# Saul Centers


THIRD QUARTER 2009

*Report to Shareholders*

Total revenue for the three months ended September 30, 2009 ("2009 Quarter") decreased 1.6% to $40,273,000 compared to $40,947,000 for the three months ended September 30, 2008 ("2008 Quarter"). Operating income, which is net income available to common stockholders before gain on property dispositions, loss on early extinguishment of debt, income attributable to the noncontrolling interest and preferred stock dividends, increased 0.8% to $11,349,000 for the 2009 Quarter compared to $11,264,000 for the 2008 Quarter. Net income available to common stockholders was $5,822,000 or $0.32 per diluted share for the 2009 Quarter, compared to net income available to common stockholders of $5,736,000 or $0.32 per diluted share for the 2008 Quarter. Results for the 2008 Quarter were impacted by a one-time non-cash depreciation charge of $1,112,000 arising from the demolition of a portion of the Smallwood Village Center in conjunction with the Company's redevelopment of the property

Same property revenue for the total portfolio decreased 2.3% for the 2009 Quarter compared to the 2008 Quarter and same property operating income decreased 2.0%. The same property comparisons exclude the results of operations of properties not in operation for each of the comparable reporting quarters. Same property operating income in the shopping center portfolio decreased 2.9% for the 2009 Quarter compared to the 2008 Quarter. The primary cause of this decrease was a decline in base rent due to decreased leasing levels, and to a lesser extent, reduced other income, primarily due to reduced lease termination fees collected during the 2009 Quarter. Same property operating income in the office portfolio increased 1.4% for the 2009 Quarter.

For the nine months ended September 30, 2009 ("2009 Period"), total revenue decreased 0.3% to $119,378,000 compared to $119,774,000 for the nine months ended September 30, 2008 ("2008 Period") and operating income decreased 3.0% to $33,473,000 compared to $34,512,000 for the 2008 Period. Net income available to common stockholders was $15,712,000 or $0.88 per diluted share for the 2009 Period, compared to $19,212,000 or $1.07 per diluted share for the 2008 Period. Overall same property revenue for the total portfolio decreased 1.5% for the 2009 Period compared to the 2008 Period and same property operating income decreased 3.1%. For the 2009 Period, shopping center same property operating income decreased 4.3% due to overall increases in tenant vacancies and credit loss reserves. Same property operating income in the office portfolio increased 1.1% for the 2009 Period, due primarily to lease termination fees received, which were largely offset by increased tenant vacancy at Avenel Business Park.

As of September 30, 2009, 91.8% of the operating portfolio, including the Northrock and Westview Village development projects which are phasing into service, was leased compared to 94.7% at September 30, 2008. On a same property basis, 92.9% of the portfolio was leased, compared to the prior year level of 94.7%. The 2009 leasing percentages declined due to a net decrease of approximately 147,000 square feet of leased space.

Funds from operations (FFO) available to common shareholders (after deducting preferred stock dividends) decreased 8.3% to $14,648,000 in the 2009 Quarter compared to $15,966,000 for the 2008 Quarter. On a diluted per share basis, FFO available to common shareholders decreased 7.4% to $0.63 per share for the 2009 Quarter compared to $0.68 per share for the 2008 Quarter. FFO, a widely accepted non-GAAP financial measure of operating performance for REITs, is defined as net income plus income attributable to the noncontrolling interest, extraordinary items and real estate depreciation and amortization, excluding gains from property dispositions.

FFO available to common shareholders for the 2009 Period decreased 11.8% to $41,666,000 from $47,263,000 during the 2008 Period. Per share FFO available to common shareholders for the 2009 Period decreased 11.4% to $1.79 per diluted share compared to $2.02 per diluted share for the 2008 Period. FFO decreased in the 2009 Period primarily due to the expense associated with the second quarter financing activities ($2,023,000 or $0.09 per diluted share), increased preferred stock dividends ($1,687,000 or $0.07 per diluted share), and to a lesser extent, decreased property operating income. During the 2009 second quarter, the Company refinanced mortgage debt on four properties, due to mature December 2011 and incurred expense totaling $1,660,000 related to this early retirement. The Company also modified its existing revolving credit agreement which was due to expire in December 2010. Interest expense and amortization of deferred debt costs includes $363,000 associated with the modification. Therefore, total expense recognized in the 2009 Period for these financing activities was $2,023,000. As a result of these debt refinancings, only $19 million of the Company's remaining fixed-rate mortgage debt will mature prior to 2012.

For the Board,

B. Francis Saul II
Chairman of the Board
November 20, 2009

## CONSOLIDATED STATEMENTS OF OPERATIONS

| (Dollars in thousands, except per share amounts) | For the Three Months Ended September 30, 2009 | 2008 | For the Nine Months Ended September 30, 2009 | 2008 |
|---|---|---|---|---|
| | (Unaudited) | | (Unaudited) | |
| **Revenue** | | | | |
| Base rent | $ 31,776 | $ 31,466 | $ 93,572 | $ 93,599 |
| Expense recoveries | 7,145 | 7,652 | 21,773 | 21,730 |
| Percentage rent | 214 | 253 | 775 | 799 |
| Other | 1,138 | 1,576 | 3,258 | 3,646 |
| Total revenue | 40,273 | 40,947 | 119,378 | 119,774 |
| **Operating expenses** | | | | |
| Property operating expenses | 4,919 | 5,360 | 15,134 | 14,872 |
| Provision for credit losses | 189 | 236 | 748 | 660 |
| Real estate taxes | 4,531 | 4,241 | 13,567 | 12,530 |
| Interest expense and amortization of deferred debt costs | 8,942 | 8,568 | 25,920 | 25,877 |
| Depreciation and amortization of deferred leasing costs | 7,084 | 8,487 | 21,208 | 22,419 |
| General and administrative | 3,259 | 2,791 | 9,328 | 8,904 |
| Total operating expenses | 28,924 | 29,683 | 85,905 | 85,262 |
| **Operating income** | 11,349 | 11,264 | 33,473 | 34,512 |
| Loss on early extinguishment of debt | – | – | (1,660) | – |
| Gain on property dispositions | – | – | – | 205 |
| **Net income** | 11,349 | 11,264 | 31,813 | 34,717 |
| Net income attributable to the noncontrolling interest | (1,742) | (1,743) | (4,746) | (5,837) |
| **Net income attributable to Saul Centers, Inc.** | 9,607 | 9,521 | 27,067 | 28,880 |
| Preferred dividends | (3,785) | (3,785) | (11,355) | (9,668) |
| **Net income available to common stockholders** | $ 5,822 | $ 5,736 | $ 15,712 | $ 19,212 |
| **Per share data attributable to common shareholders (diluted)** | | | | |
| Net income attributable to Saul Centers, Inc. [(a)] | $ 0.32 | $ 0.32 | $ 0.88 | $ 1.07 |
| Funds from operations [(b)] | $ 0.63 | $ 0.68 | $ 1.79 | $ 2.02 |

*(a) Based upon diluted weighted average common shares outstanding of 17,926,992 and 17,991,006 for the three months and 17,914,238 and 17,970,586 for the nine months ended September 30, 2009 and 2008, respectively.*

*(b) Assumes conversion of operating partnership units, combined with diluted weighted average common shares outstanding, for a total of 23,343,407 and 23,407,421 shares for the three months and 23,330,653 and 23,387,001 shares for the nine months ended September 30, 2009 and 2008, respectively.*

# CONSOLIDATED BALANCE SHEETS

| (Dollars in thousands except per share amounts) | September 30, 2009 | December 31, 2008 |
|---|---|---|
| | (Unaudited) | |
| **Assets** | | |
| Real estate investments | | |
| Land | $ 223,035 | $ 215,407 |
| Buildings and equipment | 738,125 | 713,154 |
| Construction in progress | 126,066 | 98,920 |
| | 1,087,226 | 1,027,481 |
| Accumulated depreciation | (270,413) | (252,763) |
| | 816,813 | 774,718 |
| Cash and cash equivalents | 14,297 | 13,006 |
| Accounts receivable and accrued income, net | 36,815 | 37,495 |
| Deferred leasing costs, net | 16,170 | 16,901 |
| Prepaid expenses, net | 4,860 | 2,981 |
| Deferred debt costs, net | 7,466 | 5,875 |
| Other assets | 8,294 | 2,897 |
| Total assets | $ 904,715 | $ 853,873 |
| **Liabilities** | | |
| Mortgage notes payable | $ 569,634 | $ 548,265 |
| Construction loans payable | 48,294 | 19,230 |
| Dividends and distributions payable | 12,179 | 12,864 |
| Accounts payable, accrued expenses and other liabilities | 27,295 | 22,394 |
| Deferred income | 24,015 | 23,233 |
| Total liabilities | 681,417 | 625,986 |
| **Stockholders' equity** | | |
| Preferred stock, 1,000,000 shares authorized: | | |
| Series A Cumulative Redeemable, 40,000 shares issued and outstanding | 100,000 | 100,000 |
| Series B Cumulative Redeemable, 31,731 shares issued and outstanding | 79,328 | 79,328 |
| Common stock, $0.01 par value, 30,000,000 shares authorized, 17,896,010 and 17,863,214 shares issued and outstanding, respectively | 179 | 179 |
| Additional paid-in capital | 165,794 | 164,278 |
| Accumulated deficit | (123,541) | (118,865) |
| Total Saul Centers, Inc. stockholders' equity | 221,760 | 224,920 |
| Noncontrolling interest | 1,538 | 2,967 |
| Total stockholders' equity | 223,298 | 227,887 |
| Total liabilities and stockholders' equity | $ 904,715 | $ 853,873 |

# 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 80% of the property operating income is generated from properties in the metropolitan Washington, DC/Baltimore area.

## 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

## HEADQUARTERS

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

## EXCHANGE LISTING

New York Stock Exchange
Symbol: BFS

## 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.

*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.*