

SAUL CENTERS INC  
Form 10-Q  
November 08, 2011  
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**United States**  
**Securities and Exchange Commission**  
Washington, D.C. 20549

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For The Quarterly Period Ended September 30, 2011**

**Commission File Number 1-12254**

**SAUL CENTERS, INC.**

(Exact name of registrant as specified in its charter)

**Maryland**  
State or other jurisdiction of  
incorporation or organization)

7501 Wisconsin Avenue, Bethesda, Maryland 20814

**52-1833074**  
(I.R.S. Employer  
Identification No.)

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(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code (301) 986-6200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

Number of shares of common stock, par value \$0.01 per share outstanding as of November 3, 2011: 19,284,000.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**  
**Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ( U.S. GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments necessary for the fair presentation of the financial position and results of operations of Saul Centers, Inc. for the interim periods have been included. All such adjustments are of a normal recurring nature. These consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements of Saul Centers, Inc. for the year ended December 31, 2010, which are included in its Annual Report on Form 10-K. The results of operations for interim periods are not necessarily indicative of results to be expected for the year.

**Table of Contents****Saul Centers, Inc.****CONSOLIDATED BALANCE SHEETS***(Dollars in thousands,**except per share amounts)*

	<b>September 30, 2011 (Unaudited)</b>	<b>December 31, 2010</b>
<b>Assets</b>		
Real estate investments		
Land	\$ 323,298	\$ 275,044
Buildings and equipment	1,077,186	870,143
Construction in progress	12,780	78,849
	1,413,264	1,224,036
Accumulated depreciation	(318,117)	(296,786)
	1,095,147	927,250
Cash and cash equivalents	11,447	12,968
Accounts receivable and accrued income, net	37,407	36,417
Deferred leasing costs, net	25,010	17,835
Prepaid expenses, net	5,843	3,024
Deferred debt costs, net	6,969	7,192
Other assets	14,702	9,202
<b>Total assets</b>	<b>\$ 1,196,525</b>	<b>\$ 1,013,888</b>
<b>Liabilities</b>		
Mortgage notes payable	\$ 826,018	\$ 601,147
Revolving credit facility payable	8,000	
Construction loans payable		110,242
Dividends and distributions payable	13,162	12,415
Accounts payable, accrued expenses and other liabilities	25,101	23,544
Deferred income	32,300	26,727
<b>Total liabilities</b>	<b>904,581</b>	<b>774,075</b>
<b>Stockholders equity</b>		
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, 19,121,915 and 18,557,059 shares issued and outstanding, respectively	191	186
Additional paid-in capital	211,897	189,787
Accumulated deficit	(141,472)	(128,926)
Accumulated other comprehensive loss	(2,674)	(419)
<b>Total Saul Centers, Inc. stockholders equity</b>	<b>247,270</b>	<b>239,956</b>
<b>Noncontrolling interest</b>	<b>44,674</b>	<b>(143)</b>
<b>Total stockholders equity</b>	<b>291,944</b>	<b>239,813</b>

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Total liabilities and stockholders' equity	\$ 1,196,525	\$ 1,013,888
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Saul Centers, Inc.

**CONSOLIDATED STATEMENTS OF OPERATIONS***(Unaudited)**(Dollars in thousands,**except per share amounts)*

	<b>For The Three Months Ended September 30,</b>		<b>For The Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenue</b>				
Base rent	\$ 34,390	\$ 31,243	\$ 101,280	\$ 94,713
Expense recoveries	6,994	6,938	21,211	22,583
Percentage rent	209	238	1,037	927
Other	1,285	1,132	3,862	5,028
<b>Total revenue</b>	<b>42,878</b>	<b>39,551</b>	<b>127,390</b>	<b>123,251</b>
<b>Operating expenses</b>				
Property operating expenses	5,829	5,199	18,289	17,706
Provision for credit losses	595	345	1,628	699
Real estate taxes	4,743	4,367	13,881	13,498
Interest expense and amortization of deferred debt costs	11,250	8,781	32,714	26,259
Depreciation and amortization of deferred leasing costs	8,512	7,031	25,308	21,365
General and administrative	3,293	3,417	10,402	9,955
<b>Total operating expenses</b>	<b>34,222</b>	<b>29,140</b>	<b>102,222</b>	<b>89,482</b>
<b>Operating Income</b>	<b>8,656</b>	<b>10,411</b>	<b>25,168</b>	<b>33,769</b>
Acquisition related costs	(2,439)	(170)	(2,513)	(170)
Decrease in fair value of derivatives	(217)		(1,374)	
Gain on casualty settlement		1,700	198	1,700
Loss on early extinguishment of debt				(4,479)
<b>Income from continuing operations</b>	<b>6,000</b>	<b>11,941</b>	<b>21,479</b>	<b>30,820</b>
<b>Discontinued Operations</b>				
Loss from operations of property sold		(29)		(96)
Gain on sale of property		3,591		3,591
<b>Income from discontinued operations</b>		<b>3,562</b>		<b>3,495</b>
<b>Net Income</b>	<b>6,000</b>	<b>15,503</b>	<b>21,479</b>	<b>34,315</b>
<b>Noncontrolling interest</b>				
Income attributable to noncontrolling interests	(496)	(2,672)	(2,268)	(5,258)
<b>Net income attributable to Saul Centers, Inc.</b>	<b>5,504</b>	<b>12,831</b>	<b>19,211</b>	<b>29,057</b>
Preferred dividends	(3,785)	(3,785)	(11,355)	(11,355)
<b>Net income available to common stockholders</b>	<b>\$ 1,719</b>	<b>\$ 9,046</b>	<b>\$ 7,856</b>	<b>\$ 17,702</b>

**Per share net income available to common stockholders**

Basic and Diluted:

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Continuing operations	\$ 0.09	\$ 0.30	\$ 0.42	\$ 0.78
Discontinued operations		0.19		0.19
	\$ 0.09	\$ 0.49	\$ 0.42	\$ 0.97
<b>Dividends declared per common share outstanding</b>	\$ 0.36	\$ 0.36	\$ 1.08	\$ 1.08

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Saul Centers, Inc.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***(Unaudited)*

<i>(Dollars in thousands)</i>	<b>For The Three Months</b>		<b>For The Nine Months</b>	
	<b>Ended September 30, 2011</b>	<b>2010</b>	<b>Ended September 30, 2011</b>	<b>2010</b>
<b>Net income</b>	\$ 6,000	\$ 15,503	\$ 21,479	\$ 34,315
<b>Other comprehensive income</b>				
Unrealized loss on cash flow hedge	(3,449)	(3,275)	(2,906)	(3,275)
<b>Total comprehensive income</b>	2,551	12,228	18,573	31,040
Comprehensive income (loss) attributable to noncontrolling interests	(276)	1,922	1,617	4,508
<b>Total comprehensive income attributable to Saul Centers, Inc.</b>	2,827	10,306	16,956	26,532
Preferred dividends	(3,785)	(3,785)	(11,355)	(11,355)
<b>Total comprehensive income (loss) available to common stockholders</b>	\$ (958)	\$ 6,521	\$ 5,601	\$ 15,177

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Saul Centers, Inc.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY***(Unaudited)*

*(Dollars in thousands, except per share amounts)*

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Saul Centers, Inc.	Noncontrolling Interest	Total
Balance, December 31, 2010	\$ 179,328	\$ 186	\$ 189,787	\$ (128,926)	\$ (419)	\$ 239,956	\$ (143)	\$ 239,813
Issuance of 564,856 shares of common stock:								
186,968 restricted shares		2	6,189			6,191		6,191
337,659 shares pursuant to dividend reinvestment plan		1	14,160			14,161		14,161
40,229 shares due to exercise of employee stock options and issuance of directors' deferred stock		2	1,761			1,763		1,763
Issuance of 1,497,814 partnership units							49,589	49,589
Net income				19,211		19,211	2,268	21,479
Unrealized loss on cash flow hedge					(2,255)	(2,255)	(651)	(2,906)
Preferred stock distributions:								
Series A				(4,000)		(4,000)		(4,000)
Series B				(3,570)		(3,570)		(3,570)
Common stock distributions				(13,514)		(13,514)	(3,900)	(17,414)
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/unit)				(6,888)		(6,888)	(2,489)	(9,377)
Balance, September 30, 2011	\$ 179,328	\$ 191	\$ 211,897	\$ (141,472)	\$ (2,674)	\$ 247,270	\$ 44,674	\$ 291,944

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Saul Centers, Inc.

**CONSOLIDATED STATEMENTS OF CASH FLOWS***(Unaudited)*

<i>(Dollars in thousands)</i>	<b>For The Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 21,479	\$ 34,315
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on casualty settlement, continuing operations	(198)	(1,700)
Gain on sale of property, discontinued operations		(3,591)
Decrease in fair value of derivatives	1,374	
Depreciation and amortization of deferred leasing costs	25,308	21,452
Amortization of deferred debt costs	1,146	1,099
Non cash compensation costs of stock grants and options	806	813
Provision for credit losses	1,628	699
(Increase) decrease in accounts receivable and accrued income	(3,396)	945
Increase in deferred leasing costs	(3,747)	(1,951)
Increase in prepaid expenses	(2,819)	(1,758)
Increase in other assets	(5,500)	(8,321)
Increase in accounts payable, accrued expenses and other liabilities	3,946	2,149
Increase (decrease) in deferred income	111	(823)
Net cash provided by operating activities	40,138	43,328
<b>Cash flows from investing activities:</b>		
Acquisitions of real estate investments	(170,100)	
Additions to real estate investments	(8,127)	(4,425)
Additions to development and redevelopment projects	(19,640)	(53,730)
Proceeds from casualty settlement	1,004	250
Net cash used in investing activities	(196,863)	(57,905)
<b>Cash flows from financing activities:</b>		
Proceeds from mortgage notes payable	236,410	73,144
Repayments on mortgage notes payable	(121,781)	(41,912)
Proceeds from revolving credit facility	16,000	
Repayments on revolving credit facility	(8,000)	
Additions to deferred debt costs	(923)	(329)
Proceeds from the issuance of:		
Common stock	21,309	12,584
Partnership units	49,589	
Distributions to:		
Series A preferred stockholders	(6,000)	(6,000)
Series B preferred stockholders	(5,355)	(5,355)
Common stockholders	(20,195)	(19,578)
Noncontrolling interest	(5,850)	(5,849)
Net cash provided by financing activities	155,204	6,705
Net decrease in cash and cash equivalents	(1,521)	(7,872)

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Cash and cash equivalents, beginning of period	12,968	20,607
Cash and cash equivalents, end of period	\$ 11,447	\$ 12,735

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## Notes to Consolidated Financial Statements (Unaudited)

**1. Organization, Formation and Structure**

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). A REIT 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.

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 currently 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-use properties, and the management functions related to the transferred properties. Since its formation, the Company has developed and purchased additional properties.

The following table lists the properties acquired and/or developed by the Company since December 31, 2009.

Name of Property	Location	Type	Date of Acquisition/ Development
<i>Acquisitions</i>			
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
<i>Developments</i>			
Clarendon Center North	Arlington, VA	Mixed-Use	2011
Clarendon Center South	Arlington, VA	Mixed-Use	2011

As of September 30, 2011, the Company's properties (the Current Portfolio Properties) consisted of 51 operating 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.

In September 1997, 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

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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.

## **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-use properties, primarily in the Washington, DC/Baltimore metropolitan area.

Because the properties are located primarily in the Washington, DC/Baltimore metropolitan area, the Company is subject to a concentration of credit risk related to these properties. A majority of the Shopping Centers are anchored by several major tenants. As of September 30, 2011, thirty-three of the Shopping Centers were anchored by a grocery store and offer primarily day-to-day necessities and services. Three retail tenants, Giant Food (4.0%), a tenant at ten Shopping Centers, Safeway (3.1%), a tenant at eight Shopping Centers and Capital One Bank (2.6%), a tenant at twenty properties, individually accounted for 2.5% or more of the Company's total revenue for the nine months ended September 30, 2011.

### **Principles of Consolidation**

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

### **Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments necessary for the fair presentation of the financial position and results of operations of Saul Centers, Inc. for the interim periods have been included. All such adjustments are of a normal recurring nature. These consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements of Saul Centers, Inc. for the year ended December 31, 2010, which are included in its Annual Report on Form 10-K. The results of operations for interim periods are not necessarily indicative of results to be expected for the year.

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### **Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP 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 the buildings were vacant upon acquisition and subsequently leased at market rental rates. As such, the determination of fair value considers the present value of all cash flows expected to be generated from the property including an initial lease up period. The Company determines the fair value of above and below market intangibles associated with in-place leases by assessing the net effective rent and remaining term of the lease relative to market terms for similar leases at acquisition. In the case of above and below market leases, the Company considers the remaining contractual lease period and renewal periods, taking into consideration the likelihood of the tenant exercising its renewal options. The fair value of a below market lease component is recorded as deferred income and amortized as additional lease revenue over the remaining contractual lease period and any renewal option periods included in the valuation analysis. The fair value of above market lease intangibles is recorded as a deferred asset and is amortized as a reduction of lease revenue over the remaining contractual lease term. The Company determines the fair value of at-market in-place leases considering the cost of acquiring similar leases, the foregone rents associated with the lease-up period and carrying costs associated with the lease-up period. Intangible assets associated with at-market in-place leases are amortized as additional expense over the remaining contractual lease term. To the extent customer relationship intangibles are present in an acquisition, the fair value of the intangibles is amortized over the life of the customer relationship. The Company has never recorded a customer relationship intangible asset. The Company expenses acquisition-related costs as they are 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 impairment analysis to determine that the carrying value of the real estate investment property does not exceed its estimated fair value. The Company considers both quantitative and qualitative factors including recurring operating losses, significant decreases in occupancy, and significant adverse changes in legal factors and business climate. If impairment indicators are present, the Company compares the projected cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying value of that property. The Company assesses its undiscounted projected cash flows based upon estimated capitalization rates, historic operating results and market conditions that may affect the property. If such carrying value is greater than the undiscounted projected cash flows, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its then estimated fair 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

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valuation could be negatively or positively affected. No impairment loss was recognized during the nine month periods ended September 30, 2011 and 2010.

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 \$1,793,000 and \$5,254,000, for the nine month periods ended September 30, 2011 and 2010, respectively. A project is considered substantially complete and available for occupancy upon completion of tenant improvements, but no later than one year from the cessation of major construction activity. Substantially completed portions of a project are accounted for as separate projects.

Depreciation is calculated using the straight-line method and estimated useful lives of 35 to 50 years for base buildings and up to 20 years for certain other improvements that extend the useful lives. In addition, the Company capitalizes leasehold improvements 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 improvements, using the straight-line method. The depreciation component included in depreciation and amortization expense in the consolidated statements of operations totaled \$22,106,000 and \$18,495,000 for the nine month periods ended September 30, 2011 and 2010, respectively. Repairs and maintenance expense, included in property operating expenses, for the nine month periods ended September 30, 2011 and 2010, was \$7,827,000 and \$9,439,000, respectively.

## **Assets Held for Sale**

The Company considers properties to be assets held for sale when all of the following criteria are met:

management commits to a plan to sell a property;

it is unlikely that the disposal plan will be significantly modified or discontinued;

the property is available for immediate sale in its present condition;

actions required to complete the sale of the property have been initiated;

sale of the property is probable and the Company expects the completed sale will occur within one year; and

the property is actively being marketed for sale at a price that is reasonable given its current market value.

Upon designation as an asset held for sale, the Company records the carrying value of each property at the lower of its carrying value or its estimated fair value, less estimated costs to sell, and the Company ceases depreciation. As of September 30, 2011, no properties were classified as held for sale.



**Table of Contents****Discontinued Operations**

On September 30, 2010, the Company sold its Lexington property for \$8,132,000 and recognized a gain of \$3,591,000. The results of operations for the Lexington property for the three and nine months ended September 30, 2010 are shown in the statements of operations as Loss from operations of property sold. The Company has no other discontinued operations.

**Deferred Leasing Costs**

Deferred leasing costs consist of commissions paid to third-party leasing agents, internal direct costs such as employee compensation and payroll-related fringe benefits directly related to time spent performing leasing-related activities for successful leases and amounts attributed to in place leases associated with acquired properties. Leasing related activities include evaluating the prospective tenant's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating lease terms, preparing lease documents and closing the transaction. The carrying amount of these costs is written-off to expense if the applicable lease is terminated prior to expiration of the initial lease term. Deferred leasing costs are amortized over the initial term of the lease or remaining initial term of acquired leases. Collectively, deferred leasing costs totaled \$25,010,000 and \$17,835,000, net of accumulated amortization of \$14,510,000 and \$14,968,000, as of September 30, 2011 and December 31, 2010, respectively. Amortization expense, included in depreciation and amortization in the consolidated statements of operations, totaled \$3,201,000 and \$2,871,000, for the nine months ended September 30, 2011 and 2010, respectively.

**Construction In Progress**

Construction in progress includes preconstruction costs and development costs of active projects. Preconstruction costs associated with these projects include legal, zoning and permitting costs and other project carrying costs incurred prior to the commencement of construction. Development costs include direct construction costs and indirect costs incurred subsequent to the start of construction such as architectural, engineering, construction management and carrying costs consisting of interest, real estate taxes and insurance. Construction in progress balances as of September 30, 2011 and December 31, 2010 are as follows:

**Construction in Progress**

<i>(Dollars in thousands)</i>	September 30, 2011	December 31, 2010
Clarendon Center North	\$ 11,756	\$ 40,514
Clarendon Center South		37,589
Other	1,024	746
Total	\$ 12,780	\$ 78,849

As of September 30, 2011, 75% and 100% of the commercial leasable area of Clarendon Center North and Clarendon Center South, respectively, and 100% of the residential area of Clarendon South had been placed into operation. The development costs related to the area in

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operation have been reclassified into land and buildings. The costs reported in Construction in Progress above reflect the costs incurred as of September 30, 2011 for the remaining 25% of commercial leaseable area of Clarendon Center North, and as of December 31, 2010, 100% of the commercial space of both buildings and none of the residential space.

### **Accounts Receivable, Accrued Income and Allowance for Doubtful Accounts**

Accounts receivable includes 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 financial statements are shown net of an allowance for doubtful accounts of approximately \$1,104,000 and \$898,000, at September 30, 2011 and December 31, 2010, respectively.

In addition to rents due currently, accounts receivable includes approximately \$29,856,000 and \$27,227,000, at September 30, 2011 and December 31, 2010, respectively, net of allowance for doubtful accounts totaling \$191,000 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.

### **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 \$6,969,000 and \$7,192,000, net of accumulated amortization of \$6,513,000 and \$5,367,000, at September 30, 2011 and December 31, 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.

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### **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. Expense recoveries represent a portion of property operating expenses billed to tenants, including common area maintenance, real estate taxes and other recoverable costs and are recognized in the period when the expenses are incurred. Rental income based on a tenant's revenue (percentage rent) is accrued when a tenant reports sales that exceed a specified breakpoint, pursuant to the terms of their respective leases.

### **Income Taxes**

The Company made an election to be treated, and intends to continue operating so as to qualify, as a REIT under 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.

### **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 expires in April 2018. Pursuant to the Amended 2004 Plan, the Compensation Committee established a Deferred Compensation Plan for Directors for the benefit of its directors and their beneficiaries, which replaced a previous Deferred Compensation and Stock Plan for Directors. A director may make an annual election to defer all or part of his or her director's fees and has the option to have the fees paid in cash, in shares of common stock or in a combination of cash and shares of common stock upon termination from the Board. If the director elects to have fees paid in stock,

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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 September 30, 2011, 228,000 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 as of the 2011 Annual Meeting of Shareholders. The shares were valued at the closing stock price on the date the shares were awarded and included in general and administrative expenses.

## **Derivative Financial Instruments**

The Company may use derivative instruments to manage its exposure to market risk such as changes in interest rates. The Company does not enter into derivative transactions for trading or speculative purposes. Derivative financial instruments are carried at fair value as either assets or liabilities on the consolidated balance sheets. For those derivative instruments that are designated, and qualify, as hedging instruments, the Company designates the hedging instrument, based upon the exposure being hedged, as a fair value hedge or a cash flow hedge. For derivative instruments that do not meet the criteria for hedge accounting, changes in fair value are immediately recognized in earnings. For those derivative instruments that qualify for hedge accounting, the effective portion of the gain or loss on the hedge instruments is reported as a component of accumulated other comprehensive income (loss) and recognized in earnings within the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of a derivative's change in fair value is immediately recognized in earnings. To the extent that the financial terms of the hedge instrument and the hedged item exactly match, the Company may employ the so-called "short-cut" method of accounting for the arrangement. In that case, the effectiveness of the hedge is not subsequently evaluated and the impact of the hedge instrument is reported as other comprehensive income.

Derivative financial instruments expose us to credit risk in the event of non-performance by the counterparties under the terms of the derivative instrument. The Company minimizes its credit risk on these transactions by dealing with major, creditworthy financial institutions as determined by management, and therefore, it believes that the likelihood of realizing losses from counterparty non-performance is remote.

## **Noncontrolling Interest**

Saul Centers is the sole general partner of the Operating Partnership, owning a 73.4% common interest as of September 30, 2011. Noncontrolling interest in the Operating Partnership is comprised of limited partnership units owned by The Saul Organization. Noncontrolling interest as reflected on the accompanying consolidated balance sheets is increased for earnings allocated to limited partnership interests and distributions reinvested in additional units, and is decreased for limited partner distributions. Noncontrolling interest as reflected on the consolidated statements of operations represents earnings allocated to limited partnership interests held by the Saul Organization.

**Table of Contents****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 non-dilutive. 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. As of September 30, 2011, the stock options issued in 2007, 2008 and 2011 are anti-dilutive and are therefore excluded from this measurement.

**Basic and Diluted Shares Outstanding**

<i>(In thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Weighted average common shares outstanding-Basic	18,893	18,315	18,774	18,201
Effect of dilutive options	44	125	69	105
<b>Weighted average common shares outstanding-Diluted</b>	<b>18,937</b>	<b>18,440</b>	<b>18,843</b>	<b>18,306</b>

**Reclassifications**

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. The reclassifications have no impact on operating results previously reported.

**Legal Contingencies**

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. Once it has been determined that a loss is probable to occur, the estimated amount of the loss is recorded in the financial statements.

**3. Real Estate Acquired or Developed***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.

**Table of Contents***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 allocation of the purchase prices for Severna Park MarketPlace, Kentlands Square II, and Cranberry Square to the acquired assets and liabilities based on their fair values was as follows:

<i>(In thousands)</i>	
Land	\$ 39,900
Buildings	127,405
In-Place Leases	6,629
Above Market Rents	28
Below Market Rents	(5,462)
 Total Purchase Price	 \$ 168,500

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 \$247,000 and \$217,000, respectively, for the three and nine months ended September 30, 2011.

The following table shows proforma revenue and earnings of the Company assuming the acquisitions occurred as of January 1, 2010. The proforma results for the three and nine months ended September 30, 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.

<i>(In thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenue	\$ 45,567	\$ 42,345	\$ 135,847	\$ 132,244
Earnings	33,772	31,777	99,987	97,894

**4. Noncontrolling Interest - Holders of Convertible Limited Partnership Units in the Operating Partnership**

Certain members of The Saul Organization are limited partners of the Operating Partnership, collectively owning a 26.6% common interest as of September 30, 2011, represented by approximately 6,914,000 limited partnership units. 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

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stock and preferred stock of Saul Centers (the Equity Securities). As of September 30, 2011, approximately 3,790,000 units were convertible into shares of Saul Centers common stock.

The impact of The Saul Organization's approximately 26.6% limited partnership interest in the Operating Partnership is reflected as Noncontrolling Interest in the accompanying consolidated financial statements. Fully converted partnership units and diluted weighted average shares outstanding for the quarters ended September 30, 2011 and 2010, were approximately 24,353,000 and 23,856,000, respectively, and for the nine months ended September 30, 2011 and 2010, were approximately 24,259,000 and 23,722,000, respectively.

**5. Mortgage Notes Payable, Revolving Credit Facility, Interest and Amortization of Deferred Debt Costs**

The Company's outstanding debt totaled approximately \$834,018,000 at September 30, 2011, of which approximately \$750,872,000 was fixed-rate debt and approximately \$83,146,000 was variable-rate debt.

At September 30, 2011, the Company had a \$150 million unsecured revolving credit facility, which can be used for working capital, property acquisitions, development projects or letters of credit. 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. 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 September 30, 2011, operating income from the unencumbered properties determined the interest rate for up to \$104,000,000 of the line's available borrowings, with interest expense to be calculated based upon the 1, 2, 3 or 6 month LIBOR plus a spread of 3.65% to 3.90% determined by certain leverage tests. The interest rate on the remaining 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%. As of September 30, 2011, \$130,000,000 was available for borrowing under the facility, \$8,000,000 was outstanding, with interest accruing at 5.275%, and \$122,000,000 was available for additional borrowing.

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 loan (approximately \$7,573,000 of the \$15,146,000 outstanding at September 30, 2011). The fixed-rate notes payable are all non-recourse debt except for \$3,882,000 of the Great Falls Center and \$27,600,000 of the Clarendon Center mortgages, which are guaranteed by Saul Centers. The Clarendon Center guarantee will be eliminated upon the achievement of certain leasing and debt service coverage benchmarks. Saul Centers also has guaranteed the two six-month bridge loans described below.

On September 23, 2011, the Company closed on a 15-year non-recourse mortgage loan in the amount of \$38,000,000, secured by Severna Park MarketPlace. The loan matures October 1,



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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 \$20,287,000 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 \$60,000,000, secured by Kentlands Square II and Cranberry Square. The loans mature March 23, 2012 and require month interest-only payments based upon the one-month LIBOR plus 1.75%. Proceeds from the loans were used to purchase Kentlands Square II and Cranberry Square.

On March 23, 2011, the Company closed on a 15-year non-recourse mortgage loan in the amount of \$125,000,000, 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 \$70,477,000 at maturity. Proceeds from the loan were used to repay \$104,243,000 outstanding on the Clarendon Center construction loan.

At December 31, 2010, the Company's outstanding debt totaled approximately \$711,389,000, of which \$601,147,000 was fixed rate and \$110,242,000 was variable-rate debt. No balances were outstanding on the Company's \$150,000,000 unsecured revolving credit facility.

At September 30, 2011, the scheduled maturities of all debt, including scheduled principal amortization, for years ending December 31, were as follows:

**Debt Maturity Schedule**

<i>(Dollars in thousands)</i>	Balloon Payments	Scheduled Principal Amortization	Total
October 1 through December 31, 2011	\$	\$ 5,070	\$ 5,070
2012	129,960 <sup>(a)</sup>	20,374	150,334
2013	70,131	16,334	86,465
2014	13,218	16,473	29,691
2015	15,077	16,834	31,911
2016		17,506	17,506
Thereafter	389,361	123,680	513,041
	\$ 617,747	\$ 216,271	\$ 834,018

(a) Includes \$60,000 and \$8,000, outstanding on the bridge loans and line of credit, respectively.

Interest expense and amortization of deferred debt costs for the three and nine month periods ended September 30, 2011 and 2010, were as follows:

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

<i>(Dollars in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Interest incurred	\$ 11,383	\$ 10,247	\$ 33,361	\$ 30,414
Amortization of deferred debt costs	386	367	1,146	1,099
Capitalized interest	(519)	(1,833)	(1,793)	(5,254)
	\$ 11,250	\$ 8,781	\$ 32,714	\$ 26,259

**6. Stockholders Equity and Noncontrolling Interest**

The consolidated statements of operations for the nine months ended September 30, 2011 and 2010 reflect noncontrolling interest of \$2,268,000 and \$5,258,000, respectively, representing The Saul Organization's share of net income for each period.

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 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.

On September 23, 2011, pursuant to a Stock Purchase Agreement with the B. F. Saul Real Estate Investment Trust dated August 9, 2011, the Company issued 186,968 restricted shares of common stock and 1,497,814 operating partnership units of Saul Centers, at a price of \$33.12 per share, determined using the average closing price of the common stock on the New York Stock Exchange for the five days immediately prior to the closing of the acquisition and received net proceeds of \$55.8 million. The Stock Purchase Agreement was executed during the acquisition auction for Kentlands Square II, Severna Park MarketPlace and Cranberry Square, which allowed the Company to bid for the properties by providing the certainty for the required equity in the event the acquisition was successful.

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**7. 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 \$390,000 and \$330,000, for the nine months ended September 30, 2011 and 2010, 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 nine months ended September 30, 2011 and 2010, the Company contributed three times the amount deferred by employees. The Company's expense, included in general and administrative expense, totaled \$166,000 and \$146,000, for the nine months ended September 30, 2011 and 2010, respectively. All amounts deferred by employees and the Company are fully vested. The cumulative unfunded liability under this plan was \$1,802,000 and \$1,623,000, at September 30, 2011 and December 31, 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. The terms of the Agreement and the payments made thereunder are deemed reasonable by management and 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 nine months ended September 30, 2011 and 2010, which included rental expense for the Company's headquarters lease, totaled approximately \$4,487,000 and \$4,737,000, respectively. The amounts are expensed as incurred and are primarily reported as general and administrative expenses in the consolidated financial statements. As of September 30, 2011 and December 31, 2010, accounts payable, accrued expenses and other liabilities included approximately \$388,000 and \$606,000, respectively, representing amounts due to The Saul Organization for the Company's share of these ancillary costs and expenses.

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

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increases of 3% per year, with payment of a pro-rata share of operating expenses over a base year amount. The Agreement requires each party to pay 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 nine months ended September 30, 2011 and 2010 was approximately \$706,000 and \$664,000, respectively, and is included in general and administrative expense.

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 fees in connection with the Company's insurance program. Such commissions and fees amounted to \$178,000 and \$154,000 for the nine months ended September 30, 2011 and 2010, respectively.

**8. Stock Option Plans**

The Company has established two stock incentive plans, the 1993 plan and the 2004 plan (together, the Plans). Under the Plans, options were granted at an exercise price not less than the market value of the common stock on the date of grant and expire ten years from the date of grant. Officer options vest ratably over four years following the grant and are expensed straight-line over the vesting period. Director options vest immediately and are expensed as of the date of grant.

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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 three and nine months ended September 30, 2011:

Stock options issued

	Directors							
Grant date	04/26/2004	05/06/2005	05/01/2006	04/27/2007	04/25/2008	05/07/2010	05/13/2011	Subtotals
Total grant	30,000	30,000	30,000	30,000	30,000	32,500	32,500	247,500
Vested	30,000	30,000	30,000	30,000	30,000	32,500	32,500	247,500
Exercised	6,200	2,500						11,200
Forfeited								
Exercisable at September 30, 2011	23,800	27,500	30,000	30,000	30,000	32,500	32,500	236,300
Remaining unexercised	23,800	27,500	30,000	30,000	30,000	32,500	32,500	236,300
Exercise price	\$ 25.78	\$ 33.22	\$ 40.35	\$ 54.17	\$ 50.15	\$ 38.76	\$ 41.82	
Volatility	0.183	0.198	0.206	0.225	0.237	0.369	0.358	
Expected life (years)	5.0	10.0	9.0	8.0	7.0	5.0	5.0	
Assumed yield	5.75%	6.91%	5.93%	4.39%	4.09%	4.23%	4.16%	
Risk-free rate	3.57%	4.28%	5.11%	4.65%	3.49%	2.17%	1.86%	
Total value at grant date	\$ 66,600	\$ 71,100	\$ 143,400	\$ 285,300	\$ 254,700	\$ 287,950	\$ 297,375	\$ 1,629,375
Forfeited options								
Expensed in previous years	66,600	71,100	143,400	285,300	254,700	287,950		1,332,000
Expensed in 2011							297,375	297,375
Future expense								
	Officers						Subtotals	Grand Totals
Grant date	05/23/2003	04/26/2004	05/06/2005	04/27/2007	05/13/2011			
Total grant	220,000	122,500	132,500	135,000	162,500	772,500	<b>1,020,000</b>	
Vested	212,500	115,000	118,750	122,500		568,750	<b>816,250</b>	
Exercised	199,315	48,525	25,125			272,965	<b>284,165</b>	
Forfeited	7,500	7,500	13,750	12,500		41,250	<b>41,250</b>	
Exercisable at September 30, 2011	13,185	66,475	93,625	122,500		295,785	<b>532,085</b>	
Remaining unexercised	13,185	66,475	93,625	122,500	162,500	458,285	<b>694,585</b>	
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	\$ <b>5,204,392</b>	
Forfeited options	11,325	17,925	35,100			64,350	<b>64,350</b>	
Expensed in previous years	320,875	274,850	378,300	1,153,957		2,127,982	<b>3,459,982</b>	

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Expensed in 2011		104,891	106,484	211,375	<b>508,750</b>
Future expense			1,171,310	1,171,310	<b>1,171,310</b>
Remaining term of future expense	3.7	years			

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The table below summarizes the option activity for the nine months ended September 30, 2011:

	Number of Shares	Wtd Avg Exercise Price/sh	Aggregate Intrinsic Value
Outstanding at January 1	532,881	\$ 39.13	
Granted	195,000	41.82	
Exercised	(33,296)	28.68	\$ 644,000
Expired/Forfeited			
Outstanding September 30	694,585	40.38	2,383,000
Exercisable at September 30	532,085	39.95	2,383,000

The intrinsic value measures the price difference between the options' exercise price and the closing share price quoted by the New York Stock Exchange as of the date of measurement. The intrinsic value for shares exercised during the period was calculated by using the closing share price on the date of exercise. At September 30, 2011, the closing share price of \$33.81 was lower than the exercise price of options granted in 2006, 2007, 2008, 2009 and 2011, therefore, those options had no intrinsic value as of September 30, 2011. The weighted average remaining contractual life of the Company's outstanding and exercisable options is 5.8 and 5.0 years, respectively.

**9. 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 aggregate fair value of the notes payable with fixed-rate payment terms, assuming long-term interest rates of approximately 4.50% and 5.25%, would be approximately \$822,207,000 and \$642,124,000, respectively, compared to the carrying value of \$750,872,000 and \$601,147,000, at September 30, 2011 and December 31, 2010, respectively.

The Company carries its two interest rate swaps at fair value. The Company has determined the majority of the inputs used to value its derivatives 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 September 30, 2011, the fair value of the interest-rate swaps was approximately \$5,124,000 and is included in Accounts payable, accrued expenses and other liabilities in the consolidated balance sheet. The Company applies hedge accounting to one of its swaps and not the other.

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 three and nine months ended September 30, 2010 was overstated.

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by \$3.3 million and 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.

<i>(Dollars in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Decrease in fair value:				
Recognized in earnings	\$ (217)	\$	\$ (1,374)	\$
Recognized in other comprehensive income	(3,449)	(3,275)	(2,906)	(3,275)
Total	\$ (3,666)	\$ (3,275)	\$ (4,280)	\$ (3,275)

**10. 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.

**11. Business Segments**

The Company has two reportable business segments: Shopping Centers and Mixed-Use Properties. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2). The Company evaluates performance based upon income from real estate for the combined properties in each segment. Certain reclassifications have been made to prior year information to conform to the 2011 presentation.



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<i>(Dollars in thousands)</i>	Shopping Centers	Mixed-Use Properties	Corporate and Other	Consolidated Totals
<b>Quarter ended September 30, 2011</b>				
Real estate rental operations:				
Revenue	\$ 31,096	\$ 11,764	\$ 18	\$ 42,878
Expenses	(7,558)	(3,609)		(11,167)
Income from real estate	23,538	8,155	18	31,711
Interest expense and amortization of deferred debt costs			(11,250)	(11,250)
General and administrative			(3,293)	(3,293)
Subtotal	23,538	8,155	(14,525)	17,168
Depreciation and amortization of deferred leasing costs	(5,404)	(3,108)		(8,512)
Acquisition related costs			(2,439)	(2,439)
Decrease in fair value of derivatives			(217)	(217)
Net income (loss)	\$ 18,134	\$ 5,047	\$ (17,181)	\$ 6,000
Capital investment	\$ 170,634	\$ 2,119	\$	\$ 172,753
Total assets	\$ 876,431	\$ 307,585	\$ 12,509	\$ 1,196,525
<b>Quarter ended September 30, 2010</b>				
Real estate rental operations:				
Revenue	\$ 30,208	\$ 9,317	\$ 26	\$ 39,551
Expenses	(6,822)	(3,088)	(1)	(9,911)
Income from real estate	23,386	6,229	25	29,640
Interest expense and amortization of deferred debt costs			(8,781)	(8,781)
General and administrative			(3,417)	(3,417)
Subtotal	23,386	6,229	(12,173)	17,442
Depreciation and amortization of deferred leasing costs	(5,120)	(1,911)		(7,031)
Acquisition related costs			(170)	(170)
Gain on casualty settlement			1,700	1,700
(Loss) from operations of property sold			(29)	(29)
Gain on property sale			3,591	3,591
Net income (loss)	\$ 18,266	\$ 4,318	\$ (7,081)	\$ 15,503
Capital investment	\$ 2,024	\$ 15,291	\$	\$ 17,315
Total assets	\$ 675,737	\$ 280,240	\$ 14,487	\$ 970,464

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<i>(Dollars in thousands)</i>	Shopping Centers	Mixed-Use Properties	Corporate and Other	Consolidated Totals
<b>Nine months ended September 30,2011</b>				
Real estate rental operations:				
Revenue	\$ 94,057	\$ 33,268	\$ 65	\$ 127,390
Expenses	(22,883)	(10,915)		(33,798)
Income from real estate	71,174	22,353	65	93,592
Interest expense and amortization of deferred debt costs			(32,714)	(32,714)
General and administrative			(10,402)	(10,402)
Subtotal	71,174	22,353	(43,051)	50,476
Depreciation and amortization of deferred leasing costs	(16,341)	(8,967)		(25,308)
Acquisition related costs			(2,513)	(2,513)
Decrease in fair value of derivatives			(1,374)	(1,374)
Gain on casualty settlement			198	198
Net income (loss)	\$ 54,833	\$ 13,386	\$ (46,740)	\$ 21,479
Capital investment	\$ 175,012	\$ 22,855	\$	\$ 197,867
Total assets	\$ 876,431	\$ 307,585	\$ 12,509	\$ 1,196,525
<b>Nine months ended September 30,2011</b>				
Real estate rental operations:				
Revenue	\$ 94,384	\$ 28,841	\$ 26	\$ 123,251
Expenses	(23,041)	(8,861)	(1)	(31,903)
Income from real estate	71,343	19,980	25	91,348
Interest expense and amortization of deferred debt costs			(26,259)	(26,259)
General and administrative			(9,955)	(9,955)
Subtotal	71,343	19,980	(36,189)	55,134
Depreciation and amortization of deferred leasing costs	(15,375)	(5,990)		(21,365)
Loss on early extinguishment of debt			(4,479)	(4,479)
Acquisition related costs			(170)	(170)
Gain on casualty settlement			1,700	1,700
(Loss) from operations of property sold			(96)	(96)
Gain on property sale			3,591	3,591
Net income (loss)	\$ 55,968	\$ 13,990	\$ (35,643)	\$ 34,315
Capital investment	\$ 4,630	\$ 53,275	\$	\$ 57,905
Total assets	\$ 675,737	\$ 280,240	\$ 14,487	\$ 970,464

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**12. Subsequent Events**

The Company has reviewed operating activities for the period subsequent to September 30, 2011 and prior to the date the financial statements are issued or are available to be issued, and determined the following subsequent events are required to be disclosed.

On October 5, 2011, the Company closed on a 15-year non-recourse mortgage loan in the amount of \$43,000,000, 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 \$23,100,000 at maturity. Proceeds from the loan were used to repay the \$40,000,000 bridge financing used to acquire Kentlands Square II.

On October 31, 2011, the Company received a commitment for a 15-year non-recourse mortgage loan in the amount of \$20,000,000, to be secured by Cranberry Square. The loan will mature December 1, 2026, bear interest at a fixed rate of 4.70%, require equal monthly principal and interest payments of \$113,449, based upon a 25-year principal amortization, and require a final principal payment of approximately \$10,916,000 at maturity. The loan is expected to close during the fourth quarter of 2011 and proceeds from the loan will be used to repay the \$20,000,000 bridge financing used to acquire Cranberry Square.

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This section should be read in conjunction with the consolidated financial statements of the Company and the accompanying notes in Item 1. Financial Statements of this report and the more detailed information contained in the Company's Form 10-K for the year ended December 31, 2010. Historical results and percentage relationships set forth in Item 1 and this section should not be taken as indicative of future operations of the Company. Capitalized terms used but not otherwise defined in this section have the meanings given to them in Item 1 of this Form 10-Q.

### Forward-Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are generally characterized by terms such as believe, expect and may.

Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, the Company's actual results could differ materially from those given in the forward-looking statements as a result of changes in factors which include, among others, the following:

continuing risks related to the challenging domestic and global credit markets and their effect on discretionary spending;

risks that the Company's tenants will not pay rent;

risks related to the Company's reliance on shopping center anchor tenants and other significant tenants;

risks related to the Company's substantial relationships with members of The Saul Organization;

risks of financing, such as increases in interest rates, restrictions imposed by the Company's debt, the Company's ability to meet existing financial covenants and the Company's ability to consummate planned and additional financings on acceptable terms;

risks related to the Company's development activities;

risks that the Company's growth will be limited if the Company cannot obtain additional capital;

risks that planned and additional acquisitions or redevelopments may not be consummated, or if they are consummated, that they will not perform as expected;

risks generally incident to the ownership of real property, including adverse changes in economic conditions, changes in the investment climate for real estate, changes in real estate taxes and other operating expenses, adverse changes in governmental rules and fiscal policies, the relative illiquidity of real estate and environmental risks;

risks related to the Company's status as a REIT for federal income tax purposes, such as the existence of complex regulations relating to the Company's status as a REIT, the effect of future changes in REIT requirements as a result of new legislation and the adverse consequences of the failure to qualify as a REIT; and

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such other risks as described in Part I, Item 1A of the Company's Form 10-K for the year ended December 31, 2010.

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### General

The following discussion is based primarily on the consolidated financial statements of the Company as of September 30, 2011 and for the three and nine month periods ended September 30, 2011.

### 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 DC and Baltimore metropolitan area. The three centers, Kentlands Square II, Severna Park MarketPlace and Cranberry Square, total 635,000 square feet of leasable area, of which 98% is leased. The \$170.9 million purchase price plus 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. 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

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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 will in the future have attractive supply/demand characteristics. The Company will continue to evaluate acquisition, development and redevelopment as an integral part of its overall business plan.

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

During 2011, four of the Company's significant tenants have been involved in bankruptcy proceedings. Blockbuster Video has rejected the leases at two locations. Two other leases were transferred to Dish Network Corp., and store operations have continued. Borders Bookstore is liquidating all remaining stores and in September 2011, closed its single location with the Company at Thruway. Superfresh closed its Lumberton, New Jersey store effective April 18, 2011, rejected this lease and announced its plan to accept the lease at the Company's Shops at Fairfax, which is currently subleased to Super H Grocery. On November 2, 2011, Syms Corporation filed for bankruptcy protection and announced its intention to close all of its stores in early 2012. The Company is analyzing the potential impact of the closing of its single Syms store at Seven Corners Center. These bankruptcy proceedings are the only known bankruptcies involving the Company's significant tenants.

With the decline in overall consumer spending, retailers continue to struggle with declining sales and limited access to capital. Vacancies remain elevated compared to pre-2008 levels. Our overall portfolio leasing percentage, on a comparative same center basis, at September 30, 2011 was 89.2%, a decrease from 92.0% at September 30, 2010, an increase in unleased space of approximately 233,000 square feet. Unleased space increased 88,000 square feet since June 30, 2011 and is attributed primarily to the early termination of a 48,055 square foot local grocer at Southdale, the closure of the 25,146 square foot Borders Bookstore at Thruway and the lease termination of a 23,710 square foot tenant at Avenel Business Park.

Because of a conservative capital structure, the Company has not been significantly affected by the recent turmoil in the credit markets. First, the ratio of total debt to the estimated fair value of its assets is less than 50%, which allows the Company to obtain additional secured borrowings if necessary. Second, as of September 30, 2011, amortizing fixed-rate mortgage debt with staggered maturities from 2012 to 2027, represented approximately 90% of the Company's notes payable, thus minimizing refinancing risk. Third, the Company's earliest fixed-rate debt maturity is not until October 2012. Of the Company's \$83,146,000 of floating-rate debt at September 30, 2011, \$40,000,000 was repaid in October 2011 when the Company closed on a non-recourse permanent loan of \$43,000,000, secured by Kentlands Square II. The Company has a commitment for another non-recourse permanent loan of \$20,000,000 to be secured by Cranberry Square, the proceeds of which are expected to repay the remaining balance of the secured-bridge loans. The remaining \$23,146,000 of floating-rate debt is comprised of a

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\$15,146,000 loan secured by Northrock shopping center and \$8,000,000 outstanding on the Company's \$150,000,000 unsecured revolving credit facility.

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

### *Real Estate Investments*

Real estate investment properties are stated at historic cost less depreciation. Although the Company intends to own its real estate investment properties over a long term, from time to time it will evaluate its market position, market conditions, and other factors and may elect to sell properties that do not conform to the Company's investment profile. Management believes that these assets have generally appreciated in value since their acquisition or development and, accordingly, the aggregate current value exceeds their aggregate net book value and also exceeds the value of the Company's liabilities as reported in these financial statements. Because these financial statements are prepared in conformity with U.S. GAAP, they do not report the current value of the Company's real estate investment properties.

The Company purchases real estate investment properties from time to time and records assets acquired and liabilities assumed, including land, buildings, and intangibles related to in-place leases and customer relationships based on their fair values. The fair value of buildings is determined as if the buildings were vacant upon acquisition and subsequently leased at market rental rates and considers the present value of all cash flows expected to be generated from the property including an initial lease up period. The Company determines the fair value of above and below market intangibles associated with in-place leases by assessing the net effective rent and remaining term of the in-place lease relative to market terms for similar leases at acquisition.



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taking into consideration the remaining contractual lease period, renewal periods, and the likelihood of the tenant exercising its renewal options. The fair value of a below market lease component is recorded as deferred income and amortized as additional lease revenue over the remaining contractual lease period and any renewal option periods included in the valuation analysis. The fair value of above market lease intangibles is recorded as a deferred asset and is amortized as a reduction of lease revenue over the remaining contractual lease term. The Company determines the fair value of at-market in-place leases considering the cost of acquiring similar leases, the foregone rents associated with the lease-up period and carrying costs associated with the lease-up period. Intangible assets associated with at-market in-place leases are amortized as additional expense over the remaining contractual lease term. To the extent customer relationship intangibles are present in an acquisition, the fair value of the intangibles are amortized over the life of the customer relationship.

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

When incurred, the Company capitalizes the cost of improvements that extend the useful life of property and equipment. All repair and maintenance expenditures are expensed when incurred. Leasehold improvements expenditures are capitalized when certain criteria are met, including when we supervise construction and will own the improvement. Tenant improvements 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.

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### *Deferred Leasing Costs*

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

### *Revenue Recognition*

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

### *Allowance for Doubtful Accounts - Current and Deferred Receivables*

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

### *Legal Contingencies*

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

**Table of Contents**Results of Operations**Quarter ended September 30, 2011 compared to quarter ended September 30, 2010**Revenue

<i>(Dollars in thousands)</i>	Quarter ended September 30,		2011 to 2010 Change	
	2011	2010	\$	%
Base rent	\$ 34,390	\$ 31,243	\$ 3,147	10.1%
Expense recoveries	6,994	6,938	56	0.8%
Percentage rent	209	238	(29)	-12.2%
Other	1,285	1,132	153	13.5%
<b>Total revenue</b>	<b>\$ 42,878</b>	<b>\$ 39,551</b>	<b>\$ 3,327</b>	<b>8.4%</b>

**Note:** *(Dollars in thousands)*

Base rent includes \$700 and \$52 for the quarters ended September 30, 2011 and 2010, respectively, to recognize base rent on a straight-line basis. In addition, base rent includes \$214 and \$251, for the quarters ended September 30, 2011 and 2010, respectively, to recognize income from the amortization of in-place leases acquired in connection with purchased real estate investment properties.

Total revenue increased 8.4% in the quarter ended September 30, 2011 ( 2011 Quarter ) compared to the corresponding prior year's quarter ( 2010 Quarter ). The increased revenue resulted primarily from 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 Acquisition Properties and together with Clarendon Center, the Development and Acquisition Properties, (approximately \$4,606,000) offset in part by decreased revenue from the Mixed-Use Properties fully in operation during both the 2011 and 2010 Quarters (approximately \$957,000), as a result of a decrease in occupancy that occurred in the latter part of 2010 and the first quarter of 2011. A discussion of the components of revenue follows.

*Base rent.* Base rent increased in the 2011 Quarter compared to the 2010 Quarter primarily due to the Development and Acquisition Properties (approximately \$4,205,000) offset in part by lower base rent in three Mixed-Use Properties as a result of a decrease in occupancy that occurred in the latter part of 2010 and the first quarter of 2011 (approximately \$813,000).

*Other revenue.* Other revenue increased in the 2011 Quarter primarily due to the collection of rents previously included as credit loss in prior years and to a lesser extent, increased lease termination fees (\$148,000).

**Table of Contents**Operating Expenses

<i>(Dollars in thousands)</i>	Quarter ended September 30,		2011 to 2010 Change	
	2011	2010	\$	%
Property operating expenses	\$ 5,829	\$ 5,199	\$ 630	12.1%
Provision for credit losses	595	345	250	72.5%
Real estate taxes	4,743	4,367	376	8.6%
Interest expense and amortization of deferred debt costs	11,250	8,781	2,469	28.1%
Depreciation and amortization of leasing costs	8,512	7,031	1,481	21.1%
General and administrative	3,293	3,417	(124)	-3.6%
<b>Total operating expenses</b>	<b>\$ 34,222</b>	<b>\$ 29,140</b>	<b>\$ 5,082</b>	<b>17.4%</b>

Total operating expenses increased 17.4% in the 2011 Quarter compared to the 2010 Quarter due primarily to increased interest, depreciation and property operating expense arising from the operation of the Development and Acquisition Properties.

*Property operating expenses.* Property operating expenses increased in the 2011 Quarter primarily due to the operation of the Development and Acquisition Properties (\$794,000).

*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 increase in the 2011 Quarter reflects the continued stress of a stagnant housing market and slowly recovering jobs market in the local economy. Approximately \$220,000 of the increase was caused by a local grocery store vacancy.

*Real estate taxes.* The increase in real estate taxes in the 2011 Quarter was primarily due to the Development and Acquisition Properties (\$440,000) offset in part by lower taxes at the Company's District of Columbia Mixed-Use Properties (\$142,000).

*Interest expense and amortization of deferred debt.* Interest expense increased in the 2011 Quarter compared to the 2010 Quarter primarily because more than 85% of the Clarendon Center development was in-service during the 2011 Quarter, which caused a which caused a \$2,513,000 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.

*Depreciation and amortization of deferred leasing costs.* The increase in depreciation and amortization of deferred leasing costs resulted primarily from the Development and Acquisition Properties placed in service during the preceding twelve months.

*General and administrative.* General and administrative expense decreased during the 2011 Quarter due to a decrease in professional expenses from the 2010 quarter.

**Table of Contents****Nine months ended September 30, 2011 compared to nine months ended September 30, 2010****Revenue**

<i>(Dollars in thousands)</i>	Nine months ended September 30,		2011 to 2010 Change	
	2011	2010	\$	%
Base rent	\$ 101,280	\$ 94,713	\$ 6,567	6.9%
Expense recoveries	21,211	22,583	(1,372)	-6.1%
Percentage rent	1,037	927	110	11.9%
Other	3,862	5,028	(1,166)	-23.2%
<b>Total revenue</b>	<b>\$ 127,390</b>	<b>\$ 123,251</b>	<b>\$ 4,139</b>	<b>3.4%</b>

**Note:** *(Dollars in thousands)*

Base rent includes \$2,629 and \$71 for the nine months ended September 30, 2011 and 2010, respectively, to recognize base rent on a straight-line basis. In addition, base rent includes \$700 and \$796, for the nine months ended September 30, 2011 and 2010, respectively, to recognize income from the amortization of in-place leases acquired in connection with purchased real estate investment properties.

Total revenue increased 3.4% in the nine months ended September 30, 2011 ( 2011 Period ) compared to the corresponding prior year's nine months ( 2010 Period ). The increased revenue resulted from rental income generated by the Development and Acquisition Properties (approximately \$11,292,000) offset in part by decreased revenue from rental properties fully in operation during both the 2011 and 2010 Periods (approximately \$7,153,000), the majority arising from the Mixed-Use Properties (approximately \$3,656,000) due to a decrease in occupancy that occurred in the latter part of 2010 and the first quarter of 2011, a decrease in other income compared to the 2010 Period, which reported 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 (\$1,939,000), and reduced expense recovery income resulting from substantial snow removal expenses incurred during the 2010 Period. A discussion of the components of revenue follows.

*Base rent.* The increase in base rent for the 2011 Period compared to the 2010 Period resulted primarily from the Development and Acquisition Properties (approximately \$10,116,000) offset in part by the decrease in the same center Mixed-Use Properties (approximately \$2,502,000) and the Shopping Centers (approximately \$1,047,000).

*Expense recoveries.* Expense recoveries decreased in the 2011 Period due primarily to \$1,200,000 recovery in 2010 of snow removal expenses incurred as a result of severe winter weather impacting the Mid-Atlantic states during February 2010 and, to a lesser extent, reduced real estate tax recovery income caused by lower real estate tax expense.

*Other revenue.* Other revenue decreased in the 2011 Period primarily due to the collection during the 2010 Period 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 (\$1,939,000) offset in part by increased residential tenant fees and parking income (combined \$564,000) at Clarendon Center

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during the 2011 Period and to a lesser extent the collection of rents previously included as credit loss in prior years.

**Operating Expenses**

<i>(Dollars in thousands)</i>	Nine months ended September 30,		2011 to 2010 Change	
	2011	2010	\$	%
Property operating expenses	\$ 18,289	\$ 17,706	\$ 583	3.3%
Provision for credit losses	1,628	699	929	132.9%
Real estate taxes	13,881	13,498	383	2.8%
Interest expense and amortization of deferred debt costs	32,714	26,259	6,455	24.6%
Depreciation and amortization of leasing costs	25,308	21,365	3,943	18.5%
General and administrative	10,402	9,955	447	4.5%
<b>Total operating expenses</b>	<b>\$ 102,222</b>	<b>\$ 89,482</b>	<b>\$ 12,740</b>	<b>14.2%</b>

Total operating expenses increased 14.2% in the 2011 Period compared to the 2010 Period due primarily to increased interest and depreciation expense arising from the operation of the Development and Acquisition Properties.

*Property operating expenses.* Property operating expenses increased in the 2011 Period primarily due to operating expenses arising from the operation of the Development and Acquisition Properties (\$2,350,000) offset in part by a \$2,142,000 decrease in snow removal expense and modest increases in non-snow removal same property operating expenses.

*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 increase in the 2011 Period reflects the continued stress of a stagnant housing market and slowly recovering jobs market in the local economy. 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.

*Interest expense and amortization of deferred debt.* Interest expense increased in the 2011 Period compared to the 2010 Period primarily due to Clarendon Center, because more than 85% of the project was placed in-service during the 2011 Period, which caused a \$5,970,000 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 and debt incurred to finance the Acquisition Properties.

*Depreciation and amortization of deferred leasing costs.* The increase in depreciation and amortization of deferred leasing costs resulted primarily from the Development and Acquisition Properties placed in service during the preceding twelve months.

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*General and administrative.* General and administrative expense increased during the 2011 Period due to payroll and related benefits of construction and development personnel no longer capitalized to ongoing development projects and, to a lesser extent, increased personal property taxes.

*Acquisition Related Costs.* Acquisition related costs of approximately \$2,512,000 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.

**Liquidity and Capital Resources**

Cash and cash equivalents were \$11,447,000 and \$12,735,000 at September 30, 2011 and 2010, respectively. The Company's cash flow is affected by its operating, investing and financing activities, as described below.

<i>(Dollars in thousands)</i>	Nine Months Ended September 30,	
	2011	2010
Net cash provided by operating activities	\$ 40,138	\$ 43,328
Net cash used in investing activities	(196,863)	(57,905)
Net cash provided by financing activities	155,204	6,705
Decrease in cash and cash equivalents	\$ (1,521)	\$ (7,872)

*Operating Activities*

Net cash provided by operating activities represents cash received primarily from rental income, plus other income, less property operating expenses, leasing costs, normal recurring general and administrative expenses and interest payments on debt outstanding.

*Investing Activities*

Net cash used in investing activities includes property acquisitions, developments, redevelopments, tenant improvements and other property capital expenditures. Investing activities for the 2011 and 2010 Periods primarily reflect the development and construction costs of Clarendon Center and the 2011 acquisition of three retail properties (Kentlands Square II, Severna Park MarketPlace and Cranberry Square). Tenant improvement and property capital expenditures totaled \$8,127,000 and \$4,425,000, for the 2011 and 2010 Periods, respectively.

*Financing Activities*

Net cash provided by financing activities for the nine months ended September 30, 2011 primarily reflects:

proceeds of \$163,000,000 received from mortgage notes payable;

proceeds of \$60,000,000 received from secured bridge financing loans;

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proceeds of \$13,410,000 received from construction loan draws;

proceeds of \$16,000,000 received from revolving credit facility draws;

proceeds of \$55,780,000 from an equity offering of common stock and limited partnership units in the Operating Partnership; and

proceeds of \$15,118,000 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 construction loans payable totaling \$108,465,000;

the repayment of mortgage notes payable totaling \$13,316,000;

the repayment of amounts borrowed under the revolving credit facility of \$8,000,000;

distributions to common stockholders totaling \$20,195,000;

distributions to holders of convertible limited partnership units in the Operating Partnership totaling \$5,850,000;

distributions made to preferred stockholders totaling \$11,355,000; and

payments of \$923,000 for financing costs of mortgage notes payable.

Net cash provided by financing activities for the nine months ended September 30, 2010 primarily reflects:

Proceeds of \$45,600,000 received from mortgage notes payable;

Proceeds of \$27,544,000 received from construction loan draws; and

proceeds of \$12,584,000 received 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 \$41,912,000;



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distributions to common stockholders totaling \$19,578,000;

distributions to holders of convertible limited partnership units in the Operating Partnership totaling \$5,849,000;

distributions made to preferred stockholders totaling \$11,355,000; and

payments of \$329,000 for financing costs of mortgage notes payable.

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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 the Company's long-term debt and dividends paid to the Company's preferred shareholders. The Company anticipates that long-term liquidity requirements will also include amounts required for property acquisitions and developments. During the remainder of the year, the Company will continue to develop its construction in progress properties and may develop certain freestanding outparcels within certain of the Shopping Centers. Although not currently planned, it is possible that the Company may redevelop certain of the Current Portfolio Properties and may develop expansions within certain of the Shopping Centers.

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 (if any) 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. 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.

As of September 30, 2011, the scheduled maturities, including scheduled principal amortization, of all debt for years ended December 31, are as follows:

**Table of Contents****Debt Maturity Schedule**

<i>(Dollars in thousands)</i>	Balloon Payments	Scheduled Principal Amortization	Total
October 1 through December 31, 2011	\$	\$ 5,070	\$ 5,070
2012	129,960 <sup>(a)</sup>	20,374	150,334
2013	70,131	16,334	86,465
2014	13,218	16,473	29,691
2015	15,077	16,834	31,911
2016		17,506	17,506
Thereafter	389,361	123,680	513,041
	\$ 617,747	\$ 216,271	\$ 834,018

(a) Includes \$60,000 and \$8,000, outstanding on the bridge loans and line of credit, respectively.

Management believes that the Company's capital resources, which at September 30, 2011 included cash balances of approximately \$11,447,000 and borrowing availability of approximately \$122,000,000 under its unsecured revolving credit facility, will be sufficient to meet its liquidity needs for the foreseeable future.

**Dividend Reinvestments**

In December 1995, the Company established a Dividend Reinvestment and Stock Purchase Plan (the "DRIP") 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 DRIP 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 DRIP are paid by the Company. The Company issued 331,677 and 305,660 shares under the DRIP at a weighted average discounted price of \$41.95 and \$38.39 per share, during the nine month periods ended September 30, 2011 and 2010, respectively. The Company also credited 5,982 and 6,333 shares to directors pursuant to the reinvestment of dividends specified by the Directors' Deferred Compensation Plan at a weighted average discounted price of \$41.97 and \$38.12 per share, during the nine month periods ended September 30, 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 the estimated fair value of its assets 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

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belief that the ratio of the Company's debt to asset value was below 50% as of September 30, 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 strategy in light of current economic conditions, relative costs of capital, market values of the Company's 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 strategy 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 strategy 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, consistent with its long-term plans.

The Company maintains an unsecured revolving credit facility. The facility provides working capital and funds for acquisitions, certain developments, redevelopments and letters of credit, expires on June 30, 2012, and provides for an additional one-year extension at the Company's option, subject to the Company's satisfaction of certain conditions. 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 September 30, 2011, operating income from the unencumbered properties determined the interest rate for up to \$104,000,000 of the line's available borrowings, with interest expense to be calculated based upon the 1, 2, 3 or 6 month LIBOR plus a spread of 3.65% to 3.90%, determined by certain leverage tests. The interest rate on the remaining 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%. As of September 30, 2011, \$130,000,000 was available for borrowing under the credit facility, \$8,000,000 was outstanding, with interest accruing at 5.275%, and \$122,000,000 was available for additional borrowing.

The facility requires the Company and its subsidiaries to maintain certain financial covenants. As of September 30, 2011, the material covenants required the Company, on a consolidated basis, to:

limit the amount of debt so as to maintain a gross asset value, as defined in the loan agreement, in excess of liabilities of at least \$755 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);

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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.

As of September 30, 2011, the Company was in compliance with all such covenants.

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 loan (approximately \$7,573,000 of the \$15,146,000 outstanding at September 30, 2011). The fixed-rate notes payable are all non-recourse debt except for \$3,882,000 of the Great Falls Center and \$27,600,000 of the Clarendon Center mortgages, which are guaranteed by Saul Centers. The Clarendon Center guarantee will be eliminated upon the achievement of certain leasing and debt service coverage benchmarks. Saul Centers also has guaranteed the two six-month bridge loans described below.

On October 31, 2011, the Company received a commitment for a 15-year non-recourse mortgage loan in the amount of \$20,000,000, to be secured by Cranberry Square. The loan will mature December 1, 2026, bear interest at a fixed rate of 4.70%, require equal monthly principal and interest payments of \$113,449, based upon a 25-year principal amortization, and require a final principal payment of approximately \$10,916,000 at maturity. The loan is expected to close during the fourth quarter of 2011 and proceeds from the loan will be used to repay the \$20,000,000 bridge financing used to acquire Cranberry Square.

On October 5, 2011, the Company closed on a new 15-year non-recourse mortgage loan in the amount of \$43,000,000, 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 \$23,100,000 at maturity. Proceeds from the loan were used to repay the \$40,000,000 bridge financing used to acquire Kentlands Square II.

On September 23, 2011, the Company closed on a new 15-year non-recourse mortgage loan in the amount of \$38,000,000, 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 \$20,287,000 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 \$60,000,000, secured by Kentlands Square II and Cranberry Square. The loans had a maturity date of March 23, 2012 and required month interest-only payments based upon the one-month LIBOR plus 1.75%. Proceeds from the loans were used to purchase Kentlands Square II and Cranberry Square. The \$40,000,000 loan was repaid on October 5,

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2011 with proceeds from the Kentlands Square II permanent financing and the remaining \$20,000,000 loan is expected to be repaid during the 2011 fourth quarter using proceeds from the Cranberry Square permanent mortgage financing.

On March 23, 2011, the Company closed on a \$125 million, 15-year non-recourse mortgage loan, 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 \$70,477,000 at maturity. Proceeds from the loan were used to repay \$104,243,000 outstanding on the Clarendon Center construction loan.

On July 15, 2011, the Company obtained a commitment to borrow \$73,000,000 under a non-recourse mortgage loan secured by Seven Corners. Proceeds from this loan will be used to pay off the remaining balance of existing debt currently secured by Seven Corners and six other shopping center properties which is due to mature October 2012, and provide cash of approximately \$10 million. Subject to standard closing requirements, the new 15-year mortgage loan is expected to close in April 2012 and will require monthly principal and interest payments based upon a fixed 5.84% interest rate and 25-year principal amortization. In April 2011, the company paid a \$2.8 million refundable good faith deposit.

**Common Equity**

On September 23, 2011, pursuant to a Stock Purchase Agreement with the B. F. Saul Real Estate Investment Trust dated August 9, 2011, the Company issued 186,968 restricted shares of common stock and 1,497,814 operating partnership units of Saul Centers, at a price of \$33.12 per share, determined using the average closing price of the common stock on the New York Stock Exchange for the five days immediately prior to the closing of the transaction and received net proceeds of \$55.8 million. The Stock Purchase Agreement was executed during the acquisition auction for Kentlands Square II, Severna Park MarketPlace and Cranberry Square, which allowed the Company to bid for the properties by providing the certainty for the required equity in the event the acquisition was successful.

**Preferred Stock**

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, 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 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

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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.

**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.

**Table of Contents****Funds From Operations**

For the quarter ended September 30, 2011, the Company reported Funds From Operations (FFO)<sup>(1)</sup> available to common shareholders of \$10,727,000, representing a 20.4% decrease compared to the 2010 quarter's FFO available to common shareholders. The decrease in FFO during the quarter ended September 30, 2011 is primarily due to \$2,439,000 of acquisition related costs. For the nine month period ended September 30, 2011, the Company reported FFO available to common shareholders of \$35,234,000, representing a 9.9% decrease from the comparative 2010 Period's FFO available to common shareholders. The decrease in FFO during the nine months ended September 30, 2011 is primarily due to \$2,513,000 of acquisition related costs and \$1,374,000 non-cash decrease in the fair value of derivative instruments. The following table presents a reconciliation from net income to FFO available to common stockholders for the periods indicated:

**Funds From Operations Reconciliation**

<i>(Amounts in thousands)</i>	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net income	\$ 6,000	\$ 15,503	\$ 21,479	\$ 34,315
Subtract:				
Gain on casualty settlement		(1,700)	(198)	(1,700)
Gain on property sale		(3,591)		(3,591)
Add:				
Real property depreciation & amortization	8,512	7,031	25,308	21,365
Real property depreciation-discontinued operations		30		86
FFO	14,512	17,273	46,589	50,475
Subtract:				
Preferred stock dividends	(3,785)	(3,785)	(11,355)	(11,355)
FFO available to common shareholders	\$ 10,727	\$ 13,488	\$ 35,234	\$ 39,120
Average shares & units used to compute FFO per share	24,353	23,857	24,259	23,722

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



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**Acquisitions, Redevelopments and Renovations**

During the remainder of the year the Company will continue to develop its construction in progress properties and may develop certain freestanding outparcels within certain of the Shopping Centers. Although not currently planned, it is possible that the Company may redevelop certain of the Current Portfolio Properties and may develop expansions within certain of the Shopping Centers. 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 balance of the year, any developments, expansions or acquisitions are expected to be funded with bank borrowings from the Company's credit line, construction financing, proceeds from the operation of the Company's dividend reinvestment plan or other external capital resources available to the Company.

The Company has been selectively involved in acquisition, 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 analyze redevelopment, renovation and expansion opportunities within the portfolio. The following describes the acquisition, development, redevelopment and renovation activities of the Company in 2010 and the nine months ended September 30, 2011.

*Ashland Square Phase I*

On December 15, 2004, the Company purchased for \$6.3 million, a 19.3 acre parcel of land in Manassas, Prince William County, Virginia. The Company received site plan approval during the third quarter of 2006 to develop a grocery-anchored neighborhood shopping center totaling approximately 125,000 square feet of retail space. A site plan for an additional 35,000 square feet of retail and office space was approved during the fourth quarter of 2007. The Company has completed preliminary site work consisting of clearing, grading and site utility construction. Capital One Bank operates a branch on the site and during 2009, the Company executed a lease with CVS, which is subject to the tenant obtaining site plan and special use permits from Prince William County. It is uncertain whether these lease contingencies will be fulfilled as permit submissions are in progress. If successful, CVS is expected to commence operations in late 2012. The balance of the center is being marketed to grocers and other retail businesses, with a development timetable yet to be finalized.

*Clarendon Center*

At yearend 2010, the Company had substantially completed construction of a mixed-use project which includes approximately 42,000 square feet of retail space, 171,000 square feet of office space, 244 apartments and 600 underground parking spaces, on two city blocks, adjacent to the Clarendon Metro Station in Arlington County, Virginia. Development costs are expected to total approximately \$195.0 million, of which approximately \$185.2 million has been incurred as of September 30, 2011.

The south block consists of 11 floors of residential area (244 units) alongside 8 floors of office space (76,000 square feet), both atop ground floor retail space (29,000 square feet) leased to Trader Joe's, Circa Café and Burke & Herbert Bank. Space was turned over to the first office tenant whose occupancy began in mid-December, 2010. The first retail occupancy occurred in January 2011, when Circa Cafe opened. Currently all of the retail tenants are operating, with the exception of Trader Joe's, which is scheduled to open in the fourth quarter of 2011. The north

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block consists of 5 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 and Airline Reporting Corporation (68,000 square feet) took occupancy in late March 2011. As of September 30, 2011, the combined project retail and office space leased was 189,000 square feet, or 88.8%.

On December 26, 2010, tenants began occupancy of the apartments. By April 28, 2011 the apartments were 98.8% leased and as of November 3, 2011, all 244 were fully 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 the second quarter of 2009 on a development that totals approximately 101,000 square feet of commercial space, including 60,000 square feet of retail shop space, 11,000 square feet of retail pads and 30,000 square feet of professional office space. Total construction and development costs, including land, lease-up and tenant improvement costs, are projected to be approximately \$26.5 million. As of September 30, 2011, 45,000 square feet of retail space and 11,000 square feet of office space, or approximately 55.3% 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 77.7% of the project was leased at September 30, 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 20,000 square feet of retail space located on the east side of Rockville Pike (Route 355), near the White Flint Metro Station in Montgomery County, Maryland. The property, which was fully leased to two tenants at September 30, 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

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(Route 355) near the White Flint Metro Station in Montgomery County, Maryland. The property was acquired subject to the assumption of a \$16.2 million mortgage loan and a corresponding interest rate swap with a fair value of \$0.5 million. The property, which was 87.0% leased at acquisition and was 78.6% leased at September 30, 2011 (following the departure of an 8,173 square foot tenant at lease expiration), 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 September 30, 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.

*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.

**Table of Contents****Portfolio Leasing Status**

The following chart sets forth certain information regarding commercial leases at our properties.

As of	Total Properties		Total Square Footage		Percent Leased	
	Shopping Centers	Mixed-Use	Shopping Centers	Mixed-Use	Shopping Centers	Mixed-Use
September 30, 2011	51	7	7,930,000	1,422,000	90.7%	84.3%
2010	46	5	7,204,000	1,206,000	92.4%	89.9%

As of September 30, 2011, 89.7% of the commercial portfolio (all properties except Clarendon Center's apartments) was leased compared to 92.0% at September 30, 2010. On a same property basis, 89.2% of the commercial portfolio was leased, compared to the prior year level of 92.0%. The Clarendon Center apartments were 100.0% leased at September 30, 2011. The 2011 commercial leasing percentages were impacted by a net decrease of approximately 233,000 square feet of leased space, of which approximately 70,000 square feet was caused by the SuperFresh and Borders Books bankruptcies, 48,000 square feet resulted from the early lease termination of a local grocer and 75,000 square feet was an increase in office vacancies in the mixed-use properties.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

The Company may, where appropriate, employ derivative instruments, such as interest rate swaps, to mitigate the risk of interest rate fluctuations. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes. On June 29, 2010, the Company entered into an interest rate swap agreement with a \$45,600,000 notional amount to manage the interest rate risk associated with \$45,600,000 of variable-rate mortgage debt. The swap agreement was effective July 1, 2010, terminates on July 1, 2020 and effectively fixes the interest rate on the mortgage debt at 5.83%. In conjunction with the purchase of Metro Pike Center, and the assumption of the related variable-rate mortgage loan, the Company assumed an interest-rate swap agreement with a \$16,169,000 notional amount to manage the interest rate risk associated with the loan. The swap agreement was effective as of the closing date, terminates on June 30, 2013 and effectively fixes the interest rate on the mortgage debt at 4.67%. The aggregate fair value of these swaps at September 30, 2011 was approximately \$5,124,000 and is reflected in accounts payable, accrued expenses and other liabilities in the consolidated balance sheet.

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The Company is exposed to interest rate fluctuations which will affect the amount of interest expense of its variable-rate debt and the fair value of its fixed-rate debt. As of September 30, 2011, the Company had variable rate indebtedness totaling \$83,146,000. If the interest rates on the Company's variable-rate debt instruments outstanding at September 30, 2011 had been one percent higher, our annual interest expense would have increased by \$831,000, based on those balances. As of September 30, 2011, the Company had fixed-rate indebtedness totaling \$750,872,000 with a weighted average interest rate of 6.16%. If interest rates on the Company's fixed-rate debt instruments at September 30, 2011 had been one percent higher, the fair value of those debt instruments on that date would have decreased by approximately \$41,379,000.

**Item 4. Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chairman and Chief Executive Officer, its Senior Vice President-Chief Financial Officer, Secretary and Treasurer, and its Senior Vice President-Chief Accounting Officer as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e) promulgated under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including its Chairman and Chief Executive Officer, its Senior Vice President-Chief Financial Officer, Secretary and Treasurer, and its Senior Vice President-Chief Accounting Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2011. Based on the foregoing, the Company's Chairman and Chief Executive Officer, its Senior Vice President-Chief Financial Officer, Secretary and Treasurer and its Senior Vice President-Chief Accounting Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2011.

During the quarter ended September 30, 2011, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

None

**Item 1A. Risk Factors**

The Company has no material updates to the risk factors presented in Item 1A. Risk Factors in the 2010 Annual Report of the Company on Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

B. Francis Saul II, the Company's Chairman of the Board and Chief Executive Officer, his spouse and entities affiliated with Mr. Saul II, through participation in the Company's Dividend Reinvestment and Stock Purchase Plan, effective with the July 29, 2011 dividend distribution, acquired 104,000 shares of common stock at a price of \$38.30 per share.

On September 23, 2011, pursuant to a Stock Purchase Agreement with the Company dated August 9, 2011, the B. F. Saul Real Estate Investment Trust, an entity affiliated with Mr. Saul II, acquired 186,968 shares of Saul Centers common stock and 1,497,814 operating partnership units of Saul Holdings L.P., in a private placement under section 4(2) of the Securities Act of 1933, as amended, at a price of \$33.12 per share, determined using the average closing price of the common stock on the New York Stock Exchange for the five days immediately prior to the closing of the acquisition.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Reserved**

**Item 5. Other Information**

None

**Item 6. Exhibits**

2. (a) Agreement of Purchase and Sale, dated as of August 9, 2011, between Cranberry Retail, Inc. and Saul Holdings Limited Partnership, as amended (filed herewith).\*
- (b) Agreement of Purchase and Sale, dated as of August 9, 2011, between Kentlands Retail, Inc. and Saul Holdings Limited Partnership, as amended (filed herewith).\*
- (c) Agreement of Purchase and Sale, dated as of August 9, 2011, between Severna Retail, Inc. and Saul Holdings Limited Partnership, as amended (filed herewith).\*
3. (a) First Amended and Restated Articles of Incorporation of Saul Centers, Inc. filed with the Maryland Department of Assessments and Taxation on August 23, 1994 and filed as Exhibit 3.(a) of the 1993 Annual Report of the Company on

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Form 10-K are hereby incorporated by reference. Articles of Amendment to the First Amended and Restated Articles of

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Incorporation of Saul Centers, Inc., filed with the Maryland Department of Assessments and Taxation on May 28, 2004 and filed as Exhibit 3.(a) of the June 30, 2004 Quarterly Report of the Company is hereby incorporated by reference. Articles of Amendment to the First Amended and Restated Articles of Incorporation of Saul Centers, Inc., filed with the Maryland Department of Assessments and Taxation on May 26, 2006 and filed as Exhibit 3.(a) of the Company's Current Report on Form 8-K filed May 30, 2006 is hereby incorporated by reference.

- (b) Amended and Restated Bylaws of Saul Centers, Inc. as in effect at and after August 24, 1993 and as of August 26, 1993 and filed as Exhibit 3.(b) of the 1993 Annual Report of the Company on Form 10-K are hereby incorporated by reference. Amendment No. 1 to Amended and Restate Bylaws of Saul Centers, Inc. adopted November 29, 2007 and filed as Exhibit 3(b) of the Company's Current Report on Form 8-K filed December 3, 2007 is hereby incorporated by reference.
  - (c) Articles Supplementary to First Amended and Restated Articles of Incorporation of the Company, dated October 30, 2003, filed as Exhibit 2 to the Company's Current Report on Form 8-A dated October 31, 2003, is hereby incorporated by reference.
  - (d) Articles Supplementary to First Amended and Restated Articles of Incorporation of the Company, as amended, dated March 26, 2008, filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed March 27, 2008, is hereby incorporated by reference.
- 4.
- (a) Deposit Agreement, dated November 5, 2003, among the Company, Continental Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock of Saul Centers, Inc. and filed as Exhibit 4 to the Registration Statement on Form 8-A on October 31, 2003 is hereby incorporated by reference.
  - (b) Deposit Agreement, dated March 27, 2008, among the Company, Continental Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts, each representing 1/100th of a share of 9% Series B Cumulative Redeemable Preferred Stock of Saul Centers, Inc. and filed as Exhibit 4.1 to the Registration Statement on Form 8-A on March 27, 2008 is hereby incorporated by reference.
  - (c) Form specimen of receipt representing the depositary shares, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock of Saul Centers, Inc. and included as part of Exhibit 4 to the Registration Statement on Form 8-A on October 31, 2003 is hereby incorporated by reference.
  - (d) Form specimen of receipt representing the depositary shares, each representing 1/100th of a share of 9% Series B Cumulative Redeemable



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Preferred Stock of Saul Centers, Inc. and included as part of Exhibit 4.2 to the Registration Statement on Form 8-A on March 27, 2008 is hereby incorporated by reference.

10. (a) First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit No. 10.1 to Registration Statement No. 33-64562 is hereby incorporated by reference. The First Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership, the Second Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership, and the Third Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the 1995 Annual Report of the Company on Form 10-K is hereby incorporated by reference. The Fourth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the March 31, 1997 Quarterly Report of the Company is hereby incorporated by reference. The Fifth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 4.(c) to Registration Statement No. 333-41436, is hereby incorporated by reference. The Sixth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the September 30, 2003 Quarterly Report of the Company on Form 10-Q is hereby incorporated by reference. The Seventh Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the December 31, 2003 Annual Report of the Company on Form 10-K is hereby incorporated by reference. The Eighth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the December 31, 2007 Annual Report of the Company on Form 10-K is hereby incorporated by reference. The Ninth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the March 31, 2008 Quarterly Report of the Company on Form 10-Q is hereby incorporated by reference. The Tenth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the March 31, 2008 Quarterly Report of the Company on Form 10-Q is hereby incorporated by reference. The Eleventh Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership is filed herewith.
- (b) First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership and Amendment No. 1 thereto filed as Exhibit 10.2 to Registration Statement No. 33-64562 are hereby incorporated by reference. The Second Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership, the Third Amendment to the First Amended and

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- Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership and the Fourth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership as filed as Exhibit 10.(b) of the 1997 Annual Report of the Company on Form 10-K are hereby incorporated by reference.
- (c) First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary II Limited Partnership and Amendment No. 1 thereto filed as Exhibit 10.3 to Registration Statement No. 33-64562 are hereby incorporated by reference. The Second Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary II Limited Partnership filed as Exhibit 10.(c) of the June 30, 2001 Quarterly Report of the Company is hereby incorporated by reference. The Third Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary II Limited Partnership as filed as exhibit 10.(c) of the 2006 Annual Report of the Company on Form 10-K are hereby incorporated by reference. The Fourth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary II Limited Partnership as filed as Exhibit 10.(c) of the 2009 Annual Report of the Company on Form 10-K are hereby incorporated by reference.
  - (d) Property Conveyance Agreement filed as Exhibit 10.4 to Registration Statement No. 33-64562 is hereby incorporated by reference.
  - (e) Management Functions Conveyance Agreement filed as Exhibit 10.5 to Registration Statement No. 33-64562 is hereby incorporated by reference.
  - (f) Registration Rights and Lock-Up Agreement filed as Exhibit 10.6 to Registration Statement No. 33-64562 is hereby incorporated by reference.
  - (g) Exclusivity and Right of First Refusal Agreement filed as Exhibit 10.7 to Registration Statement No. 33-64562 is hereby incorporated by reference.
  - (h) Agreement of Assumption dated as of August 26, 1993 executed by Saul Holdings Limited Partnership and filed as Exhibit 10.(i) of the 1993 Annual Report of the Company on Form 10-K is hereby incorporated by reference.
  - (i) Deferred Compensation Plan for Directors, dated as of April 23, 2004 and filed as Exhibit 10.(k) of the June 30, 2004 Quarterly Report of the Company is hereby incorporated by reference.
  - (j) Revolving Credit Agreement, dated as of December 19, 2007, by and among Saul Holdings Limited Partnership as Borrower; U.S. Bank National Association, as Administrative Agent and Sole Lead Arranger; Wells Fargo Bank National Association, as Syndication Agent; and U.S. Bank National Association, Wells Fargo Bank National Association, Compass Bank, and Sovereign Bank, as Lenders, as filed as Exhibit 10.(b)

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of the Company's Current Report on Form 8-K, dated August 11, 2010, is hereby incorporated by reference. Modification to Revolving Credit Agreement, dated April 30, 2009, as filed as Exhibit 10.(l) of the June 30, 2009 Quarterly Report of the Company, is hereby incorporated by reference. Second Modification to Revolving Credit Agreement, dated July 9, 2009, as filed as Exhibit 10.(l) of the June 30, 2009 Quarterly Report of the Company, is hereby incorporated by reference. Third Modification to Revolving Credit Agreement, dated July 28, 2009, as filed as Exhibit 10.(l) of the June 30, 2009 Quarterly Report of the Company, is hereby incorporated by reference. Fourth Modification to Revolving Credit Agreement dated August 30, 2010, as filed as Exhibit 10.(j) of the September 30, 2010 Quarterly Report of the Company, is hereby incorporated by reference.

- (k) Guaranty, dated as of December 19, 2007, by and between Saul Centers, Inc., as Guarantor, and U.S. Bank National Association, as Administrative Agent and Sole Lead Arranger for itself and other financial institutions as Lenders, as filed as Exhibit 10.(o) of the December 31, 2007 Annual Report of the Company on Form 10-K, is hereby incorporated by reference.
- (l) The Saul Centers, Inc. 2004 Stock Plan, as filed as Annex A to the Proxy Statement of the Company for its 2004 Annual Meeting of Stockholders, is hereby incorporated by reference. The Amendment to Saul Centers, Inc. 2004 Stock Plan, as filed as Annex A to the Proxy Statement of the Company for its 2008 Annual Meeting of Stockholders, is hereby incorporated by reference.
- (m) Form of Director Stock Option Agreements, as filed as Exhibit 10.(j) of the September 30, 2004 Quarterly Report of the Company, is hereby incorporated by reference.
- (n) Form of Officer Stock Option Grant Agreements, as filed as Exhibit 10.(k) of the September 30, 2004 Quarterly Report of the Company, is hereby incorporated by reference.
- (o) Promissory Note, dated as of March 23, 2011, by Clarendon Center LLC to The Prudential Life Insurance Company of America as filed as Exhibit 10.(a) of the Company's Current Report on Form 8-K dated April 28, 2011, is hereby incorporated by reference.
- (p) Deed of Trust, Security Agreement and Fixture Filing, dated as of March 23, 2011, by Clarendon Center LLC to Lawyers Title Realty Services, Inc. as trustee for the benefit of The Prudential Insurance Company of America, as beneficiary, as filed as Exhibit 10.(b) of the Company's Current Report on Form 8-K dated April 28, 2011, is hereby incorporated by reference.

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- (q) Shared Services Agreement, dated as of July 1, 2004, between B. F. Saul Company and Saul Centers, Inc., as filed as Exhibit 10. (c) of the Company's Current Report on Form 8-K dated August 11, 2010, is hereby incorporated by reference.
- (r) Purchase Agreement, dated as of August 9, 2011, by and among the Company, Saul Holdings Limited Partnership and B. F. Saul Real Estate Investment Trust (filed herewith).
- 31. Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer and Chief Financial Officer (filed herewith).
- 32. Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer (filed herewith).
- 99. Schedule of Portfolio Properties (filed herewith).

\* Certain of the appendices and exhibits to these agreements have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Saul Centers, Inc. hereby undertakes to furnish supplementally to the Securities and Exchange Commission copies of any omitted appendices and exhibits upon request.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SAUL CENTERS, INC.  
(Registrant)

Date: November 8, 2011

/s/ B. Francis Saul III  
B. Francis Saul III, President

Date: November 8, 2011

/s/ Scott V. Schneider  
Scott V. Schneider  
Senior Vice President, Chief Financial Officer  
(principal financial officer)

Date: November 8, 2011

/s/ Joel A. Friedman  
Joel A. Friedman  
Senior Vice President, Chief Accounting Officer  
(principal accounting officer)