



Saul Centers
2011 ANNUAL REPORT TO SHAREHOLDERS



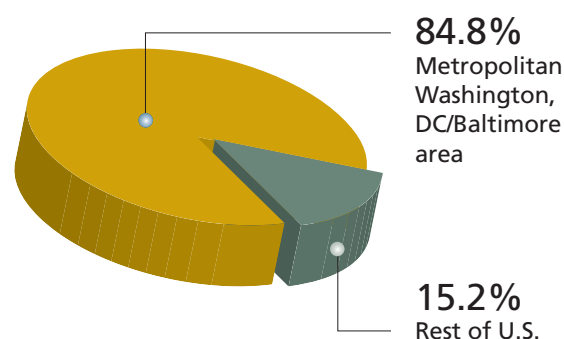
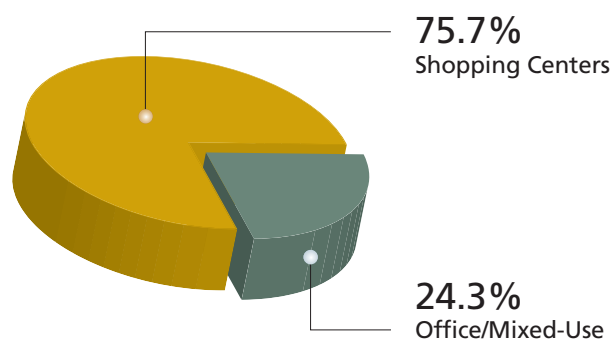
Saul Centers, Inc.

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 58 community and neighborhood shopping centers and office/mixed-use properties totaling approximately 9.5 million square feet of leasable area. Approximately 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.

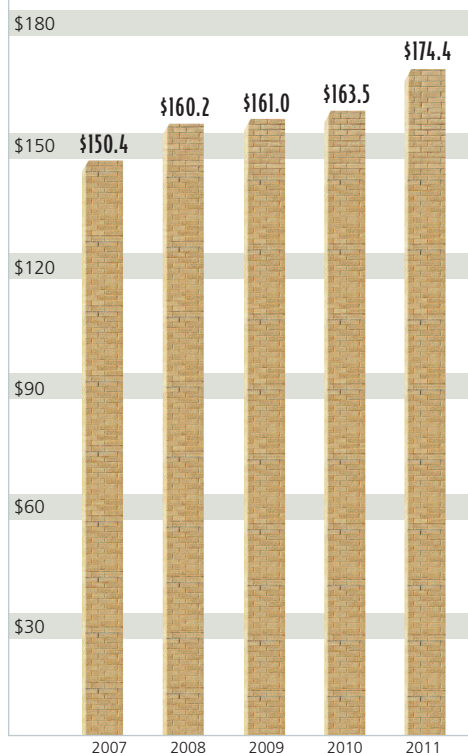
PORTFOLIO COMPOSITION

Based on 2011 Property Operating Income



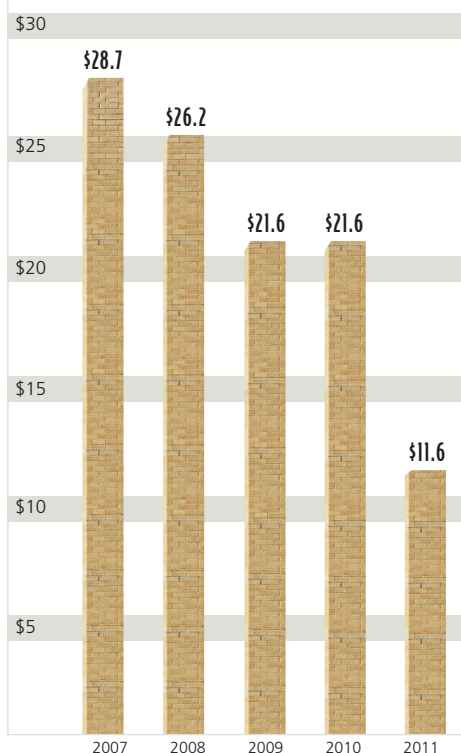
TOTAL REVENUE

(In millions)



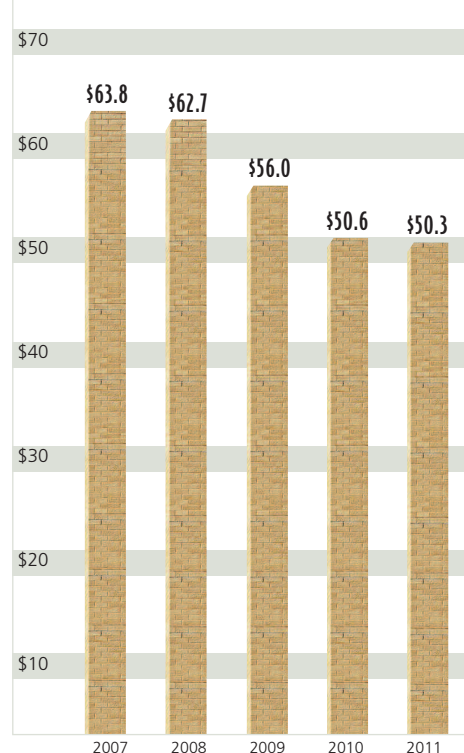
NET INCOME

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 24 for a definition of FFO and reconciliation from Net Income.

SEVERNA PARK MARKETPLACE,
SEVERNA PARK, MD



Year ended December 31,

	2011	2010	2009	2008	2007
Summary Financial Data					
Total Revenue	\$174,360,000	\$163,546,000	\$160,968,000	\$160,188,000	\$150,442,000
Net Income Available to Common Stockholders	\$11,593,000	\$21,623,000	\$21,573,000	\$26,241,000	\$28,703,000
FFO Available to Common Shareholders	\$50,309,000	\$50,556,000	\$56,025,000	\$62,695,000	\$63,846,000
Weighted Average Common Stock Outstanding	18,949,000	18,377,000	17,943,000	17,961,000	17,769,000
Weighted Average Shares and Units Outstanding	24,740,000	23,793,000	23,359,000	23,377,000	23,185,000
Net Income Available to Common Stockholders Per Share (Diluted)	\$0.61	\$1.18	\$1.20	\$1.46	\$1.62
FFO Available to Common Shareholders Per Share (Diluted)	\$2.03	\$2.12	\$2.40	\$2.68	\$2.75
Common Dividend as a Percentage of FFO (Per Share)	71%	68%	64%	70%	64%
Interest Expense Coverage ^a	2.61	3.20	3.27	3.33	3.23

Property Data

Number of Properties ^b	58	55	52	50	48
Total Portfolio Square Feet	9,543,000	8,901,000	8,424,000	8,194,000	8,009,000
Shopping Center Square Feet	7,933,000	7,293,000	7,218,000	6,988,000	6,803,000
Office/Mixed-Use Square Feet	1,610,000	1,608,000	1,206,000	1,206,000	1,206,000
Average Percentage Leased	90% ^c	91%	92%	95%	96%

(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 excludes Clarendon Center residential which averaged 97% leased during 2011.

MESSAGE TO OUR SHAREHOLDERS

After four years of weakness in the economy and a lack of overall improvement in consumer confidence, the commercial real estate markets continue to be stressed. However, a few positive signs were beginning to appear in the latter part of 2011 and early 2012. The nation's unemployment rate was 8.3% at March 1, 2012, down from a peak of 10.2% in October 2009. By comparison, the Washington, DC metropolitan area jobless rate of 5.5% is considerably lower than the national average. Approximately 85% of the 2011 Saul Centers' property operating income is produced by 44 properties in the Washington, DC/Baltimore metropolitan area. This geographic concentration affords stability to the overall portfolio performance.

Same tenant sales in our shopping center portfolio increased for the second consecutive year in 2011, by 1.1%, after two years of declines beginning in 2008. We completed 280 new and renewal leases in 2011 for 1.4 million square feet of commercial space, exceeding the highest previous annual total of 261 leases signed in 2010. Small shop tenant delinquencies have decreased from previous year levels, with the number of early lease terminations approximately 50% below 2009.

Same property operating income decreases during 2011 were primarily caused by several shopping center anchor tenant vacancies totaling 175,000 square feet and office tenant downsizing at Washington Square causing 55,000 square feet of vacancy. Over 50% of this square footage has been released, with new tenants projected to be in occupancy by mid-2012.

The successful lease-up of our Clarendon Center development to a current 92.4% of the commercial space and 99.2% of the apartments will drive continued quarterly increases in this property's operating income throughout 2012.

Financial Results

Total revenue increased in 2011 to \$174.4 million, compared to \$163.5 million in 2010. Overall operating income decreased to \$33.9 million compared to \$43.8 million in 2010. While on a same property basis, revenue and operating income each decreased by 5.6% in 2011, as compared to 2010, shopping center same property operating income decreased 4.2%. For the mixed-use portfolio, same property operating income decreased 10.6% in 2011, primarily due to the decreased occupancy at Washington Square.

THRUWAY, WINSTON-SALEM, NC





WESTVIEW VILLAGE, FREDERICK, MD



IN 2011, SAME TENANT SALES IN OUR SHOPPING CENTER PORTFOLIO INCREASED BY 1.1% AND WE COMPLETED 280 NEW AND RENEWAL LEASES.

FFO available to common shareholders for 2011 decreased 0.5% to \$50.3 million from \$50.6 million in 2010. Per share FFO available to common shareholders decreased 4.2% to \$2.03 per diluted share, from \$2.12 per diluted share in 2010. The year-to-year change was primarily due to a few significant events of both a positive and negative nature. The following summarizes the negative components of the change in FFO:

- \$2.8 million due to reduced occupancy in the mixed-use portfolio which primarily resulted from the downsizing of several office tenants at our Washington Square property at lease expiration;
- \$2.0 million due to reduced base rent and increased credit losses resulting from the loss of two anchor tenant stores (SuperFresh and Borders Books) after bankruptcy filings, plus the delinquency and early termination of a single-location independent grocer;
- \$1.9 million due to the non-recurring collection in 2010 of past due rents from a former anchor tenant;

- \$1.4 million due to property acquisition costs;
- \$1.3 million of non-cash expense caused by the decrease in the fair value of interest rate swaps; and
- \$0.7 million due to the adverse impact of operations start-up at Clarendon Center, because interest expense exceeded property operating income.

These decreases in FFO were partially offset by the following increases:

- \$5.4 million of debt retirement expense in 2010;
- \$4.2 million contributed by five shopping centers acquired in 2010 and 2011; and
- \$1.2 million change in snow removal expense, net of tenant recoveries.

Per share FFO comparisons were also adversely impacted by a 947,000 increase in average shares outstanding in for 2011.



CLARENDON CENTER, ARLINGTON, VA



TRADER JOE'S, CLARENDON CENTER, ARLINGTON, VA

Development

We completed construction of our largest development project in early 2011. The \$195 million Clarendon Center is an urban mixed-use development on two blocks adjacent to the Clarendon Metro station in Arlington, Virginia. The project contains 244 apartments, 42,000 square feet of retail space, 171,000 square feet of office space and 600 underground parking spaces. By early May 2011, only five months after substantial completion of construction, the apartments were over 95% leased and occupied. Amenities include an indoor lap pool, community function room, fitness center, business center and an outdoor landscaped courtyard. The retail space provides the residents convenient services and dining options at five unique restaurants. Trader Joe's specialty grocery store opened in November 2011, completing the retail phase of the project.

The office space is over 90% leased and anchored by the 68,000 square foot headquarters of Airline Reporting Corporation, a ticketing and reservations business serving most of the nation's airlines.

While negatively impacting our 2011 operating income during its lease-up phase, the Clarendon Center development is expected to provide earnings growth throughout 2012.

Acquisitions

In September 2011, we acquired for \$168.5 million three Giant Food-anchored shopping centers, all located in the metropolitan Washington, DC/Baltimore area. These centers, each described more fully below, total 636,000 square feet of leaseable area, and average 98% leased.

Kentlands Square II is a 241,000 square foot neighborhood shopping center located in Gaithersburg, Montgomery County, Maryland. Montgomery County is the state's most populous and affluent county. More than 38,000 households, with annual household incomes averaging over \$114,000, are located within a three-mile radius of the center. The center is 100% leased and is anchored by a 61,000 square foot Giant Food supermarket and a 104,000 square foot Kmart. The property abuts our two other Kentlands properties, one of which is anchored by Lowe's Home Improvement.



JAMESTOWN PLACE, ALTAMONTE SPRINGS, FL



CRANBERRY SQUARE, WESTMINSTER, MD



IN SEPTEMBER 2011, WE ACQUIRED THREE GIANT FOOD-ANCHORED SHOPPING CENTERS. THESE ACQUISITIONS AND CLARENDON CENTER ADDED OVER ONE MILLION SQUARE FEET OF SPACE, OR 12.2%, TO OUR LOCAL WASHINGTON, DC/ BALTIMORE AREA PORTFOLIO.

Severna Park MarketPlace is a 254,000 square foot neighborhood shopping center located in Severna Park, Anne Arundel County, Maryland. More than 15,000 households, with annual household incomes averaging over \$112,000, are located within a three-mile radius of the center. The center is 100% leased and is anchored by a 63,000 square foot Giant Food supermarket and a 92,000 square foot Kohl's.

Cranberry Square is a 141,000 square foot neighborhood shopping center located in Westminster, Carroll County, Maryland. More than 12,000 households, with annual household incomes averaging over \$72,000, are located within a three-mile radius of the center. The center is 91.2% leased and is anchored by a 56,000 square foot Giant Food supermarket and a 24,000 square foot Staples.

These acquisitions and Clarendon Center added over one million square feet of local Washington, DC/Baltimore area space, or 12.2%, to our portfolio, and increased our total capitalization by approximately 20%. A total of 10 of our 34 grocery-anchored shopping centers are anchored by Giant Food – the local grocery market-share leader.

Retail Portfolio Performance

During 2011, our retail portfolio occupancy and operating results were negatively impacted by anchor tenant bankruptcies and defaults. Four of our significant tenants were involved in bankruptcy proceedings. Within our shopping center portfolio, Borders Books, Superfresh and Syms each closed a single store and Blockbuster Video rejected leases at two locations. Additionally, an independent grocer defaulted and vacated a store in our Southdale shopping center. These store closings, totaling 175,000 square feet, reduced 2011 FFO by \$0.08/per share. We have successfully signed leases for 88,000 square feet of this space as of March 1, 2012.

Largely as a result of these anchor tenant vacancies, 2011 same property operating income in the shopping center portfolio decreased by 4.2% over the prior year. Results were slightly improved in the fourth quarter, with quarterly same property operating income decreasing by 2.3%

Overall leasing volume increased during 2011. We executed 224 new and renewal leases, totaling 1,085,000 square feet of space. This compares to 221 leases for 1,080,000 square feet in 2010, and 211 leases for 1,065,000 square feet of space in 2009. Rental rates remain under pressure for the third consecutive



WASHINGTON SQUARE, ALEXANDRIA, VA

year, with new and renewal cash rents decreasing by 6.3% over expiring rents on a same space basis. Our retail tenant renewal percentage dropped to 60% from a 70% average over the preceding three years. On a positive note, rent defaults by small shop tenants (those individually leasing less than 10,000 square feet) have decreased, with only 3.5% of these tenants vacating space prior to lease expiration in 2011, compared to an average of 5.8% per year in the prior two years (as measured by square feet leased).

Sales revenue reported by our retail tenants across the portfolio remained steady at \$323 per square foot in 2011, compared to \$322 per square foot in 2010. On a same store basis, retail sales increased by 1.1% from 2010, an encouraging reversal following an average 1.2% decrease over the past three years.

Lower small shop tenant delinquencies and increasing tenant sales are positive signs looking into 2012. Additionally, one of the strongest indicators of our shopping centers' performance is the sales volume driven by our grocers. Same store grocery sales in the shopping center portfolio increased by 0.9% over 2010, after two consecutive years of declines. Sales reported by our national/regional grocery stores during 2011 averaged a healthy \$486 per square foot.

Mixed-Use Results

Our mixed-use portfolio includes 1.6 million square feet of office, multi-family residential and complementary retail space. A total of 95% of the 2011 mixed-use property operating income is derived from six properties located in the Washington, DC metropolitan area. Excluding the newly developed Clarendon Center, same center property operating income decreased 10.6% in 2011, largely as a result of a late-2010 vacancy of a single-location, 40,000 square foot office tenant, and the downsizing of tenants (totaling 55,000 square feet) at Washington Square in Alexandria, Virginia. Washington Square was 76% leased at March 31, 2011, but new leases signed during 2011 have increased the leasing percentage to 92% at March 1, 2012. The fourth quarter 2011 same property operating income in the mixed-use portfolio increased by 1.3% over the prior year.

Excluding the 99.2% leased Clarendon Center apartments, the leasing percentage of the commercial portion of the mixed-use properties is 86.0% at March 1, 2012. Only 75,000 square feet, or 5.3%, of our 1,422,000 square-foot commercial portfolio, expires prior to the end of 2012. However, the D.C. area office market remains challenged by reduced demand for space by the federal government and its contractors.



SEVEN CORNERS, FALLS CHURCH, VA



OUR MIXED-USE PORTFOLIO INCLUDES 1.6 MILLION SQUARE FEET OF OFFICE, MULTI-FAMILY RESIDENTIAL AND COMPLEMENTARY RETAIL SPACE.

Balance Sheet Highlights

In light of the favorable long-term interest rate environment over the past couple years, we have focused on refinancing all of our near term debt maturities with long term mortgages. We started 2011 with significant near term debt maturities, including our Clarendon Center \$104 million construction loan, due to mature in November 2011, and a seven-property pooled mortgage of \$62.4 million maturing in October 2012. During early 2011, we replaced the Clarendon Center loan with a 15-year, \$125 million loan with a 5.31% interest rate and 25-year amortization. Also during 2011, we committed to borrow \$73 million secured by the Seven Corners shopping center, one of the seven properties in the pooled mortgage. The new 15-year loan is at an interest rate of 5.84% and is scheduled to close in April 2012, subject to customary closing conditions. Proceeds from this loan will be used to pay-off the remaining pooled mortgage balance, provide cash of approximately \$10 million, and leave the remaining six shopping centers free and clear.

Subject to the April 2012 closing of the Seven Corners financing, loans maturing over the next seven years, from 2012 to 2018, total \$140 million, or 17% of total outstanding debt.

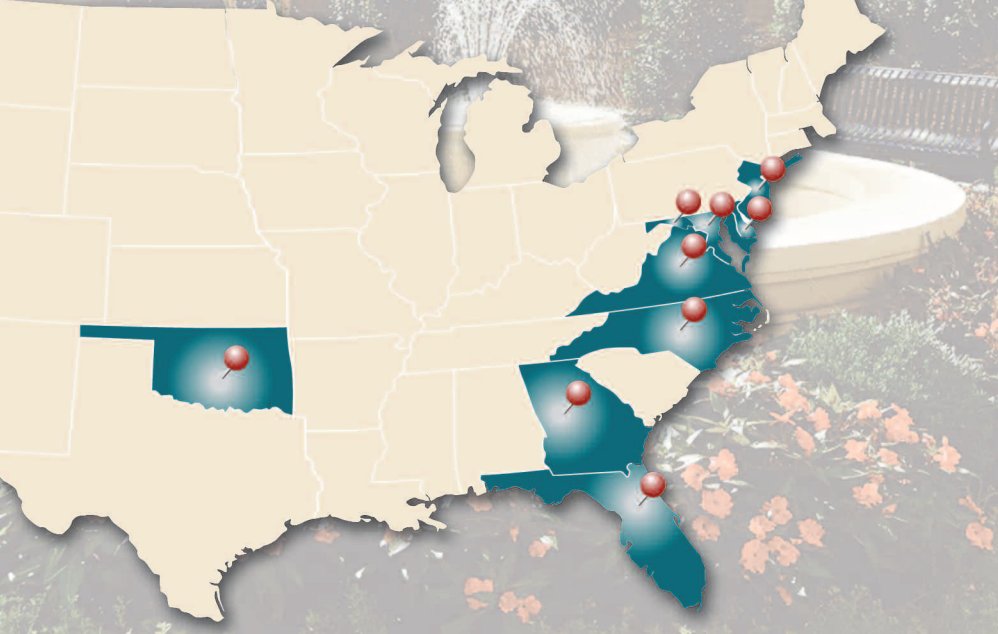
Following the three shopping center acquisitions in September 2011, we closed three new non-recourse permanent financings. The loans, totaling \$101 million, all have 15-year terms and 25-year amortization, and have a weighted average interest rate of 4.48%.

As of March 1, 2012, we had \$8 million borrowed on our \$150 million revolving line of credit. The weighted average interest rate of all of our fixed-rate outstanding debt was 6.01% with a weighted average maturity of 9.3 years. Our interest expense coverage ratio was 2.6x for 2011. Leverage, as measured by debt to total capitalization, was 42.3% at December 31, 2011.

We are pleased with the success of our Clarendon Center development and the 2011 acquisition of three solid Washington, DC metropolitan area shopping centers. Our focus entering 2012 is on continuing to lease-up and to restore the operating performance of our core shopping center and mixed-use properties. I am confident that our well located properties and diligent management team will deliver results that will generate appropriate returns for our investors.

For the Board

B. Francis Saul II
March 12, 2012



AS OF DECEMBER 31, 2011, 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 75% OF THE PORTFOLIO'S GROSS LEASABLE AREA.

PORTFOLIO PROPERTIES

PROPERTY/LOCATION	GROSS LEASABLE SQUARE FEET	PROPERTY/LOCATION	GROSS LEASABLE SQUARE FEET
Shopping Centers			
ASHBURN VILLAGE, ASHBURN, VA	221,770	OLNEY, OLNEY, MD	53,765
ASHLAND SQUARE, PHASE I, MANASSAS, VA	16,550	ORCHARD PARK, DUNWOODY, GA	87,885
BEACON CENTER, ALEXANDRIA, VA	358,015	PALM SPRINGS CENTER, ALTAMONTE SPRINGS, FL	126,446
BJ'S WHOLESALE CLUB, ALEXANDRIA, VA	115,660	RAVENWOOD, BALTIMORE, MD	93,328
BELVEDERE, BALTIMORE, MD	54,941	11503 ROCKVILLE PIKE, ROCKVILLE, MD	20,149
BOCA VALLEY PLAZA, BOCA RATON, FL	121,269	SEABREEZE PLAZA, PALM HARBOR, FL	146,673
BOULEVARD, FAIRFAX, VA	49,140	MARKETPLACE AT SEA COLONY, BETHANY BEACH, DE	21,677
BRIGGS CHANEY MARKETPLACE, SILVER SPRING, MD	194,347	SEVEN CORNERS, FALLS CHURCH, VA	574,831
BROADLANDS VILLAGE I, II & III, ASHBURN, VA	159,734	SEVERNA PARK MARKETPLACE, SEVERNA PARK, MD	254,174
COUNTRYSIDE, STERLING, VA	141,696	SHOPS AT FAIRFAX, FAIRFAX, VA	68,743
CRANBERRY SQUARE, WESTMINSTER, MD	141,569	SMALLWOOD VILLAGE CENTER, WALDORF, MD	173,281
CRUSE MARKETPLACE, CUMMING, GA	78,686	SOUTHDAL, GLEN BURNIE, MD	484,115
FLAGSHIP CENTER, ROCKVILLE, MD	21,500	SOUTHSIDE PLAZA, RICHMOND, VA	371,761
FRENCH MARKET, OKLAHOMA CITY, OK	244,724	SOUTH DEKALB PLAZA, ATLANTA, GA	163,418
GERMANTOWN, GERMANTOWN, MD	27,241	THRUWAY, WINSTON-SALEM, NC	362,600
GIANT, BALTIMORE, MD	70,040	VILLAGE CENTER, CENTREVILLE, VA	143,109
THE GLEN, LAKE RIDGE, VA	135,870	WEST PARK, OKLAHOMA CITY, OK	76,610
GREAT EASTERN, DISTRICT HEIGHTS, MD	255,398	WESTVIEW VILLAGE, FREDERICK, MD	100,997
GREAT FALLS CENTER, GREAT FALLS, VA	91,666	WHITE OAK, SILVER SPRING, MD	480,276
HAMPSHIRE LANGLEY, TAKOMA PARK, MD	131,700		
HUNT CLUB CORNERS, APOPKA, FL	101,522	TOTAL SHOPPING CENTERS	7,932,796
JAMESTOWN PLACE, ALTAMONTE SPRINGS, FL	96,372	Office/Mixed-Use Properties	
KENTLANDS SQUARE I, GAITHERSBURG, MD	114,381	AVENEL BUSINESS PARK, GAITHERSBURG, MD	390,579
KENTLANDS SQUARE II, GAITHERSBURG, MD	240,683	CLARENDON CENTER — NORTH, ARLINGTON, VA	108,387
KENTLANDS PLACE, GAITHERSBURG, MD	40,648	CLARENDON CENTER — SOUTH, ARLINGTON, VA	293,309
LANSDOWNE TOWN CENTER, LEESBURG, VA	189,355	(INCLUDES 244 APARTMENTS AT 188,671 SQUARE FEET)	
LEESBURG PIKE, BAILEYS CROSSROADS, VA	97,752	CROSTOWN BUSINESS CENTER, TULSA, OK	197,127
LUMBERTON PLAZA, LUMBERTON, NJ	193,044	601 PENNSYLVANIA AVE., WASHINGTON, DC	226,604
METRO PIKE CENTER, ROCKVILLE, MD	67,487	VAN NESS SQUARE, WASHINGTON, DC	159,411
SHOPS AT MONOCACY, FREDERICK, MD	109,144	WASHINGTON SQUARE, ALEXANDRIA, VA	235,042
NORTHROCK, WARRENTON, VA	103,439		
OLDE FORTE VILLAGE, FT. WASHINGTON, MD	143,615	TOTAL OFFICE/MIXED-USE PROPERTIES	1,610,459
		TOTAL PORTFOLIO	9,543,255

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SELECTED FINANCIAL DATA

(In thousands, except per share data)

	Years Ended December 31,				
	2011	2010	2009	2008	2007
Operating Data					
Total revenue	\$ 174,360	\$ 163,546	\$ 160,968	\$ 160,188	\$ 150,442
Operating expenses	140,445	119,728	115,769	113,751	105,088
Operating income	33,915	43,818	45,199	46,437	45,354
Non-operating income					
Loss on early extinguishment of debt	—	(5,405)	(2,210)	—	—
Gain on casualty settlements	245	2,475	329	1,301	139
Acquisition related costs	(2,534)	(1,179)	—	—	—
Decrease in fair value of derivatives	(1,332)				
Discontinued operations	—	3,476	(88)	(72)	28
Net income	30,294	43,185	43,230	47,666	45,521
Income attributable to the noncontrolling interest	(3,561)	(6,422)	(6,517)	(7,972)	(8,818)
Net income attributable to Saul Centers, Inc.	26,733	36,763	36,713	39,694	36,703
Preferred dividends	(15,140)	(15,140)	(15,140)	(13,453)	(8,000)
Net income available to common stockholders	\$ 11,593	\$ 21,623	\$ 21,573	\$ 26,241	\$ 28,703
Per Share Data (diluted)					
Net income available to common stockholders	\$ 0.61	\$ 1.18	\$ 1.20	\$ 1.46	\$ 1.62
Basic and diluted shares outstanding					
Weighted average common shares - basic	18,888	18,267	17,904	17,816	17,589
Effect of dilutive options	61	110	39	145	180
Weighted average common shares - diluted	18,949	18,377	17,943	17,961	17,769
Weighted average convertible limited partnership units	5,791	5,416	5,416	5,416	5,416
Weighted average common shares and fully converted limited partnership units - diluted	24,740	23,793	23,359	23,377	23,185
Dividends Paid					
Cash dividends to common stockholders ⁽¹⁾	\$ 27,062	\$ 26,186	\$ 27,358	\$ 33,450	\$ 31,026
Cash dividends per share	\$ 1.44	\$ 1.44	\$ 1.53	\$ 1.88	\$ 1.77
Balance Sheet Data					
Real estate investments (net of accumulated depreciation)	\$1,091,448	\$ 927,250	\$ 834,914	\$ 774,718	\$ 657,258
Total assets	1,192,569	1,013,888	925,574	853,873	727,443
Total debt, including accrued interest	835,459	713,997	639,405	570,184	535,319
Preferred stock	179,328	179,328	179,328	179,328	100,000
Total stockholders' equity	293,206	239,813	226,063	227,887	153,524
Other Data					
Cash flow provided by (used in):					
Operating activities	\$ 55,669	\$ 62,887	\$ 69,025	\$ 73,101	\$ 71,197
Investing activities	\$ (201,500)	\$ (98,239)	\$ (80,469)	\$ (115,070)	\$ (52,036)
Financing activities	\$ 145,186	\$ 27,713	\$ 19,045	\$ 49,210	\$ (21,457)
Funds from operations ⁽²⁾					
Net income	\$ 30,294	\$ 43,185	\$ 43,230	\$ 47,666	\$ 45,521
Real property depreciation and amortization	35,400	28,474	28,150	29,555	26,458
Real property depreciation - discontinued operations	—	103	114	114	3
Gain on property dispositions	(245)	(6,066)	(329)	(1,301)	(139)
Funds from operations	65,449	65,696	71,165	76,034	71,843
Preferred dividends	(15,140)	(15,140)	(15,140)	(13,453)	(8,000)
Funds from operations available to common shareholders	\$ 50,309	\$ 50,556	\$ 56,025	\$ 62,581	\$ 63,843

1) During 2011, 2010, 2009, 2008, and 2007, shareholders reinvested \$19,751, \$16,696, \$4,136, \$3,941, and \$18,725, respectively, in newly issued common stock through the Company's dividend reinvestment plan.

(2) Funds from operations (FFO) is a non-GAAP financial measure and is defined in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Funds From Operations."

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) begins with the Company's primary business strategy to give the reader an overview of the goals of the Company's business. This is followed by a discussion of the critical accounting policies that the Company believes are important to understanding the assumptions and judgments incorporated in the Company's reported financial results. The next section, beginning on page 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.

The Company recently acquired three Giant Food-anchored shopping centers located in the Maryland suburbs of the Washington, D.C. and Baltimore metropolitan area. The three centers, Kentlands Square II, Severna Park MarketPlace and Cranberry Square, total 636,000 square feet of leasable area, of which 98% is leased. The \$170.9 million purchase price, including acquisition costs, was financed with (1) \$60.0 million from two bridge loans secured by Kentlands Square II and Cranberry Square, each with an initial term of six months and accruing interest, payable monthly, at a rate equal to LIBOR plus 175 basis points; (2) a \$38.0 million non-recourse permanent loan secured by Severna Park MarketPlace; (3) approximately \$17.1 million in cash and borrowings from the Company's revolving credit facility; and (4) \$55.8 million from the issuance of equity to a related party. In light of the limited amount of quality properties for sale and the escalated pricing of 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 Mixed-Use Properties in the near future is uncertain. Because of its conservative capital structure, including its cash and capacity under its revolving credit facility, management believes that the Company is positioned to take advantage of additional investment opportunities as attractive properties are located and market conditions improve. It is management's view that several of the sub-markets in which the Company operates have, or are expected to have in the future, attractive supply/demand characteristics. The Company will continue to evaluate acquisition, development and redevelopment as integral parts 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.

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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 89.4%, a decrease from 91.1% at year end 2010. The 2011 commercial leasing percentages were adversely impacted by a net decrease of approximately 140,000 square feet of leased space, of which approximately 98,000 square feet was caused by the Syms, SuperFresh and Borders Books bankruptcies and the balance resulting from the early lease termination of a local grocer. As of March 1, 2012, a total of 61,000 square feet of these four vacant spaces had been leased.

Because of the Company's conservative capital structure, its liquidity 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, 2011, amortizing fixed-rate mortgage debt with staggered maturities from 2012 to 2026 represented approximately 97% of the Company's notes payable, thus minimizing refinancing risk. Third, the Company's only 2012 fixed-rate debt maturity is not until October 2012 for which the Company has received a loan commitment to refinance. The Company's variable-rate debt consists of a \$15.1 million bank term loan for the Northrock shopping center and \$8.0 million outstanding under its line of credit. As of December 31, 2011, the Company has loan availability of approximately \$141.8 million under its \$150.0 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 affect 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 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 accreted 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 a potential impairment in the value of a real estate investment property, the Company prepares an analysis to determine whether the carrying value of the real estate investment property exceeds 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 we own are depreciated over the life of the respective lease or the estimated useful life of the improvements, whichever is shorter.

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

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Results of Operations

REVENUE

(Dollars in thousands)	For the year ended December 31,			Percentage Change	
	2011	2010	2009	2011 to 2010	2010 to 2009
Base rent	\$ 138,905	\$ 126,518	\$ 125,727	9.8%	0.6%
Expense recoveries	28,414	29,534	29,442	(3.8)%	0.3%
Percentage rent	1,510	1,458	1,326	3.6%	10.0%
Other	5,531	6,036	4,473	(8.4)%	34.9%
Total revenue	\$ 174,360	\$ 163,546	\$ 160,968	6.6%	1.6%

Note: Base rent includes \$3,736, \$225, and \$1,303, for the years 2011, 2010, and 2009, respectively, to recognize base rent on a straight-line basis. In addition, base rent includes \$1,119, \$1,024, and \$1,249 for the years 2011, 2010, and 2009, respectively, to recognize income from the amortization of in-place leases.

Total revenue increased 6.6% in 2011 compared to 2010. The increased revenue resulted primarily from (a) rental income generated by a development property (Clarendon Center) and five acquisition properties (11503 Rockville Pike, Metro Pike Center, Kentlands Square II, Severna Park MarketPlace and Cranberry Square), defined as the "2011 Acquisition Properties" and together with Clarendon Center, the "2011 Development and Acquisition Properties" (approximately \$19.1 million), offset in part by (b) (x) decreased revenue from rental properties fully in operation during both 2011 and 2010 ("Core Properties") (approximately \$8.9 million), comprised primarily of a decline in revenue generated by the Mixed-Use Properties (approximately \$4.1 million) due to a decrease in occupancy that occurred in the latter part of 2010 and the first quarter of 2011, (y) a decrease in other income compared to 2010, when the collection of rent and other damages arising from a long-standing dispute with a tenant over the non-payment of rent over a period of time was recorded (\$1.9 million), and (z) reduced expense recovery income resulting from substantial snow removal expenses incurred in 2010.

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 \$1.9 million), 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 \$1.7 million), offset in part by declining revenues from properties which were in operation for the entirety of both periods due to decreased occupancy levels and the resulting loss of rental income (approximately \$1.0 million).

A discussion of the components of revenue follows.

BASE RENT

The \$12.4 million increase in base rent in 2011 compared to 2010 was primarily attributable to the 2011 Development and Acquisition Properties (approximately \$16.8 million) which was offset in part by decreases at same center Mixed-Use Properties (approximately \$3.0 million) and the Shopping Centers (approximately \$1.9 million).

The \$791,000 increase in base rent in 2010 compared to 2009 was primarily attributable to leases in effect at the 2010/2009 Development and Acquisition Properties (approximately \$1.3 million) 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.

EXPENSE RECOVERIES

Expense recovery income decreased \$1.1 million in 2011 compared to 2010 due primarily to recovery in 2010 of snow removal expenses incurred as a result of severe winter weather impacting the Mid-Atlantic states during January and February 2010.

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

OTHER REVENUE

Other revenue decreased in 2011 primarily due to the collection during 2010 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 \$1.9 million) partially offset by increased residential tenant fees and parking income (combined \$755,000) at Clarendon Center.

The \$1.6 million increase in other revenue in 2010 compared to 2009 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 \$1.9 million) and increased parking and temporary lease rental income (approximately \$246,000) offset in part by decreased lease termination fees (approximately \$743,000).

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OPERATING EXPENSES

(Dollars in thousands)	For the year ended December 31,			Percentage Change	
	2011	2010	2009	2011 to 2010	2010 to 2009
Property operating expenses	\$ 24,946	\$ 23,198	\$ 21,301	7.5%	8.9%
Provision for credit losses	1,883	1,337	919	40.8%	45.5%
Real estate taxes	18,485	17,793	17,754	3.9%	0.2%
Interest expense and amortization of deferred debt	45,475	34,958	34,689	30.1%	0.8%
Depreciation and amortization	35,400	28,474	28,150	24.3%	1.2%
General and administrative	14,256	13,968	12,956	2.1%	7.8%
Total operating expenses	\$ 140,445	\$ 119,728	\$ 115,769	17.3%	3.4%

Total operating expenses increased 17.3% in 2011 compared to 2010 due primarily to increased interest and depreciation expense arising from the operation of the 2011 Development and Acquisition Properties.

PROPERTY OPERATING EXPENSES

Property operating expenses increased in 2011 primarily due to operating expenses arising from the operation of the 2011 Development and Acquisition Properties (\$3.3 million) and modest increases in non-snow removal same property operating expenses offset in part by a \$2.3 million decrease in snow removal expense.

The largest single item contributing to the \$1.9 million increase in 2010 property operating expenses compared to 2009 was snow removal expense (approximately \$1.6 million) resulting primarily from heavy snowfall in the Mid-Atlantic states during January and February 2010.

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 \$546,000 increase in 2011 compared to 2010 reflects the continued stress of a stagnant housing market and slowly recovering jobs market in the local economies where the Current Portfolio Properties are located. Approximately \$505,000 of the increase was caused by the SuperFresh and Borders Bookstore bankruptcies and a local grocery store vacancy, and approximately \$300,000 of the increase was caused by the failure of several restaurants in the Loudoun County shopping centers.

The \$418,000 increase in the provision for credit losses in 2010 compared to 2009 was primarily caused by the default of a single-location office tenant.

REAL ESTATE TAXES

The \$692,000 increase in real estate taxes in 2011 over 2010 resulted primarily from the operation of the 2011 Development and Acquisition Properties.

INTEREST AND AMORTIZATION OF DEFERRED DEBT

Interest expense increased \$10.5 million in 2011 compared to 2010 primarily due to Clarendon Center, because more than 85% of the project was placed in service during 2011, which caused an \$8.9 million increase in interest expense, net of amounts capitalized, as well as increased interest expense arising from the refinancing in March 2011 of the project's construction loan with a higher fixed-rate, 15 year mortgage. Interest expense also increased in 2011 by \$1.3 million from debt incurred to finance the 2011 Acquisition Properties.

Interest expense increased \$269,000 in 2010 compared to 2009 primarily due to approximately \$53.0 million 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 \$3.5 million, which was partially offset by approximately \$1.7 million due to lower interest rates on refinanced debt, increased capitalized interest of approximately \$1.2 million and revolving credit facility modification costs incurred during the 2009 Period of approximately \$363,000.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization of deferred leasing costs increased \$6.9 million in 2011 compared to 2010 primarily as a result of depreciation commencement for the 2011 Development and Acquisition Properties placed in service during 2011.

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.

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GENERAL AND ADMINISTRATIVE

General and administrative expenses increased \$288,000 in 2011 compared to 2010 primarily due to increased personal property taxes.

The \$1.0 million 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).

ACQUISITION RELATED COSTS

Acquisition related costs in 2011 of approximately \$2.5 million arose from the Company's September 23, 2011, purchase of Kentlands Square II, Severna Park MarketPlace and Cranberry Square and the February 17, 2011 purchase of a 3,000 square foot retail property located adjacent to the Company's Van Ness Square in Washington, DC.

Acquisition related costs of approximately \$1.2 million in 2010 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 CASUALTY SETTLEMENT

Gain on casualty settlement in 2011 and 2010 reflects insurance proceeds received in excess of the carrying value of assets damaged during a severe hail storm at French Market in May 2010. 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.

LOSS ON EARLY EXTINGUISHMENT OF DEBT

In June 2010, the Company refinanced its Thruway shopping center, located in Winston-Salem, North Carolina. The \$45.6 million 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 \$17.0 million 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 previous Thruway debt totaling \$4.5 million (approximately \$4.4 million to defease the original loan and write-offs of unamortized deferred debt costs of approximately \$54,000) and to retire the previous 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 \$95.7 million to \$62.0 million, and provided net cash proceeds of approximately \$17.4 million.

During 2009, the Company refinanced debt with outstanding balances totaling \$70.6 million, prior to its December 2011 maturity, in order to obtain new mortgage debt totaling \$118.0 million. In conjunction with the refinancings, the Company incurred prepayment penalties (approximately \$1.9 million) and wrote off unamortized deferred debt costs related to the repaid mortgages (approximately \$318,000).

GAIN ON SALE OF PROPERTY

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

Impact of Inflation

Inflation has remained relatively low during 2011 and 2010. The impact of rising operating expenses due to inflation on the operating performance of the Company's portfolio would have been mitigated by terms in 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 \$12.3 million and \$13.0 million at December 31, 2011 and 2010, respectively. The changes in cash and cash equivalents during the years ended December 31,

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2011 and 2010 were attributable to operating, investing and financing activities, as described below.

(Dollars in thousands)	Year Ended December 31,	
	2011	2010
Net cash provided by operating activities	\$ 55,669	\$ 62,887
Net cash used in investing activities	(201,500)	(98,239)
Net cash provided by financing activities	145,186	27,713
Decrease in cash and cash equivalents	\$ (645)	\$ (7,639)

OPERATING ACTIVITIES

Net cash provided by operating activities decreased \$7.0 million to \$55.9 million for the year ended December 31, 2011 compared to \$62.9 million for the year ended December 31, 2010, primarily reflecting the 2011 decline in operating income from the Company's Core Properties fully in operation during all of 2011 and 2010. 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 \$103.3 million to \$201.5 million for the year ended December 31, 2011 compared to \$98.2 million for the year ended December 31, 2010. Investing activities for 2011 primarily reflect the purchase of Cranberry Square, Kentlands Square II and Severna Park MarketPlace and Clarendon Center construction costs.

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.

Tenant improvement and property capital expenditures totaled \$11.6 million and \$6.6 million for 2011 and 2010, respectively.

FINANCING ACTIVITIES

Net cash provided by financing activities for the years ended December 31, 2011 and 2010, was \$145.0 million and \$27.7 million, respectively. Cash provided by financing activities for the year ended December 31, 2011 primarily reflects:

- proceeds of \$226.0 million received from mortgage notes payable;

- proceeds of \$60.0 million received from secured bridge financing loans;
- proceeds of \$13.4 million received from construction loan draws;
- proceeds of \$16.0 million received from revolving credit facility draws;
- proceeds of \$55.8 million from an equity offering of common stock and limited partnership units in the Operating Partnership; and
- proceeds of \$20.9 million from the issuance of common stock under the dividend reinvestment program, directors deferred plan and the exercise of stock options;

which was partially offset by:

- the repayment of mortgage notes payable totaling \$22.8 million;
- the repayment of secured bridge financing loans totaling \$60.0 million;
- the repayment of construction loans payable totaling \$104.2 million;
- the repayment of amounts borrowed under the revolving credit facility of \$8.0 million;
- distributions to common stockholders totaling \$27.1 million;
- distributions to holders of convertible limited partnership units in the Operating Partnership totaling \$8.3 million;
- distributions made to preferred stockholders totaling \$15.1 million; and
- payments of \$1.4 million for financing costs of mortgage notes payable.

Net cash provided by financing activities for the years ended December 31, 2010 and 2009, was \$27.7 million and \$19.0 million, respectively. Cash provided by financing activities for the year ended December 31, 2010 primarily reflects:

- proceeds received from two new mortgage notes payable totaling \$62.6 million;
- amounts borrowed from construction loans payable totaling \$49.5 million; and
- \$19.5 million 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 \$53.7 million;
- distributions made to common stockholders and holders of convertible limited partnership units in the Operating Partnership during the year totaling \$34.0 million;
- distributions made to preferred stockholders during the year totaling \$15.1 million; and
- payments of \$1.1 million for financing costs of new mortgage loans.

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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. 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, 2011, the Company had unfunded contractual payment obligations of approximately \$148.6 million, excluding operating obligations, due within the next 12 months. The table below specifies the total contractual payment obligations as of December 31, 2011.

CONTRACTUAL PAYMENT OBLIGATIONS

(Dollars in thousands)	Payments Due By Period				Total
	One Year or Less	2-3 Years	4-5 Years	After 5 Years	
Notes Payable:					
Interest	\$ 47,519	\$ 76,723	\$ 69,132	\$ 185,795	\$ 379,169
Scheduled Principal	21,756	35,769	37,586	144,845	239,956
Balloon Payments	69,960	83,349	15,077	423,529	591,915
Subtotal	139,235	195,841	121,795	754,169	1,211,040
Ground Leases ⁽¹⁾	176	352	352	9,715	10,595
Corporate Headquarters Lease ⁽¹⁾	248	—	—	—	248
Development Obligations	8,933	—	—	—	8,933
Total Contractual Obligations	\$ 148,592	\$ 196,193	\$ 122,147	\$ 763,884	\$1,230,816

(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, 2011 included cash balances of \$12.3 million and borrowing

availability of approximately \$141.8 million on its revolving line of credit, will be sufficient to meet its contractual obligations for the foreseeable future.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 489,890 and 418,512 shares under the Plan at a weighted average discounted price of \$39.64 and \$39.13 per share during the years ended December 31, 2011 and 2010, respectively. The Company also credited 8,358 and 8,335 shares to directors pursuant to the reinvestment of dividends specified by the Directors' Deferred Compensation Plan at a weighted average discounted price of \$39.94 and \$38.85 per share, during the years ended December 31, 2011 and 2010, 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, 2011.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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The following is a summary of notes payable as of December 31, 2011 and 2010:

NOTES PAYABLE				
(Dollars in thousands)	December 31,		Interest	Scheduled
	2011	2010	Rate *	Maturity *
Fixed rate mortgages:	\$ 64,844 (a)	68,461	7.67%	Oct-2012
	10,244 (b)	10,457	6.12%	Jan-2013
	24,598 (c)	26,123	7.88%	Jan-2013
	16,032 (d)	16,169	4.67%	Jun-2013
	7,203 (e)	7,456	5.77%	Jul-2013
	14,335 (f)	14,771	5.40%	May-2014
	17,415 (g)	17,983	7.45%	Jun-2015
	35,435 (h)	36,435	6.01%	Feb-2018
	39,757 (i)	41,047	5.88%	Jan-2019
	12,860 (j)	13,277	5.76%	May-2019
	17,755 (k)	18,331	5.62%	Jul-2019
	17,627 (l)	18,180	5.79%	Sep-2019
	15,713 (m)	16,222	5.22%	Jan-2020
	11,670 (n)	11,905	5.60%	May-2020
	10,636 (o)	10,966	5.30%	Jun-2020
	44,333 (p)	45,190	5.83%	Jul-2020
	9,204 (q)	9,458	5.81%	Feb-2021
	6,477 (r)	6,588	6.01%	Aug-2021
	37,377 (s)	38,018	5.62%	Jun-2022
	11,317 (t)	11,494	6.08%	Sep-2022
	12,172 (u)	12,343	6.43%	Apr-2023
	16,858 (v)	17,435	6.28%	Feb-2024
	17,791 (w)	18,090	7.35%	Jun-2024
	15,409 (x)	15,659	7.60%	Jun-2024
	16,494 (y)	16,717	8.11%	Jul-2024
	32,281 (z)	32,812	7.45%	Jul-2024
	32,044 (aa)	32,560	7.30%	Jan-2025
	16,731 (bb)	17,000	6.18%	Jan-2026
	123,372 (cc)	—	5.31%	Apr-2026
	37,858 (dd)	—	4.30%	Oct-2026
	42,923 (ee)	—	4.53%	Nov-2026
	20,000 (ff)	—	4.70%	Dec-2026
Total fixed rate	808,765	601,147	6.04%	9.5 Years
Variable rate loans:				
Revolving credit facility	8,000 (gg)	—	LIBOR + 3.775%	Jun-2012
Northrock bank term loan	15,106 (hh)	19,409	LIBOR + 3.00%	May-2013
Clarendon construction loan	— (ii)	90,833		
Total variable rate	23,106	110,242	4.32%	1.1 Years
Total notes payable	\$ 831,871	\$ 711,389	6.00%	9.3 Years

* Interest rate and scheduled maturity data presented as of December 31, 2011. Totals computed using weighted averages.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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- (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 \$62.0 million at loan maturity. Principal of \$37,973,000 was defeased in conjunction with the Thruway and Ravenwood refinancings and \$3.6 million was amortized during 2011.
- (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 \$10.1 million at loan maturity. Principal of \$213,000 was amortized during 2011.
- (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 \$23.0 million at loan maturity. Principal of \$1.5 million was amortized during 2011.
- (d) The loan, together with a corresponding interest-rate swap, was assumed with the December 17, 2010 acquisition of, and is collateralized by, Metro Pike Center. On a combined basis, the loan and the swap required 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 \$15.6 million at loan maturity. Principal of \$137,000 was amortized during 2011.
- (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 \$6.8 million at loan maturity. Principal of \$253,000 was amortized during 2011.
- (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 \$13.3 million is due at loan maturity. Principal of \$436,000 was amortized during 2011.
- (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 \$15.2 million is due at loan maturity. Principal of \$568,000 was amortized during 2011.
- (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 \$28.0 million at loan maturity. Principal of \$1.0 million was amortized during 2011.
- (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 \$28.4 million at loan maturity. Principal of \$1.3 million was amortized during 2011.
- (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 \$9.0 million at loan maturity. Principal of \$417,000 was amortized during 2011.
- (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 \$12.3 million at loan maturity. Principal of \$576,000 was amortized during 2011.
- (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 \$12.2 million at loan maturity. Principal of \$553,000 was amortized during 2011.
- (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 \$10.6 million at loan maturity. Principal of \$509,000 was amortized during 2011.
- (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 \$9.1 million at loan maturity. Principal of \$235,000 was amortized during 2011.
- (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 \$7.1 million at loan maturity. Principal of \$330,000 was amortized during 2011.
- (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 \$34.8 million at loan maturity. Principal of \$857,000 was amortized during 2011.
- (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 \$6.1 million at loan maturity. Principal of \$254,000 was amortized during 2011.
- (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 \$5.0 million, at loan maturity. Principal of \$111,000 was amortized during 2011.
- (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 \$28.2 million at loan maturity. Principal of \$641,000 was amortized during 2011.
- (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 \$8.6 million at loan maturity. Principal of \$177,000 was amortized during 2011.
- (u) The loan is collateralized by BJ's Wholesale and requires equal monthly principal and interest payments of \$80,000 based upon a 30-year amortization schedule and a final payment of \$9.3 million at loan maturity. Principal of \$171,000 was amortized during 2011.
- (v) The loan is collateralized by Great Falls shopping 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 \$6.3 million will be due. Principal of \$577,000 was amortized during 2011.
- (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 \$11.5 million at loan maturity. Principal of \$299,000 was amortized during 2011.
- (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 \$10.1 million at loan maturity. Principal of \$250,000 was amortized during 2011.
- (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 \$11.5 million at loan maturity. Principal of \$223,000 was amortized during 2011.
- (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 \$20.9 million at loan maturity. Principal of \$531,000 was amortized during 2011.
- (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 \$20.5 million at loan maturity. Principal of \$516,000 was amortized during 2011.

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- (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 \$10.1 million at loan maturity. Principal of \$269,000 was amortized during 2011.
- (cc) The loan in the original amount of \$125,000,000, closed on March 23, 2011, is collateralized by Clarendon Center and requires equal monthly principal and interest payments of \$753,000 based upon a 25-year amortization schedule and a final payment of \$70.5 million at loan maturity. Principal of \$1.6 million was amortized during 2011.
- (dd) The loan in the original amount of \$38.0 million, closed on September 23, 2011, is collateralized by Severna Park MarketPlace and requires equal monthly principal and interest payments of \$207,000 based upon a 25-year amortization schedule and a final payment of \$20.3 million at loan maturity. Principal of \$142,000 was amortized during 2011.
- (ee) The loan in the original amount of \$43.0 million, closed on October 5, 2011, is collateralized by Kentlands Square II and requires equal monthly principal and interest payments of \$240,000 based upon a 25-year amortization schedule and a final payment of \$23.1 million at loan maturity. Principal of \$77,000 was amortized during 2011.
- (ff) The loan in the original amount of \$20.0 million, closed on November 5, 2011, is collateralized by Cranberry Square and requires equal monthly principal and interest payments of \$113,000 based upon a 25-year amortization schedule and a final payment of \$10.9 million at loan maturity.
- (gg) The loan is an unsecured revolving credit facility totaling \$150.0 million. Interest expense is calculated based upon 1-month LIBOR plus a spread of 3.775%. The line may be extended one year with payment of a fee of 0.25% 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.
- (hh) The loan was a secured construction loan facility totaling \$21.8 million to fund the development of Northrock shopping center. Interest is calculated based upon 1-month LIBOR plus a spread of 3.00%. On May 1, 2011, the loan balance was curtailed by \$4,209,000, and the maturity date extended two years. The extended loan requires monthly principal payments of \$13,409. The interest rate was unchanged. Principal of \$94,000 was amortized during 2011.
- (ii) The loan was a secured construction loan facility totaling \$157.5 million to fund the development of Clarendon Center. The loan was paid in full during 2011.

The carrying value of properties collateralizing the mortgage notes payable totaled \$997.5 million and \$831.6 million as of December 31, 2011 and 2010, 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, 2011, 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.

2011 FINANCING ACTIVITY

On March 23, 2011, the Company closed on a 15-year non-recourse mortgage loan in the amount of \$125.0 million, secured by Clarendon Center. The loan matures April 5, 2026, bears interest at a fixed rate of 5.31%, requires equal monthly principal and interest payments of \$753,000, based upon a 25-year principal amortization, and requires a final principal payment of approximately \$70.5 million at maturity. Proceeds from the loan were used to repay \$104.2 million outstanding on the Clarendon Center construction loan.

On September 23, 2011, the Company closed on a 15-year non-recourse mortgage loan in the amount of \$38.0 million, secured by Severna Park MarketPlace. The loan matures October 1, 2026, bears interest at a fixed rate of 4.30%, requires equal monthly principal and interest payments of \$207,000, based upon a 25-year principal amortization, and requires a final principal payment of approximately \$20.3 million at maturity. Proceeds from the loan were used to purchase Severna Park MarketPlace.

Also on September 23, 2011, the Company closed on two six-month bridge financing loans in the total amount of \$60.0 million, secured by Kentlands Square II and Cranberry Square. Proceeds from the loans were used to purchase Kentlands Square II and Cranberry Square.

On October 5, 2011, the Company closed on a new 15-year non-recourse mortgage loan in the amount of \$43.0 million, secured by Kentlands Square II. The loan matures November 5, 2026, bears interest at a fixed rate of 4.53%, requires equal monthly principal and interest payments of \$240,000, based upon a 25-year principal amortization, and requires a final principal payment of approximately \$23.1 million at maturity. Proceeds from the loan were used to repay the \$40.0 million bridge financing used to acquire Kentlands Square II.

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On November 6, 2011, the Company closed on a new 15-year non-recourse mortgage loan in the amount of \$20.0 million, secured by Cranberry Square. The loan matures December 1, 2026, bears interest at a fixed rate of 4.70%, requires equal monthly principal and interest payments of \$113,000, based upon a 25-year principal amortization, and requires a final principal payment of approximately \$10.9 million at maturity. Proceeds from the loan were used to repay the \$20.0 million bridge financing used to acquire Cranberry Square.

2010 FINANCING ACTIVITY

On June 29, 2010, the Company closed on a new 10-year mortgage loan in the amount of \$45.6 million, 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 \$45.6 million notional amount to manage the interest rate risk associated with the above \$45.6 million 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 Company recognizes interest expense on the combined variable-rate debt and the interest-rate swap at the effective fixed rate of 5.83%. 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 debt included in a collateralized mortgage-backed security (CMBS) with an outstanding balance of \$108.3 million, an interest rate of 7.67% and due to mature October 2012. In order to release Thruway, the Company defeased \$30.2 million of the outstanding balance at a cost of approximately \$4.4 million, 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 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 \$17.0 million 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 \$10.1 million at maturity.

Prior to the refinancing, Ravenwood was one of eight remaining properties securing debt included in a CMBS with an outstanding balance of \$76.3 million, an interest rate of 7.67% and due to mature October 2012. In order to release Ravenwood, the Company defeased \$7.8 million 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 \$16.2 million. 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 \$16.2 million 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, followed by equal monthly principal and interest payments of approximately \$86,000 based upon a 25-year amortization schedule and a final payment of \$15.6 million 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 2011, the Company reported Funds From Operations (FFO)¹ available to common shareholders (common stockholders and limited partner unitholders) of \$50.3 million, a 0.5% decrease from 2010 FFO available to common shareholders of \$50.6 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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FUNDS FROM OPERATIONS

The following table presents a reconciliation from net income to FFO available to common shareholders for the periods indicated:

(Dollars in thousands)		For the Year Ended December 31,				
	2011	2010	2009	2008	2007	
Net income	\$ 30,294	\$ 43,185	\$ 43,230	\$ 47,666	\$ 45,521	
Subtract:						
Gain on property sale	–	(3,591)	–	–	–	
Gain on casualty settlement	(245)	(2,475)	(329)	(1,301)	(139)	
Add:						
Real estate depreciation – discontinued operations	–	103	114	114	–	
Real estate depreciation and amortization	35,400	28,474	28,150	29,555	26,464	
FFO	65,449	65,696	71,165	76,034	71,843	
Subtract:						
Preferred dividends	(15,140)	(15,140)	(15,140)	(13,453)	(8,000)	
FFO available to common shareholders	\$ 50,309	\$ 50,556	\$ 56,025	\$ 62,581	\$ 63,843	
Average shares and units used to compute FFO per share	24,740	23,793	23,359	23,793	23,185	

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, impairment charges on depreciable real estate assets and gains or losses from property dispositions. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs, which is disclosed in the Company's Consolidated Statements of Cash Flows for the applicable periods. There are no material legal or functional restrictions on the use of FFO. FFO should not be considered as an alternative to net income, its most directly comparable GAAP measure, as an indicator of the Company's operating performance, or as an alternative to cash flows as a measure of liquidity. Management considers FFO a meaningful supplemental measure of operating performance because it primarily excludes the assumption that the value of the real estate assets diminishes predictably over time (i.e. depreciation), which is contrary to what we believe occurs with our assets, and because industry analysts have accepted it as a performance measure. FFO may not be comparable to similarly titled measures employed by other REITs.

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 Smallwood

Village Center and Seven Corners. The following describes the acquisitions, developments, redevelopments and renovations which affected the Company's financial position and results of operations in 2011, 2010 and 2009.

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 has an approved site plan to develop a grocery-anchored neighborhood shopping center totaling approximately 160,000 square feet. Capital One Bank operates a branch on the site and the Company previously executed a lease with CVS. CVS will construct a 13,000 square foot pharmacy building and the Company will construct a 6,500 square foot building which it expects to lease to a restaurant. Both facilities are projected to be completed in the fourth quarter of 2012, at a cost to the Company of approximately \$3.0 million. 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

center was acquired for a purchase price of \$17.5 million subject to the assumption of an \$11.3 million mortgage loan, and was 68.0% leased at December 31, 2011. 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.

CLARENDON CENTER

In late 2010, the Company 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 upon completion of the final office tenant improvements.

The south block consists of 11 floors of residential area (244 units) alongside eight floors of office space (76,000 square feet), both atop ground floor retail space (29,000 square feet) leased to Trader Joe's, Circa Café and Burke & Herbert Bank. The first office tenant began occupancy in December 2010 and the first retail occupancy occurred in January 2011. Currently, all of the retail tenants are operating. The north block consists of five floors of office space (95,000 square feet) atop ground floor retail (13,000 square feet). The building shell certificate of occupancy was received in early February 2011 and Airline Reporting Corporation (68,000 square feet) took occupancy in late March 2011. As of December 31, 2011, 196,000 square feet (92.4%) of the combined project retail and office space was leased.

On December 26, 2010, tenants began occupancy of the apartments. By April 28, 2011, the apartments were 98.8% leased and, as of December 31, 2011, 243 of the 244 apartments were leased and occupied.

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 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, 2011, 45,000 square feet of retail space and 13,000 square feet of office space, or approximately 57.0% 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 77.8% of the project was leased at December 31, 2011, including a 52,700 square foot Harris Teeter supermarket store, 18,822 square feet of small shop space, and pad leases with Capital One Bank and Longhorn Steakhouse. Total construction and development costs, including land, lease-up and tenant improvement costs, are projected to be approximately \$27.9 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 6,000 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, 2011, 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 76.4% leased at December 31, 2011 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.

4469 CONNECTICUT AVE

On February 17, 2011, the Company purchased for \$1.7 million, including acquisition costs, approximately 3,000 square feet of retail space located adjacent to the Company's Van Ness Square in Washington DC. The property is unoccupied as of December 31, 2011.

KENTLANDS SQUARE II

On September 23, 2011, the Company purchased for \$74.5 million Kentlands Square II, and incurred acquisition costs of \$1.1 million. Kentlands Square II is a 241,000 square foot neighborhood shopping center located in Gaithersburg, Maryland, in Montgomery County, the state's most populous and affluent county. More than 38,000 households, with annual household incomes averaging over \$114,000, are located within a three-mile radius of the center. The center was constructed in 1993, is 100% leased and is anchored by a 61,000 square foot Giant Food supermarket and a 104,000 square foot Kmart. The property is adjacent to the Company's Kentlands Square I, which is anchored by Lowe's Home Improvement and Kentlands Place.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SEVERNA PARK MARKETPLACE

On September 23, 2011, the Company purchased for \$61.0 million Severna Park MarketPlace, and incurred acquisition costs of \$0.8 million. Severna Park MarketPlace is a 254,000 square foot neighborhood shopping center located in Severna Park, Maryland, in Anne Arundel County. More than 15,000 households, with annual household incomes averaging over \$112,000, are located within a three-mile radius of the center. The center was constructed in 1974 and renovated in 2000, is 100% leased and is anchored by a 63,000 square foot Giant Food supermarket and a 92,000 square foot Kohl's.

CRANBERRY SQUARE

On September 23, 2011, the Company purchased for \$33.0 million Cranberry Square, and incurred acquisition costs of \$0.5 million. Cranberry Square is a 140,000 square foot neighborhood shopping center located in Westminster, Maryland, in Carroll County. More than 12,000 households, with annual household incomes averaging over \$72,000, are located within a three-mile radius of the center. The center was constructed in 1991, is 91.2% leased and is anchored by a 56,000 square foot Giant Food supermarket and a 24,000 square foot Staples.

PORTFOLIO LEASING STATUS

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

As of December 31,	Total Properties		Total Square Footage		Percentage Leased	
	Shopping Centers	Mixed-Use	Shopping Centers	Mixed-Use	Shopping Centers	Mixed-Use
2011	51	7	7,930,000	1,610,400	90.8%	85.8%
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%

The 2011 shopping center percentages leased included three centers acquired September 23, 2011, Kentlands Square II (100% leased), Severna Park MarketPlace (100% leased) and Cranberry Square (91% leased). The 2011 and 2010 mixed-use percentages include Clarendon Center commercial area, which was 92.4% and 58.6% leased at December 31, 2011 and 2010, respectively. The Clarendon Center residential component was 100% and 43.9% leased at December 31, 2011 and 2010, respectively. On a same property basis, shopping center leasing percentages decreased to 90.2% from 92.0% and mixed-use leasing percentages decreased to 84.9% from 85.5%. Overall portfolio leasing percentage, on a comparative same center basis, ended the year at 89.4%, a decrease from 91.1% at year end 2010. The 2011 commercial leasing percentages were adversely impacted by a net decrease of approximately 140,000 square feet of leased space, of which approximately 98,000 square feet was caused by the Syms, Superfresh and Boders Books bankruptcies and the balance resulting from the early lease termination of a local grocer. As of March 31, 2012, a total of 61,000 square feet of these four vacant spaces had been leased.

The 2010 shopping center percentage leased included 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 included 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.

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, 2011, 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.

We have audited the accompanying consolidated balance sheets of Saul Centers, Inc. as of December 31, 2011 and 2010, 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, 2011. 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, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, 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, 2011, 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 12, 2012 expressed an unqualified opinion thereon.

Ernst & Young LLP
McLean, Virginia
March 12, 2012

REPORT

OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM on Internal Control Over Financial Reporting

We have audited Saul Centers, Inc.'s internal control over financial reporting as of December 31, 2011, 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, 2011, 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, 2011 and 2010 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, 2011 of Saul Centers, Inc. and our report dated March 12, 2012 expressed an unqualified opinion thereon.

Ernst & Young LLP
McLean, Virginia
March 12, 2012

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

December 31,
2011

December 31,
2010

Assets

Real estate investments

Land

\$ 324,183

\$ 275,044

Buildings and equipment

1,092,533

870,143

Construction in progress

1,129

78,849

1,417,845

1,224,036

Accumulated depreciation

(326,397)

(296,786)

1,091,448

927,250

Cash and cash equivalents

12,323

12,968

Accounts receivable and accrued income, net

39,094

36,417

Deferred leasing costs, net

25,876

17,835

Prepaid expenses, net

3,868

3,024

Deferred debt costs, net

7,090

7,192

Other assets

12,870

9,202

Total assets

\$ 1,192,569

\$ 1,013,888

Liabilities

Mortgage notes payable

\$ 823,871

\$ 601,147

Revolving credit facility payable

8,000

—

Construction loans payable

—

110,242

Dividends and distributions payable

13,219

12,415

Accounts payable, accrued expenses and other liabilities

22,992

23,544

Deferred income

31,281

26,727

Total liabilities

899,363

774,075

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,
19,291,845 and 18,557,059 shares issued and outstanding, respectively

193

186

Additional paid-in capital

217,829

189,787

Accumulated deficit

(144,659)

(128,926)

Accumulated other comprehensive loss

(2,863)

(419)

Total Saul Centers, Inc. stockholders' equity

249,828

239,956

Noncontrolling interest

43,378

(143)

Total stockholders' equity

293,206

239,813

Total liabilities and stockholders' equity

\$ 1,192,569

\$ 1,013,888

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)	For The Year Ended December 31,		
	2011	2010	2009
Revenue			
Base rent	\$ 138,905	\$ 126,518	\$ 125,727
Expense recoveries	28,414	29,534	29,442
Percentage rent	1,510	1,458	1,326
Other	5,531	6,036	4,473
Total revenue	174,360	163,546	160,968
Operating expenses			
Property operating expenses	24,946	23,198	21,301
Provision for credit losses	1,883	1,337	919
Real estate taxes	18,485	17,793	17,754
Interest expense and amortization of deferred debt costs	45,475	34,958	34,689
Depreciation and amortization of deferred leasing costs	35,400	28,474	28,150
General and administrative	14,256	13,968	12,956
Total operating expenses	140,445	119,728	115,769
Operating income	33,915	43,818	45,199
Acquisition related costs	(2,534)	(1,179)	–
Decrease in fair value of derivatives	(1,332)	–	–
Gain on casualty settlement	245	2,475	329
Loss on early extinguishment of debt	–	(5,405)	(2,210)
Income from continuing operations	30,294	39,709	43,318
Discontinued Operations:			
Loss from operations of property sold	–	(115)	(88)
Gain on sale of property	–	3,591	–
Income from discontinued operations	–	3,476	(88)
Net income	30,294	43,185	43,230
Noncontrolling interest			
Income attributable to noncontrolling interest	(3,561)	(6,422)	(6,517)
Net income attributable to Saul Centers, Inc.	26,733	36,763	36,713
Preferred dividends	(15,140)	(15,140)	(15,140)
Net income available to common stockholders	\$ 11,593	\$ 21,623	\$ 21,573
Per share net income available to common stockholders			
Basic and diluted:			
Continuing operations	\$ 0.61	\$ 0.99	\$ 1.20
Discontinued operations	0.00	0.19	0.00
	\$ 0.61	\$ 1.18	\$ 1.20
Dividends declared per common share outstanding	\$ 1.44	\$ 1.44	\$ 1.50

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)	For The Year Ended December 31,		
	2011	2010	2009
Net income	\$ 30,294	\$ 43,185	\$ 43,230
Other comprehensive income			
Change in unrealized loss on cash flow hedge	(3,195)	(543)	—
Total comprehensive income	27,099	42,642	43,230
Comprehensive income attributable to noncontrolling interests	2,811	6,298	6,517
Total comprehensive income attributable to Saul Centers, Inc.	24,288	36,344	36,713
Preferred dividends	(15,140)	(15,140)	(15,140)
Total comprehensive income (loss) available to common stockholders	\$ 9,148	\$ 21,204	\$ 21,573

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

<i>(Dollars in thousands, except per share amounts)</i>	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Saul Centers, Inc.	Noncontrolling Interest	Total
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 pursuant to dividend reinvestment plan	—	1	4,136	—	—	4,137	—	4,137
12,755 shares due to exercise of employee stock options and issuance of directors' deferred stock plan	—	—	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
Issuance of 734,786 shares of common stock:								
186,968 restricted shares	—	2	6,159	—	—	6,161	—	6,161
498,248 shares pursuant to dividend reinvestment plan	—	3	19,751	—	—	19,754	—	19,754
49,570 shares due to exercise of employee stock options and issuance of directors' deferred stock	—	2	2,132	—	—	2,134	—	2,134
Issuance of 1,497,814 partnership units	—	—	—	—	—	—	49,589	49,589
Net income	—	—	—	26,733	—	26,733	3,561	30,294
Unrealized loss on cash flow hedge	—	—	—	—	(2,444)	(2,444)	(751)	(3,195)
Preferred stock distributions:								
Series A	—	—	—	(6,000)	—	(6,000)	—	(6,000)
Series B	—	—	—	(5,355)	—	(5,355)	—	(5,355)
Common stock distributions	—	—	—	(20,381)	—	(20,381)	(6,389)	(26,770)
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)	—	—	—	(6,945)	—	(6,945)	(2,489)	(9,434)
Balance, December 31, 2011	\$179,328	\$ 193	\$217,829	\$(144,659)	\$(2,863)	\$249,828	\$43,378	\$293,206

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Year Ended December 31,

(Dollars in thousands)	2011	2010	2009
Cash flows from operating activities:			
Net income	\$ 30,294	\$ 43,185	\$ 43,230
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on casualty settlement, continuing operations	(245)	(2,475)	(329)
Gain on sale of property, discontinued operations	–	(3,591)	–
Decrease in fair value of derivatives	1,332	–	–
Depreciation and amortization of deferred leasing costs	35,400	28,576	28,264
Amortization of deferred debt costs	1,547	1,467	1,323
Non cash compensation costs of stock grants and options	948	951	901
Provision for credit losses	1,883	1,337	919
(Increase) decrease in accounts receivable and accrued income	(5,291)	703	(820)
Increase in deferred leasing costs	(6,257)	(4,902)	(3,061)
(Increase) decrease in prepaid expenses	(844)	72	(115)
Decrease in other assets	(3,668)	(2,894)	(3,411)
Increase in accounts payable, accrued expenses and other liabilities	1,478	1,069	1,278
Increase (decrease) in deferred income	(908)	(611)	165
Net cash provided by operating activities	55,669	62,887	68,344
Cash flows from investing activities:			
Acquisitions of real estate investments, net ⁽¹⁾	(170,100)	(32,747)	–
Additions to real estate investments	(11,624)	(6,573)	(7,256)
Additions to development and redevelopment projects	(20,780)	(68,867)	(73,464)
Proceeds from casualty settlement	1,004	1,816	251
Proceeds from sale of property	–	8,132	–
Net cash used in investing activities	(201,500)	(98,239)	(80,469)
Cash flows from financing activities:			
Proceeds from mortgage notes payable	286,000	62,600	119,882
Repayments on mortgage notes payable	(82,685)	(53,691)	(92,078)
Proceeds from construction loans payable	13,410	49,505	41,507
Repayments on construction loans payable	104,243	–	–
Proceeds from revolving credit facility	16,000	–	30,000
Repayments on revolving credit facility	(8,000)	–	(30,000)
Additions to deferred debt costs	(1,445)	(1,054)	(2,985)
Proceeds from the issuance of:			
Common Stock	27,101	19,479	4,185
Partnership Units	49,589	–	–
Distributions to:			
Series A preferred stockholders	(8,000)	(8,000)	(8,000)
Series B preferred stockholders	(7,140)	(7,140)	(7,140)
Common stockholders	(27,062)	(26,186)	(27,358)
Noncontrolling interest	(8,339)	(7,800)	(8,287)
Net cash provided by financing activities	145,186	27,713	19,726
Net increase (decrease) in cash and cash equivalents	(645)	(7,639)	7,601
Cash and cash equivalents, beginning of year	12,968	20,607	13,006
Cash and cash equivalents, end of year	\$ 12,323	\$ 12,968	\$ 20,607
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 42,948	\$ 40,678	\$ 40,973

* Supplemental discussion of non-cash investing and financing activities:

(1) 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.

I. 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, 2009.

Name of Property	Location	Type	Date of Acquisition/Development
ACQUISITIONS			
11503 Rockville Pike	Rockville, MD	Shopping Center	2010
Metro Pike Center	Rockville, MD	Shopping Center	2010
4469 Connecticut Ave	Washington, DC	Mixed-Use	2011
Kentlands Square II	Gaithersburg, MD	Shopping Center	2011
Severna Park MarketPlace	Severna Park, MD	Shopping Center	2011
Cranberry Square	Westminster, MD	Shopping Center	2011
DEVELOPMENTS			
Northrock	Warrenton, VA	Shopping Center	2009
Westview Village	Frederick, MD	Shopping Center	2009
Clarendon Center North	Arlington, VA	Mixed-Use	2010/2011
Clarendon Center South	Arlington, VA	Mixed-Use	2010/2011

As of December 31, 2011, the Company's properties (the "Current Portfolio Properties") consisted of 51 shopping center properties (the "Shopping Centers"), seven mixed-use properties which are comprised of office, retail and multi-family residential 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, 2011, thirty-four 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 ten Shopping Centers, Safeway (3.0%), a tenant at eight Shopping Centers and Capital One Bank (2.6%), a tenant at twenty properties, individually accounted for more than 2.5% of the Company's total revenue for the year ended December 31, 2011.

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 allocates the purchase price to various components, such as land, buildings, and intangibles related to in-place leases and customer relationships, based on the fair value of each component. The fair value of buildings is determined as if they were vacant 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 determines the fair value of above and below market

intangibles associated with in-place leases by assessing the net effective rent and remaining term of the lease relative to market terms for similar leases at acquisition 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 accreted 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 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 a potential impairment in the value of a real estate investment property, the Company prepares an analysis to determine whether the carrying value of the real estate investment property exceeds 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 2011, 2010, or 2009.

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 \$1.9 million, \$7.2 million and \$6.0 million, for 2011, 2010, and 2009, 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. Multi-family 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 improvements. 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, 2011, 2010, and 2009 was \$30.6 million, \$24.8 million and \$23.9 million, respectively. Repairs and maintenance expense totaled \$10.9 million, \$12.0 million and \$10.1 million for 2011, 2010, and 2009, 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 term of the lease or remaining initial term of acquired leases. Collectively, deferred leasing costs totaled \$25.9 million and \$17.8 million, net of accumulated amortization of approximately \$14.7 million and \$15.0 million, as of December 31, 2011 and 2010, respectively. Amortization expense, included in depreciation and amortization in the consolidated statements of operations, totaled approximately \$4.8 million, \$3.7 million and \$4.4 million, for the years ended December 31, 2011, 2010, and 2009, 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, 2011 and 2010 are as follows:

CONSTRUCTION IN PROGRESS		
(In thousands)	December 31,	
	2011	2010
Clarendon Center	\$ —	\$ 78,103
Other	1,129	746
Total	\$ 1,129	\$ 78,849

As of December 31, 2010, construction in progress included 100% of the costs incurred to the date related to the commercial space at Clarendon Center. During 2011, the commercial space at Clarendon Center was placed into operation and associated costs were transferred to land and buildings and equipment. 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 and equipment.

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 \$671,000 and \$898,000, at December 31, 2011 and 2010, respectively.

ALLOWANCE FOR DOUBTFUL ACCOUNTS			
(In thousands)	For the Year Ended December 31,		
	2011	2010	2009
Beginning Balance	\$ 898	\$ 1,265	\$ 914
Provision for Credit Losses	1,883	1,337	919
Charge-offs	(2,110)	(1,704)	(568)
Ending Balance	\$ 671	\$ 898	\$ 1,265

In addition to rents due currently, accounts receivable also includes \$31.0 million and \$27.2 million, at December 31, 2011 and 2010, respectively, net of allowance for doubtful accounts totaling \$63,000 and \$576,000, 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, 2011 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 \$7.1 million and \$7.2 million, net of accumulated amortization of \$6.9 million and \$5.4 million at December 31, 2011 and 2010, 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 \$8.1 million and recognized a gain of \$3.6 million. The results of operations for the Lexington property for the years ended December 31, 2010 and 2009 are shown in the statements of operations as "Loss from operations of property sold." The Company has no other discontinued operations.

REVENUE RECOGNITION

Rental and interest income are 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 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, 2011, 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 2011, 2010, and 2009. The tax basis of the Company's real estate investments was approximately \$1.1 billion and \$798.9 million, as of December 31, 2011 and 2010, 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 2006.

STOCK BASED EMPLOYEE COMPENSATION, DEFERRED COMPENSATION AND STOCK PLAN FOR DIRECTORS

The Company uses the fair value method to value and account for employee stock options. 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 separation 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, 2011, 232,000 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, 2011, 2010, and 2009. 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 \$109,000, \$101,000, and \$85,000, for the years ended December 31, 2011, 2010, and 2009, respectively.

NONCONTROLLING INTEREST

Saul Centers is the sole general partner of the Operating Partnership, owning a 73.6% common interest as of December 31, 2011. 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, 2011, 2010, and 2009 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

(In thousands)	December 31		
	2011	2010	2009
Weighted average common shares outstanding – Basic	18,888	18,267	17,904
Effect of dilutive options	60	110	39
Weighted average common shares outstanding – Diluted	18,948	18,377	17,943
Average Share Price	\$39.39	\$40.87	\$30.63

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, 2011.

RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2010, the Financial Accounting Standards Board ("FASB") ratified Accounting Standard Update "ASU" 2010-29, Business Combinations (Topic 805), Disclosure of Supplementary Pro Forma Information for Business Combinations (ASU 2010-29), which clarifies that if comparative financial statements are presented, the pro forma disclosures for both periods presented (the year in which the acquisition occurred and the prior year) should be reported as if the acquisition had occurred as of the beginning of the comparable prior annual reporting period only and not as if it had occurred at the beginning of the current annual reporting period. ASU 2010-29 also expands the supplemental pro forma disclosure requirements to include a description of the nature and amount of any material non-recurring adjustments that are directly attributable to the business combination. The Company adopted the guidance in ASU 2010-29 during the current year. The adoption did not have a material effect on the presentation of the current year acquisitions in the financial statements.

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.

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 equaled its outstanding balance because the terms of the loan were market terms.

4469 CONNECTICUT AVENUE

In February 2011, the Company purchased for \$1.6 million 4469 Connecticut Avenue, a one retail space property, currently unleased, located adjacent to Van Ness Square in northwest Washington, DC and incurred acquisition costs of \$74,000.

KENTLANDS SQUARE II

In September 2011, the Company purchased for \$74.5 million Kentlands Square II, a retail property located adjacent to the Company's Kentlands Square I and Kentlands Place shopping centers in Gaithersburg, Maryland, and incurred acquisition costs of \$1.1 million.

SEVERNA PARK MARKETPLACE

In September 2011, the Company purchased for \$61.0 million Severna Park MarketPlace, a retail property located in Severna Park, Maryland, and incurred acquisition costs of \$0.8 million.

CRANBERRY SQUARE

In September 2011, the Company purchased for \$33.0 million Cranberry Square, a retail property located in Westminster, Maryland, and incurred acquisition costs of \$0.5 million.

The revenue and expenses of Kentlands Square II, Severna Park MarketPlace and Cranberry Square have been included in the Statement of Operations for the period subsequent to acquisition. Revenue and earnings (defined as revenue less the sum of operating expenses, provision for credit losses and real estate taxes, all arising from the operation of a property) totaled \$3.5 million and \$2.9 million, respectively, from acquisition through December 31, 2011 and \$11.8 million and \$9.0 million, respectively, for the year ended December 31, 2011. The proforma results for the year ended December 31, 2011 and 2010 have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have actually occurred had the transaction taken place on January 1, 2010, or of future results of operations. The following table shows proforma revenue and earnings of the Company assuming the acquisitions occurred as of January 1, 2010.

(In thousands)	Year ended December 31	
	2011	2010
Revenue	\$ 182,817	\$ 175,271
Earnings	135,441	129,499

ALLOCATION OF PURCHASE PRICE OF 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. Summary of Significant Accounting Policies-Real Estate Investment Properties.

During 2011, the Company purchased four properties at an aggregate cost of \$170.1 million, and incurred acquisition costs of \$2.5 million. Of the total purchase price, \$5.5 million 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, or approximately 10.9 years, and \$28,000 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, which is approximately 4.1 years.

The allocation of the purchase prices for Severna Park Market-Place, Kentlands Square II, and Cranberry Square to the acquired assets and liabilities based on their fair values was as follows:

<i>(In thousands)</i>	Kentlands Square II	Severna Park	Cranberry Square	Three Property Total
Land	\$ 20,500	\$ 12,700	\$ 6,700	\$ 39,900
Buildings	51,973	50,554	24,878	127,405
In-Place Leases	2,697	2,433	1,499	6,629
Above Market Rents	6	4	18	28
Below Market Rents	(676)	(4,691)	(95)	(5,462)
Total Purchase Price	\$ 74,500	\$ 61,000	\$ 33,000	\$ 168,500

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, 2011 and 2010 was \$21.4 million and \$14.8 million, respectively, and accumulated amortization was \$12.7 million and \$11.5 million, respectively. Amortization expense totaled \$1.3 million, \$747,000, and \$1.2

million, for the years ended December 31, 2011, 2010, and 2009, respectively. The gross carrying amount of below market lease intangible liabilities included in deferred income as of December 31, 2011 and 2010 was \$24.1 million and \$18.7 million, respectively, and accumulated amortization was \$6.7 million and \$5.6 million, respectively. Accretion income totaled \$1.2 million, \$1.1 million, and \$1.3 million, for the years ended December 31, 2011, 2010, and 2009, respectively. The gross carrying amount of above market lease intangible assets included in accounts receivable as of December 31, 2011 and 2010 was \$1.0 million and \$1.0 million, respectively, and accumulated amortization was \$870,000 and \$808,000, respectively. Amortization expense totaled \$62,000, \$62,000, and \$76,000, for the years ended December 31, 2011, 2010, and 2009, respectively.

As of December 31, 2011, 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

<i>(In thousands)</i>	Lease acquisition costs	Above market leases	Below market leases
2012	\$ (2,021)	\$ (60)	\$ 1,529
2013	(1,759)	(45)	1,387
2014	(981)	(21)	1,195
2015	(765)	(1)	1,158
2016	(614)	(1)	1,093
Thereafter	(2,567)	(4)	11,010
Total	\$ (8,707)	\$ (132)	\$ 17,372

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

The Saul Organization holds a 26.4% limited partnership interest in the Operating Partnership represented by 6,914,000 limited partnership units, as of December 31, 2011. Approximately 5,416,000 of the 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"). As of December 31, 2011, 3,545,000 units were eligible for conversion.

The impact of The Saul Organization's 26.4% limited partnership interest in the Operating Partnership is reflected as Noncontrol-

ling Interest in the accompanying consolidated financial statements. Fully converted partnership units and diluted weighted average shares outstanding for the years ended December 31, 2011, 2010, and 2009, were 24,740,000, 23,793,000, and 23,359,000, respectively.

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

The Company's outstanding debt totaled \$831.9 million at December 31, 2011, of which \$808.8 million was fixed rate debt and \$23.1 million was variable rate debt. At December 31, 2010, outstanding debt totaled \$711.4 million, of which \$601.1 million was fixed rate debt and \$110.2 million was variable rate debt. At December 31, 2011, the Company had a \$150 million unsecured revolving credit facility, which can be used for working capital, property acquisitions or development projects under which \$8.0 million was outstanding. 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, 2011, approximately \$141.8 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, 2011, operating income from the unencumbered properties determined the interest rate for up to \$103.0 million 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 \$47.0 million 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 bank term loan (approximately \$7.6 million of the \$15.1 million outstanding at December 31, 2011). The fixed-rate notes payable are all non-recourse debt except for \$3.9 million of the Great Falls Center mortgage, 25% of the Metro Pike Center loan (approximately \$4.0 million of the \$16.0 million outstanding at December 31, 2011), and \$27.6 million of the Clarendon Center mortgage which will be eliminated upon the achievement of certain leasing and debt service covenants which are guaranteed by Saul Centers.

On June 29, 2010, the Company closed on a new 10-year mortgage loan in the amount of \$45.6 million, 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 \$45.6 million notional amount to manage the interest rate risk associated with the above \$45.6 million 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 Company, therefore, will recognize interest expense on the variable-rate debt at the effective fixed rate of 5.83%. The Company tests the hedge for effectiveness on a quarterly basis. 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 \$34.8 million at maturity.

Prior to the refinancing, Thruway was one of nine properties securing debt included in a collateralized mortgage-backed security (CMBS) with an outstanding balance of \$108.3 million, an interest rate of 7.67% and due to mature October 2012. In order to release Thruway, the Company defeased \$30.2 million of the outstanding balance at a cost of approximately \$4.4 million, 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 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 \$17.0 million 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 \$10.1 million at maturity.

Prior to the refinancing, Ravenwood was one of eight remaining properties securing debt included in a CMBS with an outstanding balance of \$76.3 million, an interest rate of 7.67% and due to mature October 2012. In order to release Ravenwood, the Company defeased \$7.8 million 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 \$16.2 million. 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 \$16.2 million 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 is recognized at its variable interest rate. The swap agreement is carried at its fair value with changes in fair value recognized in Decrease in fair value of derivatives 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 \$15.6 million at loan maturity.

On March 23, 2011, the Company closed on a 15-year non-recourse mortgage loan in the amount of \$125.0 million, secured by Clarendon Center. The loan matures April 5, 2026, bears interest at a fixed rate of 5.31%, requires equal monthly principal and interest payments of \$753,491, based upon a 25-year principal amortization, and requires a final principal payment of approximately \$70.5 million at maturity. Proceeds from the loan were used to repay \$104.2 million outstanding on the Clarendon Center construction loan.

On September 23, 2011, the Company closed on a 15-year non-recourse mortgage loan in the amount of \$38.0 million, secured by Severna Park MarketPlace. The loan matures October 1, 2026, bears interest at a fixed rate of 4.30%, requires equal monthly principal and interest payments of \$206,926, based upon a 25-year principal amortization, and requires a final principal payment of approximately \$20.3 million at maturity. Proceeds from the loan were used to purchase Severna Park MarketPlace.

Also on September 23, 2011, the Company closed on two six-month bridge financing loans in the total amount of \$60.0 million, secured by Kentlands Square II and Cranberry Square. Proceeds from the loans were used to purchase Kentlands Square II and Cranberry Square.

On October 5, 2011, the Company closed on a new 15-year non-recourse mortgage loan in the amount of \$43.0 million, secured by Kentlands Square II. The loan matures November 5, 2026, bears interest at a fixed rate of 4.53%, requires equal monthly principal and interest payments of \$239,741, based upon a 25-year principal amortization, and requires a final principal payment of approximately \$23.3 million at maturity. Proceeds from the loan were used to repay the \$40.0 million bridge financing used to acquire Kentlands Square II.

On November 6, 2011, the Company closed on a new 15-year non-recourse mortgage loan in the amount of \$20.0 million, secured by Cranberry Square. The loan matures December 1, 2026, bears interest at a fixed rate of 4.70%, requires equal monthly principal and interest payments of \$113,449, based upon a 25-year principal amortization, and requires a final principal payment of approximately \$10.9 million at maturity. Proceeds from the loan were used to repay the \$20.0 million bridge financing used to acquire Cranberry Square.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of notes payable as of December 31, 2011 and 2010:

NOTES PAYABLE				
(Dollars in thousands)	December 31,		Interest	Scheduled
	2011	2010	Rate *	Maturity *
Fixed rate mortgages:	\$ 64,844 (a)	68,461	7.67%	Oct-2012
	10,244 (b)	10,457	6.12%	Jan-2013
	24,598 (c)	26,123	7.88%	Jan-2013
	16,032 (d)	16,169	4.67%	Jun-2013
	7,203 (e)	7,456	5.77%	Jul-2013
	14,335 (f)	14,771	5.40%	May-2014
	17,415 (g)	17,983	7.45%	Jun-2015
	35,435 (h)	36,435	6.01%	Feb-2018
	39,757 (i)	41,047	5.88%	Jan-2019
	12,860 (j)	13,277	5.76%	May-2019
	17,755 (k)	18,331	5.62%	Jul-2019
	17,627 (l)	18,180	5.79%	Sep-2019
	15,713 (m)	16,222	5.22%	Jan-2020
	11,670 (n)	11,905	5.60%	May-2020
	10,636 (o)	10,966	5.30%	Jun-2020
	44,333 (p)	45,190	5.83%	Jul-2020
	9,204 (q)	9,458	5.81%	Feb-2021
	6,477 (r)	6,588	6.01%	Aug-2021
	37,377 (s)	38,018	5.62%	Jun-2022
	11,317 (t)	11,494	6.08%	Sep-2022
	12,172 (u)	12,343	6.43%	Apr-2023
	16,858 (v)	17,435	6.28%	Feb-2024
	17,791 (w)	18,090	7.35%	Jun-2024
	15,409 (x)	15,659	7.60%	Jun-2024
	16,494 (y)	16,717	8.11%	Jul-2024
	32,281 (z)	32,812	7.45%	Jul-2024
	32,044 (aa)	32,560	7.30%	Jan-2025
	16,731 (bb)	17,000	6.18%	Jan-2026
	123,372 (cc)	—	5.31%	Apr-2026
	37,858 (dd)	—	4.30%	Oct-2026
	42,923 (ee)	—	4.53%	Nov-2026
	20,000 (ff)	—	4.70%	Dec-2026
Total fixed rate	808,765	601,147	6.04%	9.5 Years
Variable rate loans:				
Revolving credit facility	8,000 (gg)	—	LIBOR + 3.775%	Jun-2012
Northrock bank term loan	15,106 (hh)	19,409	LIBOR + 3.00%	May-2013
Clarendon construction loan	— (ii)	90,833		
Total variable rate	23,106	110,242	4.32%	1.1 Years
Total notes payable	\$ 831,871	\$ 711,389	6.00%	9.3 Years

* Interest rate and scheduled maturity data presented as of December 31, 2011. Totals computed using weighted averages.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (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 \$62.0 million at loan maturity. Principal of \$37,973,000 was defeased in conjunction with the Thruway and Ravenwood refinancings and \$3.6 million was amortized during 2011.
- (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 \$10.1 million at loan maturity. Principal of \$213,000 was amortized during 2011.
- (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 \$23.0 million at loan maturity. Principal of \$1.5 million was amortized during 2011.
- (d) The loan, together with a corresponding interest-rate swap, was assumed with the December 17, 2010 acquisition of, and is collateralized by, Metro Pike Center. On a combined basis, the loan and the swap required 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 \$15.6 million at loan maturity. Principal of \$137,000 was amortized during 2011.
- (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 \$6.8 million at loan maturity. Principal of \$253,000 was amortized during 2011.
- (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 \$13.3 million is due at loan maturity. Principal of \$436,000 was amortized during 2011.
- (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 \$15.2 million is due at loan maturity. Principal of \$568,000 was amortized during 2011.
- (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 \$28.0 million at loan maturity. Principal of \$1.0 million was amortized during 2011.
- (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 \$28.4 million at loan maturity. Principal of \$1.3 million was amortized during 2011.
- (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 \$9.0 million at loan maturity. Principal of \$417,000 was amortized during 2011.
- (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 \$12.3 million at loan maturity. Principal of \$576,000 was amortized during 2011.
- (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 \$12.2 million at loan maturity. Principal of \$553,000 was amortized during 2011.
- (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 \$10.6 million at loan maturity. Principal of \$509,000 was amortized during 2011.
- (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 \$9.1 million at loan maturity. Principal of \$235,000 was amortized during 2011.
- (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 \$7.1 million at loan maturity. Principal of \$330,000 was amortized during 2011.
- (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 \$34.8 million at loan maturity. Principal of \$857,000 was amortized during 2011.
- (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 \$6.1 million at loan maturity. Principal of \$254,000 was amortized during 2011.
- (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 \$5.0 million, at loan maturity. Principal of \$111,000 was amortized during 2011.
- (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 \$28.2 million at loan maturity. Principal of \$641,000 was amortized during 2011.
- (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 \$8.6 million at loan maturity. Principal of \$177,000 was amortized during 2011.
- (u) The loan is collateralized by BJ's Wholesale and requires equal monthly principal and interest payments of \$80,000 based upon a 30-year amortization schedule and a final payment of \$9.3 million at loan maturity. Principal of \$171,000 was amortized during 2011.
- (v) The loan is collateralized by Great Falls shopping 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 \$6.3 million will be due. Principal of \$577,000 was amortized during 2011.
- (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 \$11.5 million at loan maturity. Principal of \$299,000 was amortized during 2011.
- (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 \$10.1 million at loan maturity. Principal of \$250,000 was amortized during 2011.
- (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 \$11.5 million at loan maturity. Principal of \$223,000 was amortized during 2011.
- (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 \$20.9 million at loan maturity. Principal of \$531,000 was amortized during 2011.
- (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 \$20.5 million at loan maturity. Principal of \$516,000 was amortized during 2011.

- (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 \$10.1 million at loan maturity. Principal of \$269,000 was amortized during 2011.
- (cc) The loan in the original amount of \$125,000,000, closed on March 23, 2011, is collateralized by Clarendon Center and requires equal monthly principal and interest payments of \$753,000 based upon a 25-year amortization schedule and a final payment of \$70.5 million at loan maturity. Principal of \$1.6 million was amortized during 2011.
- (dd) The loan in the original amount of \$38.0 million, closed on September 23, 2011, is collateralized by Severna Park MarketPlace and requires equal monthly principal and interest payments of \$207,000 based upon a 25-year amortization schedule and a final payment of \$20.3 million at loan maturity. Principal of \$142,000 was amortized during 2011.
- (ee) The loan in the original amount of \$43.0 million, closed on October 5, 2011, is collateralized by Kentlands Square II and requires equal monthly principal and interest payments of \$240,000 based upon a 25-year amortization schedule and a final payment of \$23.1 million at loan maturity. Principal of \$77,000 was amortized during 2011.
- (ff) The loan in the original amount of \$20.0 million, closed on November 5, 2011, is collateralized by Cranberry Square and requires equal monthly principal and interest payments of \$113,000 based upon a 25-year amortization schedule and a final payment of \$10.9 million at loan maturity.
- (gg) The loan is an unsecured revolving credit facility totaling \$150.0 million. Interest expense is calculated based upon 1-month LIBOR plus a spread of 3.775%. The line may be extended one year with payment of a fee of 0.25% 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.
- (hh) The loan was a secured construction loan facility totaling \$21.8 million to fund the development of Northrock shopping center. Interest is calculated based upon 1-month LIBOR plus a spread of 3.00%. On May 1, 2011, the loan balance was curtailed by \$4,209,000, and the maturity date extended two years. The extended loan requires monthly principal payments of \$13,409. The interest rate was unchanged. Principal of \$94,000 was amortized during 2011.
- (ii) The loan was a secured construction loan facility totaling \$157.5 million to fund the development of Clarendon Center. The loan was paid in full during 2011.

The carrying value of the properties collateralizing the mortgage notes payable totaled \$997.5 million and \$831.6 million, as of December 31, 2011 and 2010, 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, 2011.

- 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 \$760 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.

Mortgage notes payable at December 31, 2011 and 2010, totaling \$99.4 million and \$104.6 million, respectively, are guaranteed by members of The Saul Organization. As of December 31, 2011, 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
2012	\$ 69,960 ^(a)	\$ 21,756	\$ 91,716
2013	70,131	17,781	87,912
2014	13,218	17,988	31,206
2015	15,077	18,420	33,497
2016	—	19,166	19,166
Thereafter	423,529	144,845	568,374
Total	\$ 591,915	\$ 239,956	\$ 831,871

(a) Includes \$8 million outstanding under the line of credit.

INTEREST EXPENSE AND AMORTIZATION OF DEFERRED DEBT COSTS

(In thousands)	Year ended December 31,		
	2011	2010	2009
Interest incurred	\$ 45,824	\$ 40,687	\$ 38,992
Amortization of deferred debt costs	1,547	1,467	1,323
Revolving credit line amendment	—	—	363
Capitalized interest	(1,896)	(7,196)	(5,989)
Total	\$ 45,475	\$ 34,958	\$ 34,689

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 during 2009. No deferred debt costs were capitalized during 2011 and 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, 2011, 2010, and 2009, amounted to \$138.9 million, \$126.5 million, and \$125.7 million, 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)	
2012	\$ 139,419
2013	120,522
2014	98,621
2015	80,517
2016	62,904
Thereafter	283,734
Total	\$ 785,717

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, 2011, 2010, and 2009 amounted to \$28.4 million, \$29.5 million, and \$29.4 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, \$1.5 million, and \$1.3 million, for the years ended December 31, 2011, 2010, and 2009, 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 \$173,000, \$169,000, and \$165,000, for the years ended December 31, 2011, 2010, and 2009, respectively. The future minimum rental commitments under these ground leases are as follows:

GROUND LEASE RENTAL COMMITMENTS

(In thousands)	Year ending December 31,						Total
	2012	2013	2014	2015	2016	Thereafter	
Beacon Center	\$ 60	\$ 60	\$ 60	\$ 60	\$ 60	\$ 2,721	\$ 3,021
Olney	56	56	56	56	56	3,929	4,209
Southdale	60	60	60	60	60	3,065	3,365
Total	\$ 176	\$ 176	\$ 176	\$ 176	\$ 176	\$ 9,715	\$10,595

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, 2011, 2010, and 2009 was \$945,000, \$893,000, and \$835,000, 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, 2011, 2010, and 2009 reflect noncontrolling interest of \$3.6 million, \$6.4 million, and \$6.5 million, 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.

In September 2011, in connection with the acquisition of three shopping centers, the Company and the Operating Partnership issued to members of The Saul Organization 186,968 shares of the Company's common stock, par value \$0.01 per share ("Shares") and 1,497,000 units of limited partnership interests in the Operating Partnership ("Units") with an aggregate value of \$55.8 million. The price of the Shares and Units was equal to the average closing prices of the Company's common stock listed on the New York Stock Exchange for the five trading days ending with the trading day immediately preceding the date of closing of the property acquisition.

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 \$575,000, \$444,000, and \$426,000, for 2011, 2010, and 2009, 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, 2011, 2010, and 2009, the Company contributed three times the amount deferred by employees. The Company's expense, included in general and administrative expense, totaled \$231,000,

\$213,000, and \$244,000, for the years ended December 31, 2011, 2010, and 2009, respectively. All amounts deferred by employees and the Company are fully vested. The cumulative unfunded liability under this plan was \$1.9 million and \$1.6 million, at December 31, 2011 and 2010, 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, 2011, 2010, and 2009, which included rental expense for the Company's headquarters lease (see Note 7. Long Term Lease Obligations), totaled \$6.1 million, \$6.5 million, and \$5.8 million, 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, 2011 and 2010, accounts payable, accrued expenses and other liabilities included \$560,000 and \$606,000, 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 the Company's insurance program. Such commissions and fees amounted to approximately \$341,000, \$324,000, and \$314,000, for the years ended December 31, 2011, 2010, and 2009, 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 op-

tions 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 vested 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 vested.

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 vested.

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 \$1.5 million, of which \$1.3 million 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 was recognized as compensation expense monthly during the four years the options vested.

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.

Effective May 13, 2011, the Compensation Committee granted options to purchase a total of 195,000 shares (65,300 shares from incentive stock options and 129,700 shares from nonqualified stock options) to 15 Company officers and 13 Company Directors (the "2011 options"), which expire on May 12, 2021. The officers' 2011 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2011 options were immediately exercisable. The exercise price of \$41.82 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 2011 Options to be \$1.6 million, of which \$1.3 million and \$297,000 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$297,000 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the amount and activity of each grant, the total value and variables used in the computation and the amount expensed and included in general and administrative expense in the Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009:

STOCK OPTIONS ISSUED TO DIRECTORS

Grant date	04/26/2004	05/06/2005	05/01/2006	04/27/2007	04/25/2008	04/24/2009	05/07/2010	05/13/2011	Subtotals
Total grant	30,000	30,000	30,000	30,000	30,000	32,500	32,500	32,500	247,500
Vested	30,000	30,000	30,000	30,000	30,000	32,500	32,500	32,500	247,500
Exercised	8,700	5,000	—	—	—	5,000	—	—	18,700
Forfeited	—	—	2,500	2,500	2,500	—	2,500	2,500	12,500
Exercisable at									
December 31, 2011	21,300	25,000	27,500	27,500	27,500	27,500	30,000	30,000	216,300
Remaining unexercised	21,300	25,000	27,500	27,500	27,500	27,500	30,000	30,000	216,300
Exercise price	\$ 25.78	\$ 33.22	\$ 40.35	\$ 54.17	\$ 50.15	\$ 32.68	\$ 38.76	\$ 41.82	
Volatility	0.183	0.198	0.206	0.225	0.237	0.344	0.369	0.358	
Expected life (years)	5.0	10.0	9.0	8.0	7.0	6.0	5.0	5.0	
Assumed yield	5.75%	6.91%	5.93%	4.39%	4.09%	4.54%	4.23%	4.16%	
Risk-free rate	3.57%	4.28%	5.11%	4.65%	3.49%	2.19%	2.17%	1.86%	
Total value at grant date	\$ 66,600	\$ 71,100	\$ 143,400	\$ 285,300	\$ 254,700	\$ 222,950	\$ 287,950	\$ 297,375	\$ 1,629,375
Forfeited options	—	—	—	—	—	—	—	—	—
Expensed in									
previous years	66,600	71,100	143,400	285,300	254,700	—	—	—	821,100
Expensed in 2009	—	—	—	—	—	222,950	—	—	222,950
Expensed in 2010	—	—	—	—	—	—	287,950	—	287,950
Expensed in 2011	—	—	—	—	—	—	—	297,375	297,375
Future expense	—	—	—	—	—	—	—	—	—

STOCK OPTIONS ISSUED TO OFFICERS AND GRAND TOTALS

Grant date	05/23/2003	04/26/2004	05/06/2005	04/27/2007	05/13/2011	Subtotals	Grand Totals
Total grant	220,000	122,500	132,500	135,000	162,500	772,500	1,020,000
Vested	212,500	115,000	118,750	122,500	—	568,750	816,250
Exercised	199,315	48,525	25,125	—	—	272,965	291,665
Forfeited	7,500	7,500	13,750	—	—	41,250	53,750
Exercisable at				12,500			
December 31, 2011	13,185	66,475	93,625	122,500	—	295,785	512,085
Remaining unexercised	13,185	66,475	93,625	122,500	162,500	458,285	674,585
Exercise price	\$ 24.91	\$ 25.78	\$ 33.22	\$ 54.17	\$ 41.82		
Volatility	0.175	0.183	0.207	0.233	0.330		
Expected life (years)	7.0	7.0	8.0	6.5	8.0		
Assumed yield	7.00%	5.75%	6.37%	4.13%	4.81%		
Risk-free rate	4.00%	4.05%	4.15%	4.61%	2.75%		
Total value at grant date	\$ 332,200	\$ 292,775	\$ 413,400	\$ 1,258,848	\$ 1,277,794	\$ 3,575,017	\$ 5,204,392
Forfeited options	11,325	17,925	35,100	—	—	64,350	64,350
Expensed in							
previous years	320,875	274,850	347,752	524,529	—	1,468,006	2,289,106
Expensed in 2009	—	—	30,548	314,716	—	345,264	568,214
Expensed in 2010	—	—	—	314,712	—	314,712	602,662
Expensed in 2011	—	—	—	104,891	186,347	291,238	588,613
Future expense	—	—	—	—	1,091,447	1,091,447	1,091,447
Remaining term of future expense							3.4 years

The table below summarizes the option activity for the years 2011, 2010, and 2009:

	2011		2010		2009	
	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding at January 1	532,881	\$ 39.12	609,253	\$ 36.71	593,628	\$ 37.25
Granted	195,000	41.82	32,500	38.76	32,500	32.68
Exercised	(40,796)	29.03	(108,872)	25.52	(1,875)	25.78
Expired/Forfeited	(12,500)	45.05	—	—	(15,000)	50.68
Outstanding December 31	674,585	40.40	532,881	39.12	609,253	36.71
Exercisable at December 31	512,085	39.96	502,256	38.21	548,003	34.76

The intrinsic value of options exercised in 2011, 2010, and 2009 was \$688,000, \$2.0 million, and \$14,000, respectively. The intrinsic value of options outstanding and exercisable at year end 2011 was \$1.3 million. 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, 2011, the final trading day of calendar 2011, the closing price of \$35.42 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, 2011 closing price have no intrinsic value. The weighted average remaining contractual life of the Company's exercisable and outstanding options at December 31, 2011 are 4.8 and 5.6 years, respectively.

11. NON-OPERATING ITEMS

Gain on casualty settlement in 2011 and 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.

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 4.30% and 5.26%, would be approximately \$889.2 million and \$642.1 million, as of December 31, 2011 and 2010, respectively, compared to the carrying value of \$808.8 million and \$601.1 million at December 31, 2011 and 2010, respectively.

Effective June 1, 2011, the Company determined that the short-cut method of hedge accounting was not appropriate for one of its interest-rate swaps and, for accounting purposes, the hedge relationship was terminated. Accordingly, changes in fair value of the swap should have been recorded in income rather than other comprehensive income. The Company determined that the errors were immaterial to all previously issued financial statements, and the \$26,000 accumulated other comprehensive income as of March 31, 2011 and subsequent changes in the value of the interest rate swap through June 30, 2011, were recognized in earnings. Net income for the year ended December 31, 2010 was understated by \$549,000. In reaching its conclusions, management considered the nature of the error, the effect of the error on operating results for the full year, and the effects of the error on important financial statement measures, including related trends. Effective June 30, 2011, the Company determined the interest-rate swap was highly effective and the swap was designated as a cash flow hedge. The swap is carried at fair value with changes in fair value recognized either in income or comprehensive income depending on the effectiveness of the swap. The following chart summarizes the changes in fair value of the Company's swaps for the indicated periods.

(In thousands)	December 31,	
	2011	2010
Decrease in fair value		
Recognized in earnings	\$ (1,332)	\$ —
Recognized in other comprehensive income	(3,195)	(543)
Total	\$ (4,527)	\$ (543)

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, 2011, the fair value of the interest-rate swaps was approximately \$5.3 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, \$1.44 per share, and \$1.53 per share, during 2011, 2010, and 2009, respectively, and Series A preferred stock dividends of \$2.00 per depositary share and Series B preferred stock dividends of \$2.25 per share during each of the years in the period ended December 31, 2011. Of the common stock dividends paid, \$0.72 per share, \$1.008 per share, and \$1.53 per share represented ordinary dividend income and \$0.72 per share, \$0.432 per share and \$0.00 per share represented return of capital to the shareholders. All of the preferred stock dividends paid were considered ordinary dividend income.

The following summarizes distributions paid during the years ended December 31, 2011, 2010, and 2009, and includes activity in the Plan as well as limited partnership units issued from the reinvestment of unit distributions:

(Dollars in thousands)	Total Distributions to			Dividend Reinvestments	
	Preferred Stockholders	Common Stockholders	Limited Partnership Unitholders	Common Stock Shs Issued	Discounted Share Price
Distributions during 2011					
October 31	\$ 3,785	\$ 6,867	\$ 2,489	160,589	\$ 34.82
July 31	3,785	6,772	1,950	125,973	38.30
April 30	3,785	6,730	1,950	111,592	42.49
January 31	3,785	6,693	1,950	100,094	45.92
Total 2011	\$ 15,140	\$ 27,062	\$ 8,339	498,248	
Distributions during 2010					
October 31	\$ 3,785	\$ 6,608	\$ 1,950	114,854	\$ 41.14
July 31	3,785	6,567	1,950	107,932	41.27
April 30	3,785	6,525	1,950	103,496	39.07
January 31	3,785	6,486	1,950	100,565	34.58
Total 2010	\$ 15,140	\$ 26,186	\$ 7,800	426,847	
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	

In December 2011, the Board of Directors of the Company authorized a distribution of \$0.36 per common share payable in January 2012, to holders of record on January 17, 2012. As a result, \$6.9 million was paid to common shareholders on January 31, 2012. Also, \$2.5 million was paid to limited partnership unitholders on January 31, 2012 (\$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 6, 2012 and \$0.5625 per Series B depositary share to holders of record on January 6, 2012. As a result, \$3.8 million was paid to preferred shareholders on January 13, 2012. These amounts are reflected as a reduction of stockholders' equity in the case of common stock and preferred stock dividends and noncontrolling interest deductions in the case of limited partner distributions and are included in dividends and distributions payable in the accompanying consolidated financial statements.

15. INTERIM RESULTS (Unaudited)

The following summary presents the results of operations of the Company for the quarterly periods of calendar years 2011 and 2010.

<i>(In thousands, except per share amounts)</i>				
	2011			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	\$41,820	\$42,779	\$42,878	\$46,883
Operating income before loss on early extinguishment of debt, gain on casualty settlement, acquisition costs, discontinued operations and noncontrolling interest	8,406	8,193	8,656	8,660
Net income attributable to Saul Centers, Inc.	7,309	6,398	5,504	7,522
Net income available to common shareholders	3,524	2,613	1,719	3,737
Net income available to common shareholders per share (diluted)	0.19	0.14	0.09	0.19
	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.	10,553	5,673	12,831	7,706
Net income available to common shareholders	6,768	1,888	9,046	3,921
Net income available to common shareholders per share (diluted)	0.37	0.10	0.49	0.22

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. All of our properties within each segment generate similar types of revenues and expenses related to tenant rent, reimbursements and operating expenses. Although services are provided to a range of tenants, the types of services provided to them are similar within each segment. As such, the properties in each portfolio have similar economic characteristics and the nature of the products and services provided to our tenants and the method to distribute such services are consistent throughout the portfolio. Certain reclassifications have been made to prior year information to conform to the 2011 presentation.

<i>(In thousands)</i>	Shopping Centers	Mixed-Use Properties	Corporate and Other	Consolidated Totals
As of or for the year ended December 31, 2011				
Real estate rental operations:				
Revenue	\$ 128,249	\$ 46,035	\$ 76	\$ 174,360
Expenses	(30,656)	(14,658)	–	(45,314)
Income from real estate	97,593	31,377	76	129,046
Interest expense and amortization of deferred debt costs	–	–	(45,475)	(45,475)
General and administrative	–	–	(14,256)	(14,256)
Subtotal	97,593	31,377	(59,655)	69,315
Depreciation and amortization of deferred leasing costs	(23,179)	(12,221)	–	(35,400)
Decrease in fair value of derivatives	–	–	(1,332)	(1,332)
Acquisition related costs	(2,534)	–	–	(2,534)
Gain on casualty settlement	245	–	–	245
Net income	\$ 72,125	\$ 19,156	\$ (60,987)	\$ 30,294
Capital investment	\$ 177,958	\$ 24,546	\$ –	\$ 202,504
Total assets	\$ 871,409	\$ 308,053	\$ 13,107	\$ 1,192,569

16. BUSINESS SEGMENTS (continued)

<i>(In thousands)</i>	Shopping Centers	Mixed-Use Properties	Corporate and Other	Consolidated Totals
As of or for the year ended December 31, 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 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
As of or for the year ended December 31, 2009				
Real estate rental operations:				
Revenue	\$ 121,442	\$ 39,532	\$ 9	\$ 160,983
Expenses	(28,547)	(11,423)	–	(39,970)
Income from real estate	92,895	28,109	9	121,013
Interest expense and amortization of deferred debt costs	–	–	(34,689)	(34,689)
General and administrative	–	–	(12,956)	(12,956)
Subtotal	92,895	28,109	(47,636)	73,368
Depreciation and amortization of deferred leasing costs	(20,278)	(7,940)	–	(28,218)
Loss on early extinguishment of debt	–	–	(2,210)	(2,210)
Loss from operations of property sold	(39)	–	–	(39)
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

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 2011 and 2010. Distributions by the Company to common stockholders and holders of limited partnership units in the Operating Partnership were \$35.4 million and \$34.0 million in 2011 and 2010, respectively. Distributions to preferred stockholders were \$15.1 million in both 2011 and 2010. 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.

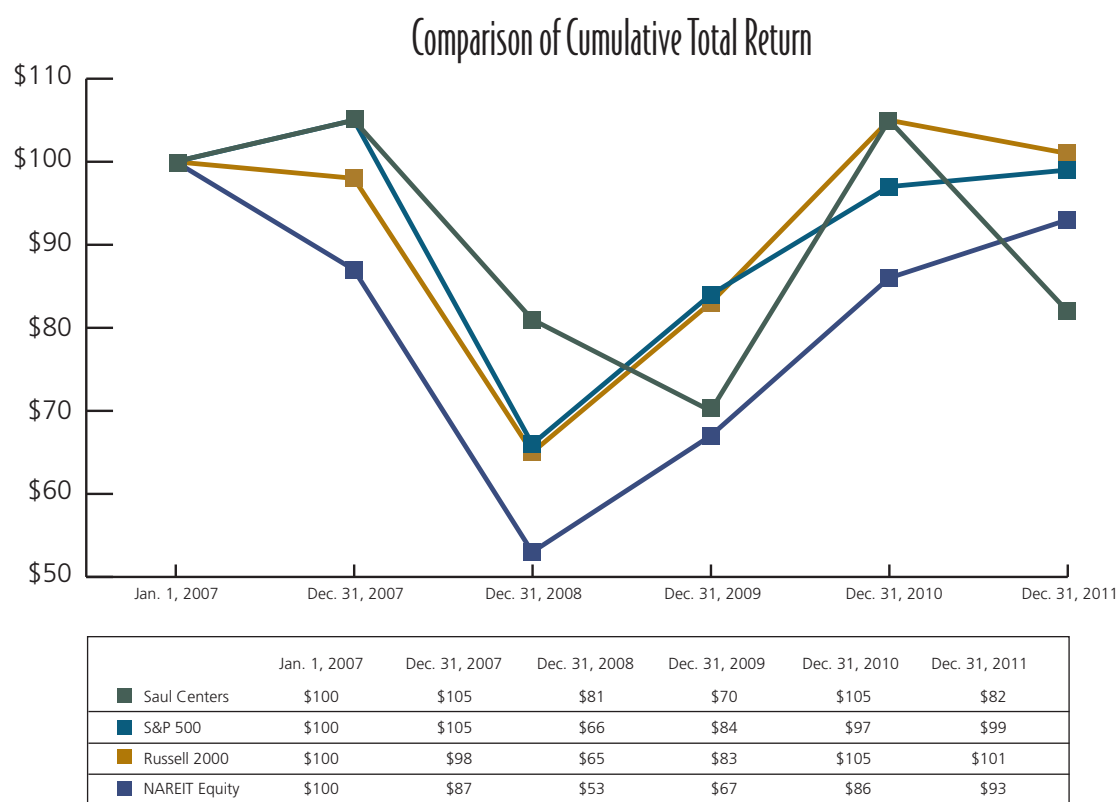
The Company paid four quarterly distributions totaling \$1.44, \$1.44, and \$1.53 per common share during the years ended December 31, 2011, 2010, and 2009, respectively. The annual distribution amounts paid by the Company exceed the distribution amounts required for tax purposes. Distributions to the 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 non-taxable 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 2011, 50% was treated as a taxable dividend income and 50% was treated as a return of capital. 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. The \$1.53 per common share dividend paid in 2009 was 100% taxable dividend income. No assurance can be given regarding what portion, if any, of distributions in 2012 or subsequent years will constitute a return of capital for federal income tax purposes. All of the preferred stock dividends paid are treated as ordinary dividend income.

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 2011 and 2010 as follows:

Common Stock Prices		
Period	Share Price	
	High	Low
October 1, 2011 – December 31, 2011	\$36.66	\$32.26
July 1, 2011 – September 30, 2011	\$41.72	\$31.54
April 1, 2011 – June 30, 2011	\$44.29	\$37.16
January 1, 2011 – March 31, 2011	\$48.40	\$42.30
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
On March 1, 2012, the closing price was \$38.00 per share.		
There were approximately 240 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 following 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, 2007.



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

George P. Clancy, Jr.
Executive Vice President, Emeritus
Chevy Chase Bank

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

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

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

Charles R. Longworth
Chairman Emeritus, Colonial
Williamsburg Foundation

Patrick F. Noonan
Chairman Emeritus,
The Conservation Fund

H. Gregory Platts
Senior Vice President and
Treasurer, Emeritus,
National Geographic Society

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,
Acquisitions and Development

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

Thomas H. McCormick
Senior Vice President,
General Counsel

COUNSEL

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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 2011, 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 1500E
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 4, 2012, at the Hyatt Regency Bethesda, One Bethesda Metro Center, Bethesda, MD (at the southwest corner of the Wisconsin Avenue and Old Georgetown Road intersection, adjacent to the Bethesda Metro Stop on the Metro Red Line.)



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