

# Saul Centers



Report to  
Shareholders



Second Quarter  
**2010**

## Message to our Shareholders

**Total** revenue for the three months ended June 30, 2010 ("2010 Quarter") increased 1.8% to \$40,121,000 compared to \$39,416,000 for the three months ended June 30, 2009 ("2009 Quarter"). Operating income, which is net income available to common stockholders before loss on early extinguishment of debt, income attributable to the noncontrolling interest and preferred stock dividends, increased 1.4% to \$10,717,000 for the 2010 Quarter compared to \$10,574,000 for the 2009 Quarter. Net income available to common stockholders was \$1,888,000, or \$0.10 per diluted share, for the 2010 Quarter compared to net income available to common stockholders of \$3,934,000, or \$0.22 per diluted share, for the 2009 Quarter. In light of the current favorable interest rate environment and the potential for continued volatility in the credit markets, in June 2010, the Company refinanced its Thruway shopping center, located in Winston-Salem, North Carolina. The new \$45.6 million loan requires principal and interest payments calculated using a 5.83% interest rate and a 25-year amortization schedule, and matures in ten years. This loan refinanced a portion of a 7.67%, multi-property loan scheduled to mature in October 2012. In conjunction with the refinancing, the Company incurred \$4,479,000 of expense related to the early extinguishment of debt. The transaction substantially reduced the Company's refinancing risk by decreasing the amount of debt maturing in 2012 from \$98,300,000 to \$69,000,000, and provided net cash proceeds of approximately \$10,500,000.

Same property revenue for the total portfolio increased 0.8% for the 2010 Quarter compared to the 2009 Quarter and same property operating income increased 2.2%. The same property comparisons exclude the results of operations of properties not fully in operation for each of the comparable reporting quarters. Same property operating income in the shopping center portfolio increased 2.6% for the 2010 Quarter compared to the 2009 Quarter, due primarily to the commencement of rent in the third quarter of 2009 under an anchor tenant lease at each of Seven Corners in Falls Church, Virginia and White Oak in Silver Spring, Maryland. Same property operating income in the office portfolio increased 0.7% for the 2010 Quarter compared to the 2009 Quarter.

For the six months ended June 30, 2010 ("2010 Period"), total revenue increased 5.9% to \$83,769,000 compared to \$79,105,000 for the six months ended June 30, 2009 ("2009 Period") and operating income increased 5.3% to \$23,291,000 compared to \$22,124,000 for the 2009 Period. Net income available to common stockholders was \$8,656,000 or \$0.47 per diluted share for the 2010 Period, compared to \$9,890,000 or \$0.55 per diluted share for the 2009 Period. Overall same property revenue for the total portfolio increased 4.7% for the 2010 Period compared to the 2009 Period and same property operating income increased 3.2%. For the 2010 Period, shopping center same property operating income increased 5.0%, the primary cause of which was the collection of rents and other past due charges from a former anchor tenant. Excluding this one-time revenue, same property shopping center operating income increased 0.7% compared to the prior year. Same

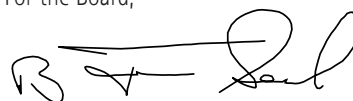
property operating income in the office portfolio decreased 2.5% for the 2010 Period, due primarily to lease termination fees received in 2009 from a tenant that vacated Avenel Business Park prior to its lease expiration.

As of June 30, 2010, 91.9% of the operating portfolio was leased compared to 91.8% at June 30, 2009. On a same property basis, 92.9% of the portfolio was leased, compared to the prior year level of 93.1%.

Funds from operations (FFO) available to common shareholders (after deducting preferred stock dividends) decreased 20.0% to \$9,770,000 in the 2010 Quarter compared to \$12,212,000 for the 2009 Quarter. On a diluted per share basis, FFO available to common shareholders decreased 21.2% to \$0.41 per share for the 2010 Quarter compared to \$0.52 per share for the 2009 Quarter. FFO decreased in the 2010 Quarter primarily due to \$4,479,000 (\$0.19 per diluted share) of expense associated with the Thruway refinancing compared to \$1,940,000 (\$0.08 per diluted share) of financing costs in the 2009 Quarter. FFO, a widely accepted non-GAAP financial measure of operating performance for REITs, is defined as net income plus real estate depreciation and amortization, and excluding gains from property dispositions and extraordinary items. FFO available to common shareholders for the 2010 Period decreased 5.1% to \$25,632,000 from \$27,018,000 during the 2009 Period. Per share FFO available to common shareholders for the 2010 Period decreased 6.9% to \$1.08 per diluted share compared to \$1.16 per diluted share for the 2009 Period. FFO decreased in the 2010 Period primarily due to the 2nd quarter financing activities described above and by a decline in property operating income during the 1st quarter 2010, due to increased snow removal expense, net of tenant recoveries, from severe winter storms impacting the Mid-Atlantic region (approximately \$1,200,000 or \$0.05 per diluted share), offset in part by the one-time collection of rents and other past due charges from a former anchor tenant (\$1,939,000 or \$0.08 per diluted share) during the 1st quarter 2010.

The Company maintains a conservative capital structure, consisting primarily of amortizing fixed-rate mortgage debt, thus minimizing refinancing risk. We believe that our concentration of operating properties in the Washington, DC metropolitan area and our solid balance sheet provide a strong foundation to successfully perform in this challenging economy.

For the Board,



B. Francis Saul II  
Chairman of the Board  
August 11, 2010

## Consolidated Statements of Operations

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
<i>(Dollars in thousands, except per share amounts)</i>				
<b>Revenue</b>				
Base rent	\$ 31,834	\$ 31,131	\$ 63,529	\$ 61,796
Expense recoveries	6,928	7,048	15,655	14,628
Percentage rent	331	328	689	561
Other	1,028	909	3,896	2,120
Total revenue	40,121	39,416	83,769	79,105
<b>Operating expenses</b>				
Property operating expenses	4,902	4,845	12,581	10,215
Provision for credit losses	157	232	354	559
Real estate taxes	4,452	4,620	9,137	9,036
Interest expense and amortization of deferred debt costs	8,887	8,782	17,478	16,978
Depreciation and amortization of deferred leasing costs	7,317	7,083	14,390	14,124
General and administrative	3,689	3,280	6,538	6,069
Total operating expenses	29,404	28,842	60,478	56,981
<b>Operating income</b>	10,717	10,574	23,291	22,124
Loss on early extinguishment of debt	(4,479)	(1,660)	(4,479)	(1,660)
<b>Net income</b>	6,238	8,914	18,812	20,464
Net income attributable to the noncontrolling interest	(565)	(1,195)	(2,586)	(3,004)
<b>Net income attributable to Saul Centers, Inc.</b>	5,673	7,719	16,226	17,460
Preferred dividends	(3,785)	(3,785)	(7,570)	(7,570)
<b>Net income available to common stockholders</b>	\$ 1,888	\$ 3,934	\$ 8,656	\$ 9,890
<b>Per share data attributable to common shareholders (diluted)</b>				
Net income attributable to Saul Centers, Inc. <sup>(a)</sup>	\$ 0.10	\$ 0.22	\$ 0.47	\$ 0.55
Funds from operations <sup>(b)</sup>	\$ 0.41	\$ 0.52	\$ 1.08	\$ 1.16

(a) Based upon diluted weighted average common shares outstanding of 18,312,052 and 17,916,183 for the three months and 18,238,712 and 17,907,861 for the six months ended June 30, 2010 and 2009, respectively.

(b) Assumes conversion of operating partnership units, combined with diluted weighted average common shares outstanding, for a total of 23,728,467 and 23,332,598 shares for the three months and 23,655,127 and 23,324,276 shares for the six months ended June 30, 2010 and 2009, respectively.

## Consolidated Balance Sheets

(Dollars in thousands except per share amounts)

	June 30, 2010	December 31, 2009
	<i>(Unaudited)</i>	
<b>Assets</b>		
Real estate investments		
Land	\$ 232,188	\$ 223,193
Buildings and equipment	765,399	740,442
Construction in progress	155,738	147,589
	1,153,325	1,111,224
Accumulated depreciation	(288,252)	(276,310)
	865,073	834,914
Cash and cash equivalents	28,829	20,607
Accounts receivable and accrued income, net	35,146	37,503
Deferred leasing costs, net	14,840	15,609
Prepaid expenses, net	1,427	3,096
Deferred debt costs, net	7,025	7,537
Other assets	9,750	6,308
Total assets	\$ 962,090	\$ 925,574
<b>Liabilities</b>		
Mortgage notes payable	\$ 583,620	\$ 576,069
Construction loans payable	83,621	60,737
Dividends and distributions payable	12,302	12,220
Accounts payable, accrued expenses and other liabilities	27,322	23,395
Deferred income	26,270	27,090
Total liabilities	733,135	699,511
<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, 18,239,838 and 18,012,416 shares issued and outstanding, respectively	182	180
Additional paid-in capital	178,003	169,363
Accumulated deficit	(128,604)	(124,167)
Total Saul Centers, Inc. stockholders' equity	228,909	224,704
Noncontrolling interest	46	1,359
Total stockholders' equity	228,955	226,063
Total liabilities and stockholders' equity	\$ 962,090	\$ 925,574

## Corporate Profile

SAUL CENTERS, INC. is a self-managed, self-administered equity real estate investment trust headquartered in Bethesda, Maryland. Saul Centers operates and manages a real estate portfolio of 52 community and neighborhood shopping centers and office properties totaling approximately 8.4 million square feet of leasable area. Over 82% of the property operating income is generated from properties in the metropolitan Washington, DC/Baltimore area.

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### DIRECTORS

B. Francis Saul II  
B. Francis Saul III  
Philip D. Caraci  
The Honorable  
    John E. Chapoton  
Gilbert M. Grosvenor  
Philip C. Jackson, Jr.  
David B. Kay  
General Paul X. Kelley  
Charles R. Longsworth  
Patrick F. Noonan  
Mark Sullivan III  
The Honorable  
    James W. Symington  
John R. Whitmore

### WEB SITE

[www.saulcenters.com](http://www.saulcenters.com)

### HEADQUARTERS

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Phone: (301) 986-6200

### EXCHANGE LISTING

New York Stock Exchange Symbol:  
BFS

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### DIVIDEND REINVESTMENT PLAN

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

To receive more information please call our shareholder relations representative at (301) 986-6016.

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*Certain matters discussed within this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and as such may involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of Saul Centers to be different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although Saul Centers believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be attained. These risks are detailed from time to time in the Company's filings with the Securities and Exchange Commission.*