sold | (115) | – | – | (115) |
| Gain on property sale | 3,591 | – | – | 3,591 |
| Net income | $ 79,363 | $ 18,120 | $ (54,298) | $ 43,185 |
| Capital investment | $ 29,253 | $ 68,986 | $ – | $ 98,239 |
| Total assets | $ 704,624 | $ 294,791 | $ 14,473 | $ 1,013,888 |

## 16. BUSINESS SEGMENTS (continued)

| *(In thousands)* | Shopping Centers | Mixed-Use Properties | Corporate and Other | 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 | $ 56,123 | $ – | $ 80,469 |
| Total assets | $ 670,455 | $ 231,971 | $ 23,148 | $ 925,574 |
| **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 | $ 20,988 | $ – | $ 115,905 |
| Total assets | $ 668,493 | $ 170,246 | $ 15,134 | $ 853,873 |

# DIVIDEND
## REINVESTMENT PLAN AND DISTRIBUTIONS

### DIVIDEND REINVESTMENT PLAN

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

### DIVIDENDS AND DISTRIBUTIONS

Under the Code, REITs are subject to numerous organizational and operating requirements, including the requirement to distribute at least 90% of REIT taxable income. The Company distributed amounts greater than the required amount in 2010 and 2009. Distributions by the Company to common stockholders and holders of limited partnership units in the Operating Partnership were $33,985,000 in 2010 and $35,645,000 in 2009. Distributions to preferred stockholders were $15,140,000 in both 2010 and 2009. See Notes to Consolidated Financial Statements, No. 14, "Distributions." The Company may or may not elect to distribute in excess of 90% of REIT taxable income in future years.

The Company's estimate of cash flow available for distributions is believed to be based on reasonable assumptions and represents a reasonable basis for setting distributions. However, the actual results of operations of the Company will be affected by a variety of factors, including but not limited to actual rental revenue, operating expenses of the Company, interest expense, general economic conditions, federal, state and local taxes (if any), unanticipated capital expenditures, the adequacy of reserves and preferred dividends. While the Company intends to continue paying regular quarterly distributions, any future payments will be determined solely by the Board of Directors and will depend on a number of factors, including cash flow of the Company, its financial condition and capital requirements, the annual distribution amounts required to maintain its status as a REIT under the Code, and such other factors as the Board of Directors deems relevant. We are obligated to pay regular quarterly distributions to holders of depositary shares of Series A preferred stock at the rate of $2.00 per annum per depositary share and to holders of depositary shares of Series B preferred stock at the rate of $2.25 per annum per depositary share, prior to distributions on the common stock.

The Company paid four quarterly distributions totaling $1.44, $1.53 and $1.88 per common share during the years ended December 31, 2010, 2009 and 2008, respectively. The annual distribution amounts paid by the Company exceed the distribution amounts required for tax purposes. Distributions to the extent of our current and accumulated earnings and profits for federal income tax purposes generally will be taxable to a stockholder as ordinary dividend income. Distributions in excess of current and accumulated earnings and profits will be treated as a nontaxable reduction of the stockholder's basis in such stockholder's shares, to the extent thereof, and thereafter as taxable gain. Distributions that are treated as a reduction of the stockholder's basis in its shares will have the effect of deferring taxation until the sale of the stockholder's shares. Of the $1.44 per common share dividend paid in 2010, 70.0% was taxable dividend income and 30.0% was considered return of capital. Of the $1.53 per common share dividend paid in 2009, 100% was taxable dividend income. Of the $1.88 per common share dividend paid in 2008, 98.0% was taxable dividend income and 2.0% was considered return of capital. No assurance can be given regarding what portion, if any, of distributions in 2011 or subsequent years will constitute a return of capital for federal income tax purposes. All of the preferred stock dividends paid are considered ordinary dividend income.

# MARKET
INFORMATION

Shares of Saul Centers common stock are listed on the New York Stock Exchange under the symbol "BFS". The composite high and low closing sale prices for the shares of common stock were reported by the New York Stock Exchange for each quarter of 2010 and 2009 as follows:

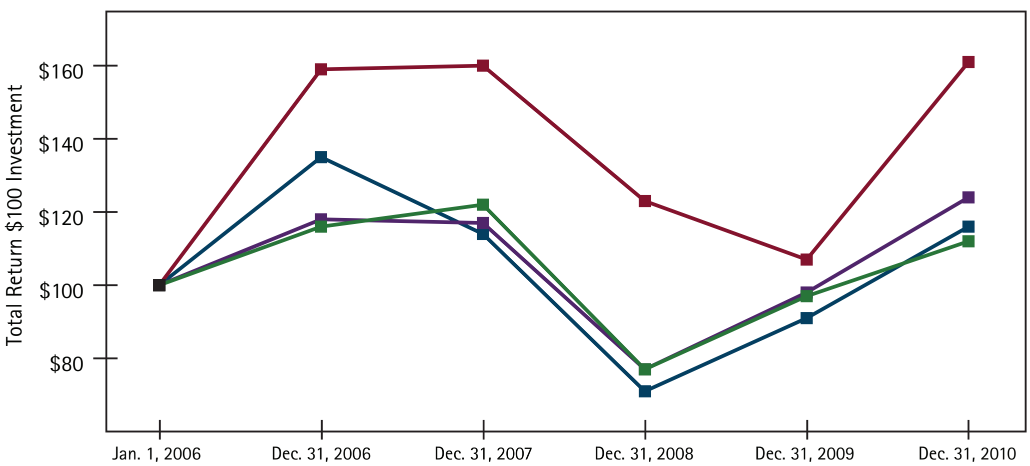
| COMMON STOCK PRICES | | |
|---|---|---|
| Period | Share Price High | Share Price Low |
| October 1, 2010 – December 31, 2010 | $48.15 | $42.42 |
| July 1, 2010 – September 30, 2010 | $44.25 | $40.09 |
| April 1, 2010 – June 30, 2010 | $43.99 | $35.64 |
| January 1, 2010 – March 31, 2010 | $41.41 | $32.25 |
| 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 |

On February 28, 2011, the closing price was $46.00 per share.
There were approximately 260 holders of record as of that date.

## PERFORMANCE GRAPH

Rules promulgated under the Exchange Act require the Company to present a graph comparing the cumulative total stockholder return on its Common Stock with the cumulative total stockholder return of (i) a broad equity market index, and (ii) a published industry index or peer group. The graph compares the cumulative total stockholder return of the Company's Common Stock, based on the market price of the Common Stock and assuming reinvestment of dividends, with the National Association of Real Estate Investment Trust Equity Index ("NAREIT Equity"), the S&P 500 Index ("S&P 500") and the Russell 2000 Index ("Russell 2000"). The graph assumes the investment of $100 on January 1, 2006.

### COMPARISON OF CUMULATIVE TOTAL RETURN




| | Jan. 1, 2006 | Dec. 31, 2006 | Dec. 31, 2007 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2010 |
|---|---|---|---|---|---|---|
| Saul Centers | $100 | $159 | $169 | $123 | $107 | $161 |
| S & P 500 | $100 | $116 | $122 | $77 | $97 | $112 |
| Russell 2000 | $100 | $118 | $117 | $77 | $98 | $124 |
| NAREIT Equity | $100 | $135 | $114 | $71 | $91 | $116 |

# SAUL CENTERS

## CORPORATE INFORMATION

### 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. Longsworth
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 2010, 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

# Annual Meeting of Shareholders

**The Annual Meeting of Shareholders will be held at 11:00 a.m., local time, on May 13, 2011, at the Hyatt Regency Bethesda, One Bethesda Metro Center, Bethesda, MD (at the southwest corner of the Wisconsin Avenue and Old Georgetown Road intersection, adjacent to the Bethesda Metro Stop on the Metro Red Line.)**

Saul Centers

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Website: www.saulcenters.com