SAUL CENTERS INC
Form 10-K
February 28, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File number 1-12254

SAUL CENTERS, INC.

(Exact name of registrant as specified in its charter)

Maryland	**52-1833074**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814-6522

(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value $0.01 Per Share	**New York Stock Exchange**
Depositary Shares each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock, Par Value, $0.01 Per Share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **N/A**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes ¨ No x .

Indicate by check mark whether 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 requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 x 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 Act). Yes ¨ No x .

The number of shares of Common Stock, $0.01 par value, outstanding as of February 25, 2008 was 17,776,000.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price of the registrant s Common Stock on the New York Stock Exchange on June 30, 2007 was $438,182,000.

DOCUMENTS INCORPORATED BY REFERENCE:

Registrant incorporates by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K portions of registrant s definitive Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed with the Securities Exchange Commission pursuant to Regulation 14A. The definitive Proxy Statement will be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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PART I

Cautionary Statement Regarding Forward-Looking Statements

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as plans, intends, estimates, anticipates, expects, believes or similar expressions in this Form 10-K. These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors, see Item 1A. Risk Factors in this Form 10-K.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Form 10-K or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Form 10-K.

Item 1. Business

General

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). Saul Centers generally will not be subject to federal income tax, provided it annually distributes at least 90% of its REIT taxable income to its stockholders and meets 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.

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.

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, Chevy Chase Bank, F.S.B. and certain other affiliated entities, each of which is controlled by B. Francis Saul II and his family members (collectively, The Saul Organization). On August 26, 1993, members of The Saul Organization transferred to Saul Holdings Limited Partnership, a newly formed Maryland limited partnership (the Operating Partnership), and two newly formed subsidiary limited partnerships (the Subsidiary Partnerships , and collectively with the Operating Partnership, the Partnerships), shopping center and office properties, and the management functions related to the transferred properties. Since its formation, the Company has developed and purchased additional properties.

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The following table lists the properties acquired and/or developed by the Company since December 31, 2004. All of the following properties are operating shopping centers (Shopping Centers).

Name of Property	Location	Square Footage	Date of Acquisition/ Development
Acquisitions			
Palm Springs Center	Altamonte Springs, FL	126,000	2005
Jamestown Place	Altamonte Springs, FL	96,000	2005
Seabreeze Plaza	Palm Harbor, FL	147,000	2005
Smallwood Village Center	Waldorf, MD	198,000	2006
Hunt Club Corners	Apopka, FL	101,000	2006
Orchard Park	Dunwoody, GA	88,000	2007
Developments			
Kentlands Place	Gaithersburg, MD	41,000	2005
Broadlands Village Phase III	Ashburn, VA	22,000	2006
Lansdowne Town Center	Leesburg, VA	188,000	2006/7
Ashland Square Phase I	Manassas, VA	4,000	2007

As of December 31, 2007, the Company s properties (the Current Portfolio Properties) consisted of 43 operating shopping center properties (the Shopping Centers), five predominantly office operating properties (the Office Properties) and five (non-operating) development properties. Shopping Centers and Office Properties represent reportable business segments for financial reporting purposes. Revenue, net income, total assets and other financial information of each reportable segment are described in Note 16 to the financial statements contained in Item 8 of this Form 10-K.

The Company established Saul QRS, Inc., a wholly owned subsidiary of Saul Centers, to facilitate the placement of collateralized mortgage debt. Saul QRS, Inc. was created to succeed to the interest of Saul Centers as the sole general partner of Saul Subsidiary I Limited Partnership. The remaining limited partnership interests in Saul Subsidiary I Limited Partnership and Saul Subsidiary II Limited Partnership are held by the Operating Partnership as the sole limited partner. Through this structure, the Company owns 100% of the Current Portfolio Properties.

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The following diagram depicts the Company s organizational and equity ownership structure, as of December 31, 2007.

Management of the Current Portfolio Properties

The Partnerships manage the Current Portfolio Properties and will manage any subsequently acquired properties. The management of the properties includes performing property management, leasing, design, renovation, development and accounting duties for each property. The Partnerships provide each property with a fully integrated property management capability, with approximately 60 employees and with an extensive and mature network of relationships with tenants and potential tenants as well as with members of the brokerage and property owners communities. The Company currently does not, and does not intend to, retain third party managers or provide management services to third parties.

The Company augments its property management capabilities by sharing with The Saul Organization certain ancillary functions, at cost, such as computer and payroll services, benefits administration and in-house legal services. The Company also shares insurance administration expenses on a pro rata basis with The Saul Organization. Management believes that these arrangements result in lower costs than could be obtained by contracting with third parties. These arrangements permit the Company to capture greater economies of scale in purchasing from third party vendors than would otherwise be available to the Company alone and to capture internal economies of scale by avoiding payments representing profits with respect to functions provided internally. The terms of all sharing arrangements with The Saul Organization, including payments related thereto, are specified in a written agreement and are reviewed annually by the Audit Committee of the Company s Board of Directors.

The Company s corporate headquarters lease commenced in March 2002 and is a sublease of office space from The Saul Organization at the Company s share of the cost. A discussion of the lease terms are provided in Note 7, Long Term Lease Obligations, of the Notes to Consolidated Financial Statements.

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Principal Offices

The principal offices of the Company are located at 7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814-6522, and the Company s telephone number is (301) 986-6200. The Company s internet web address is www.saulcenters.com. Information contained on the Company s internet website is not part of this report. The Company makes available free of charge on its internet website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after the reports are electronically filed with, or furnished to, the Commission. Alternatively, you may access these reports at the Commission s internet website: www.sec.gov.

Policies with Respect to Certain Activities

The following is a discussion of the Company s operating strategy and certain of its investment, financing and other policies. These strategies and policies have been determined by the Board of Directors and, in general, may be amended or revised from time to time by the Board of Directors without a vote of the Company s stockholders.

Operating Strategies

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. Community and neighborhood shopping centers typically provide reliable cash flow and steady long-term growth potential. Management intends to actively manage its property portfolio by engaging in strategic leasing activities, tenant selection, lease negotiation and shopping center expansion and reconfiguration. The Company seeks to optimize tenant mix by selecting tenants for its shopping centers that provide a broad spectrum of goods and services, consistent with the role of community and neighborhood shopping centers as the source for day-to-day necessities. Management believes that such a synergistic tenanting approach results in increased cash flow from existing tenants by providing the Shopping Centers with consistent traffic and a desirable mix of shoppers, resulting in increased sales and, therefore, increased cash flows.

Management believes there is potential for growth in cash flow as existing leases for space in the Shopping Centers 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 maximize this potential for increased cash flow. 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 goal of increasing cash flow. 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.

Certain Shopping Centers contain undeveloped parcels within the centers which are suitable for development as free-standing retail facilities, such as restaurants, banks or auto centers. Management will continue to seek desirable tenants for facilities to be developed on these sites and to develop and lease these sites in a manner that complements the Shopping Centers in which they are located.

The Company will also seek growth opportunities in its Washington, DC metropolitan area office portfolio, primarily through development and redevelopment. Management also intends to negotiate lease renewals or to re-lease available space in the Office Properties, while considering the strategic balance of optimizing short-term cash flow and long-term asset value.

It is management s intention to hold properties for long-term investment and to place strong emphasis on regular maintenance, periodic renovation and capital improvement. Management believes that such characteristics as cleanliness, lighting and security are particularly important in community and neighborhood shopping centers, which are frequently visited by shoppers during hours outside of the normal work-day. Management believes that the Shopping Centers and Office Properties generally are attractive and well maintained. The Shopping Centers and Office Properties will undergo expansion, renovation, reconfiguration and modernization from time to time when management believes that such action is warranted by opportunities or changes in the competitive environment of a property. Several of the Shopping Centers have been renovated recently. During 2007 and 2006, the Company was involved in redevelopment or expansions of five of its operating properties and developed two new shopping centers, Lansdowne Town Center and Ashland Square Phase I. The Company will continue its practice of expanding existing properties by undertaking new construction on outparcels suitable for development as free standing retail or office facilities.

Investment in Real Estate or Interests in Real Estate

The Company s redevelopment and renovation objective is to selectively and opportunistically redevelop and renovate its properties, by replacing leases with 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.

Management believes that attractive acquisition and development opportunities for investment in existing and new shopping center properties will continue to be available. Management believes that the Company will be well situated to take advantage of these opportunities because of its access to capital markets, as evidenced by; (1) the Company s three year extension of its $150 million Revolving Credit Facility in December 2007, recent years long-term fixed-rate mortgage financing activity and successful $100 million preferred stock offering in November 2003, (2) the Company s ability to acquire properties or undeveloped land, either for cash or securities (including Operating Partnership interests in tax advantaged transactions), and (3) because of management s experience in seeking out, identifying and evaluating potential acquisitions. In addition, management believes its shopping center expertise should permit it to optimize the performance of shopping centers once they have been acquired.

Management also believes that opportunities exist for investment in new office properties. It is management s view that several of the office sub-markets in which the Company operates have very attractive supply/demand characteristics. The Company will continue to evaluate new office development and redevelopment as an integral part of its overall business plan.

In evaluating a particular redevelopment, renovation, acquisition, or development, management will consider a variety of factors, including (i) the location and accessibility of the property; (ii) the geographic area (with an emphasis on the Washington, DC/Baltimore metropolitan area and the southeastern region of the United States) and demographic characteristics of the community, as well as the local real estate market, including potential for growth and potential regulatory impediments to development; (iii) the size of the property; (iv) the purchase price; (v) the non-financial terms of the proposed acquisition; (vi) the availability of funds or other consideration for the proposed acquisition and the cost thereof; (vii) the fit of the property with the Company s existing portfolio; (viii) the potential for, and current extent of, any environmental problems; (ix) the current and historical occupancy rates of the property or any comparable or competing properties in the same market; (x) the quality of construction and design and the current physical condition of the property; (xi) the financial and other characteristics of existing tenants and the terms of existing leases; and (xii) the potential for capital appreciation.

Although it is management s present intention to concentrate future acquisition and development activities on community and neighborhood shopping centers and office properties in the Washington, DC/Baltimore metropolitan area and the southeastern region of the United States, the Company may, in the future, also acquire other types of real estate in other areas of the country as opportunities present themselves. While the Company may diversify in terms of property locations, size and market, the Company does not set any limit on the amount or percentage of Company assets that may be invested in any one property or any one geographic area.

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The Company intends to engage in such future investment or development activities in a manner that is consistent with the maintenance of its status as a REIT for federal income tax purposes and that will not make the Company an investment company under the Investment Company Act of 1940, as amended. Equity investments in acquired properties may be subject to existing mortgage financings and other indebtedness or to new indebtedness which may be incurred in connection with acquiring or refinancing these investments.

Investments in Real Estate Mortgages

While the Company s current portfolio of, and its business objectives emphasize, equity investments in commercial and neighborhood shopping centers and office properties, the Company may, at the discretion of the Board of Directors, invest in mortgages, participating or convertible mortgages, deeds of trust and other types of real estate interests consistent with its qualification as a REIT. However, the Company does not presently have nor intend to invest in real estate mortgages.

Investments in Securities of or Interests in Persons Engaged in Real Estate Activities and Other Issues

Subject to the tests necessary for REIT qualification, the Company may invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities. However, the Company does not presently have any investment in securities of other REITs.

Dispositions

The Company does not currently intend to dispose of any of its properties, although the Company reserves the right to do so if, based upon management s periodic review of the Company s portfolio, the Board of Directors determines that such action would be in the best interest of the Company s stockholders. Any decision to dispose of a property will be made by the Board of Directors.

Capital Policies

The Company has established a debt capitalization policy relative to asset value, which is computed by reference to the aggregate annualized cash flow from the properties in the Company s portfolio rather than relative to book value. The Company has used a measure tied to cash flow because it believes that the book value of its portfolio properties, which is the depreciated historical cost of the properties, does not accurately reflect the ability to borrow. Asset value, however, is somewhat more variable than book value, and may not at all times reflect the fair market value of the underlying properties. As a general policy, the Company intends to maintain a ratio of its total debt to total asset value of 50% or less and to actively manage the Company s leverage and debt expense on an ongoing basis in order to maintain prudent coverage of fixed charges. Given the Company s current debt level, it is management s belief that the ratio of the Company s debt to total asset value is below 50% as of December 31, 2007.

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

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The Company intends to finance future acquisitions and developments and to make debt repayments by utilizing the sources of capital then deemed to be most advantageous. Such sources may include undistributed operating cash flow, secured or unsecured bank and institutional borrowings, proceeds from the Company s Dividend Reinvestment and Stock Purchase Plan, proceeds from the sale of properties and private and public offerings of debt or equity securities. Borrowings may be at the Operating Partnership or Subsidiary Partnerships level and securities offerings may include (subject to certain limitations) the issuance of Operating Partnership interests convertible into common stock or other equity securities.

Other Policies

The Company has authority to offer equity or debt securities in exchange for property and to repurchase or otherwise acquire its common stock or other securities in the open market or otherwise, and may engage in such activities in the future. The Company expects, but is not obligated, to issue common stock to holders of units of the Operating Partnership upon exercise of their redemption rights. The Company has not engaged in trading, underwriting or agency distribution or sale of securities of other issues other than the Operating Partnership and does not intend to do so. The Company has not made any loans to third parties, although the Company may in the future make loans to third parties. In addition, the Company has the policies relating to related party transactions discussed in Item 1A. Risk Factors.

Competition

As an owner of, or investor in, community and neighborhood shopping centers and office properties, the Company is subject to competition from an indeterminate number of companies in connection with the acquisition, development, ownership and leasing of similar properties. These investors include investors with access to significant capital, such as domestic and foreign corporations and financial institutions, publicly traded and privately held REITs, private institutional investment funds, investment banking firms, life insurance companies and pension funds.

With respect to acquisitions and developments, this competition may reduce properties available for acquisition or development or increase prices for raw land or developed properties of the type in which the Company invests. The Company faces competition in providing leases to prospective tenants and in re-letting space to current tenants upon expiration of their respective leases. If the Company s tenants decide not to renew or extend their leases upon expiration, the Company may not be able to re-let the space. Even if the tenants do renew or the Company can re-let the space, the terms of renewal or re-letting, including the cost of required renovations, may be less favorable than current lease terms or than expectations for the space. This risk may be magnified if the properties owned by our competitors have lower occupancy rates than the Company s properties. As a result, these competitors may be willing to make space available at lower prices than the space in the Current Portfolio Properties.

Management believes that success in the competition for ownership and leasing property is dependent in part upon the geographic location of the property, the tenant mix, the performance of property managers, the amount of new construction in the area and the maintenance and appearance of the property. Additional competitive factors impacting the Company s properties include the ease of access to the properties, the adequacy of related facilities such as parking, and the demographic characteristics in the markets in which the properties compete. Overall economic circumstances and trends and new properties in the vicinity of each of the Current Portfolio Properties are also competitive factors.

Finally, retailers at our Shopping Centers face increasing competition from outlet stores, discount shopping clubs and other forms of marketing of goods, such as direct mail, internet marketing and telemarketing. This competition may reduce percentage rents payable to us and may contribute to lease defaults or insolvency of tenants.

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Environmental Matters

The Current Portfolio Properties are subject to various laws and regulations relating to environmental and pollution controls. The impact upon the Company of the application of such laws and regulations either prospectively or retrospectively is not expected to have a materially adverse effect on the Company s property operations. As a matter of policy, the Company requires an environmental study be performed with respect to a property that may be subject to possible environmental hazards prior to its acquisition to ascertain that there are no material environmental hazards associated with such property.

Employees

As of February 25, 2008, the Company employed approximately 60 persons, including six leasing officers. None of the Company s employees are covered by collective bargaining agreements. Management believes that its relationship with employees is good.

Recent Developments

A significant contributor to the Company s recent growth in its shopping center portfolio has been its land acquisitions and subsequent development, redevelopment of existing centers and operating property acquisition activities. Redevelopment activities reposition the Company s centers to be competitive in the current retailing environment. These redevelopments typically include an update of the facade, site improvements and reconfiguring tenant spaces to accommodate tenant size requirements and merchandising evolution. During the period December 31, 2004 though February 2008, the Company acquired four land parcels located in the Washington, DC metropolitan area, developed neighborhood shopping centers on four of the parcels and acquired six operating grocery-anchored neighborhood shopping center properties. In summary, since year end 2004, the Company s leasable area has grown by approximately 11% (0.8 million square feet), from 7.2 million square feet to over 8.0 million square feet.

2007 / 2006 / 2005 Acquisitions, Developments and Redevelopments

Olde Forte Village

The Company redeveloped in 2005, Olde Forte Village, a neighborhood shopping center located in Fort Washington, Maryland. The center, acquired in 2003, is anchored by the then newly constructed 58,000 square foot Safeway supermarket, which relocated from a smaller store within the center. The center then contained approximately 50,000 square feet of vacant space, consisting primarily of the former Safeway space. The reconfigured shopping center totals 143,000 square feet of leasable space. The Company s total redevelopment costs, including the initial property acquisition cost, were approximately $22 million. The center was 95% leased at December 31, 2007.

Broadlands Village

The Company purchased 24 acres of undeveloped land in the Broadlands section of the Dulles Technology Corridor of Loudoun County, Virginia in April 2002. Broadlands is a 1,500 acre planned community consisting of 3,500 residences, approximately half of which are constructed and currently occupied. In October 2003, the Company completed construction of the first phase of the Broadlands Village shopping center. The 58,000 square foot Safeway supermarket opened in October 2003 with a pad building and many in-line small shops also opening in the fourth quarter of 2003. Construction of a 30,000 square foot second phase was substantially completed in 2004. The Company s total development costs of both phases, including the land acquisition, were approximately $22 million. During the second quarter of 2006, the Company substantially completed construction of a third phase of this development, totaling approximately 22,000 square feet of shop space and two pad site locations. Development costs for this phase totaled approximately $7.5 million. The center was 98% leased and fully operational at December 31, 2007.

The Glen

In February 2005, the Company commenced construction of a 22,000 square foot expansion building to provide additional restaurants and small shop service space at The Glen shopping center in Prince William County, Virginia. Construction of the expansion building was substantially completed in the fall of 2005, and development costs were approximately $4.1 million. The resulting 134,000 square foot Safeway anchored center was 96% leased at December 31, 2007.

Kentlands Place

In January 2004, the Company purchased 3.4 acres of undeveloped land adjacent to its 114,000 square foot Kentlands Square shopping center in Gaithersburg, Maryland. The Company substantially completed construction of a 40,600 square foot retail/office property, comprised of 23,800 square feet of in-line retail space and 16,800 square feet of professional office suites, in early 2005. Development costs, including the land acquisition, were approximately $8.5 million. The property was 100% leased at December 31, 2007 and includes significant retail tenants Bonefish Grill and Elizabeth Arden s Red Door Salon.

Briggs Chaney MarketPlace

In April 2004, the Company acquired Briggs Chaney MarketPlace in Silver Spring, Maryland. Briggs Chaney MarketPlace is a 194,000 square foot neighborhood shopping center on Route 29 in Montgomery County, Maryland. The center, constructed in 1983, was 99% leased at December 31, 2007 and is anchored by a 45,000 square foot Safeway supermarket and a 28,000 square foot Ross Dress For Less. The property was acquired for $27.3 million. During 2005, the Company completed interior construction to reconfigure a portion of space vacant at acquisition, totaling approximately 11,000 square feet of leasable area, and completed construction of a façade renovation of the shopping center. Redevelopment costs totaled approximately $1.9 million.

Ashland Square

On December 15, 2004, the Company acquired a 19.3 acre parcel of land in Manassas, Prince William County, Virginia for a purchase price of $6.3 million. The Company has plans to develop the parcel into a grocery-anchored neighborhood shopping center. The Company received site plan approval during the third quarter of 2006 to develop approximately 125,000 square feet of retail space. A site plan for an additional 35,000 square feet of commercial space is under review by Prince William County. During the third quarter of 2006, the Company commenced site work consisting primarily of clearing, grading and site utility construction. A lease has been executed with Chevy Chase Bank, F.S.B. which built a branch on a pad site. The bank branch opened for business October 2007. The balance of the center is being marketed to grocers and other retail businesses, with a development timetable yet to be finalized.

Palm Springs Center

On March 3, 2005, the Company completed the acquisition of the 126,000 square foot Albertson s anchored Palm Springs Center located in Altamonte Springs, Florida (metropolitan Orlando). The center was 97% leased at December 31, 2007 and was acquired for a purchase price of $17.5 million.

New Market

On March 3, 2005, the Company acquired a 7.1 acre parcel of land located in New Market, Maryland for a purchase price of $500,000. On September 8, 2005, the Company acquired a 28.4 acre contiguous parcel for a purchase price of $1.5 million. Together, these parcels will accommodate a neighborhood shopping center development in excess of 120,000 square feet of leasable space. The Company had contracted to purchase one additional parcel with the intent to assemble additional acreage for further retail development near this I-70 interchange, east of Frederick, Maryland. During December 2007, the Company abandoned the acquisition of this final parcel and wrote-off to general and administrative expense all costs related to this parcel.

Lansdowne Town Center

During the first quarter of 2005, the Company received approval of a zoning submission to Loudoun County which allowed the development of a neighborhood shopping center named Lansdowne Town Center, within

the Lansdowne Community in northern Virginia. On March 29, 2005, the Company finalized the acquisition of an additional 4.5 acres of land to bring the total acreage of the development parcel to 23.4 acres (including the 18.9 acres acquired in 2002). The additional purchase price was approximately $1.0 million. In late 2006, the Company substantially completed construction of an approximately 189,000 square foot retail center. A lease was executed with Harris Teeter for a 55,000 square foot grocery store, which opened in November 2006. Project costs, upon completion of final tenant improvements, are expected to total approximately $41.5 million. As of December 31, 2007, the project was fully operational and 99% leased, however rent is not expected to commence for approximately 16,000 square feet of second floor office space until spring of 2008, when tenant improvements are expected to be substantially complete.

Jamestown Place

On November 17, 2005, the Company completed the acquisition of the 96,000 square foot Publix-anchored Jamestown Place located in Altamonte Springs, Florida (metropolitan Orlando). The center was 95% leased at December 31, 2007 and was acquired for a purchase price of $14.8 million.

Seabreeze Plaza

On November 30, 2005, the Company completed the acquisition of the 147,000 square foot Publix-anchored Seabreeze Plaza located in Palm Harbor, Florida (metropolitan Tampa). The center was 90% leased at December 31, 2007 and was acquired for a purchase price of $25.9 million subject to the assumption of a $13.6 million mortgage loan.

Smallwood Village Center

On January 27, 2006, the Company acquired the 198,000 square foot Smallwood Village Center, located on 25 acres within the St. Charles planned community of Waldorf, Maryland. The center was acquired for a purchase price of $17.5 million subject to the assumption of an $11.3 million mortgage loan, and was 73% leased at December 31, 2007. The Company is obtaining final permits for a capital improvement project to improve access to the center, reconfigure portions of the center and upgrade the center s façade. Construction is expected to commence during the spring of 2008.

Ravenwood

In January 2006, the Company commenced construction of a 7,380 square foot shop space expansion to the Giant anchored Ravenwood shopping center, located in Towson, Maryland. Construction was substantially completed in June 2006. All of the new space is leased and operational at December 31, 2007. Development costs totaled approximately $2.2 million.

Lexington Center

On September 29, 2005, the Company announced the resolution of a land use dispute at Lexington Mall, allowing increased flexibility in future development rights for its property. The Company and the land owner of the adjacent 16 acre site, have resolved a dispute arising from a reciprocal easement agreement governing land use between the two owners. The parties have executed a new land use agreement which grants each other the flexibility to improve its property. The Company also reached an agreement with Dillard s to terminate its lease, without consideration exchanged by either party. The mall is vacant and the Company has prepared conceptual designs for the shopping center s development and marketing to prospective retailers.

Hunt Club Corners

On June 1, 2006, the Company completed the acquisition of the 101,500 square foot Publix-anchored Hunt Club Corners shopping center located in Apopka, Florida (metropolitan Orlando). The center was 99% leased at December 31, 2007 and was acquired for a purchase price of $11.1 million.

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Ashburn Village-Phase V

The Company completed construction during the fourth quarter of 2006 of a 10,000 square foot shop space expansion to the Ashburn Village shopping center located in Loudoun County, Virginia. The space was 100% leased and operational at December 31, 2007. Development costs totaled approximately $2.2 million.

Clarendon Center

The Company owns an assemblage of land parcels (including its Clarendon and Clarendon Station operating properties) totaling approximately 1.5 acres adjacent to the Clarendon Metro Station in Arlington, Virginia. In June 2006, the Company obtained zoning approvals for a mixed-use development project to include up to approximately 45,000 square feet of retail space, 170,000 square feet of office space and 244 residential units. The Company has substantially completed construction documents. An existing vacant building located on a portion of the land is being demolished to prepare this portion of the site for development. A development timetable has not yet been completed.

Westview Village

In November 2007, the Company purchased a 10.4 acre site in the Westview development on Buckeystown Pike (MD Route 85) in Frederick, Maryland. The purchase price was $5.0 million. Construction documents have been completed and site permits have been received for development of approximately 105,000 square feet of commercial space, including 60,000 square feet of retail shop space, 15,000 square feet of retail pads and 30,000 square feet of professional office space. The Company is currently marketing the space and has executed leases for 9,606 square feet of the retail space. The Company commenced site work construction in early 2008 and anticipates total construction and development costs, including land, to be approximately $26.0 million. Substantial completion of the building shell is scheduled for late 2008.

Great Eastern Plaza Land Parcel

On June 6, 2007, the Company acquired 8.0 acres of undeveloped land adjacent to its Great Eastern Plaza shopping center in District Heights, Maryland, for a purchase price of $1.3 million. The Company is analyzing options to expand the existing shopping center onto this parcel at some future date.

Orchard Park

On July 19, 2007, the Company completed the acquisition of the 88,000 square foot Kroger-anchored Orchard Park shopping center located in Dunwoody, GA. The center is 93% leased as of December 31, 2007 and was acquired for a purchase price of $17.0 million.

Northrock

In January 2008, the Company acquired approximately 15.4 acres of undeveloped land in Warrenton, Virginia. The site is located in the City of Warrenton at the southwest corner of the U.S. Route 29/211 and Fletcher Drive intersection. The Company has commenced site work construction for Northrock Shopping Center, a neighborhood shopping center totaling approximately 103,000 square feet of leasable area. The Harris Teeter supermarket chain has executed a lease for a 52,700 square foot grocery store to anchor the center. The land purchase price was $12.5 million, and the Company anticipates total construction and development costs, including land, to be approximately $27.5 million. Construction substantial completion is anticipated for mid 2009.

Item 1A. Risk Factors

RISK FACTORS

Carefully consider the following risks and all of the other information set forth in this Annual Report on Form 10-K, including the consolidated financial statements and the notes thereto. If any of the events or developments described below were actually to occur, the Company s business, financial condition or results of operations could be adversely affected.

In this section, unless the context indicates otherwise, the terms Company, we, us and our refer to Saul Centers, Inc., and its subsidiaries, including the Operating Partnership.

Revenue from our properties may be reduced or limited if the retail operations of our tenants are not successful.

Revenue from our properties depends primarily on the ability of our tenants to pay the full amount of rent due under their leases on a timely basis. Some of our leases provide for the payment, in addition to base rent, of additional rent above the base amount according to a specified percentage of the gross sales generated by the tenants. The amount of rent we receive from our tenants generally will depend in part on the success of our tenants retail operations, making us vulnerable to general economic downturns and other conditions affecting the retail industry. Any reduction in our tenants ability to pay base rent or percentage rent may adversely affect our financial condition and results of operations.

Our ability to increase our net income depends on the success and continued presence of our shopping center anchor tenants and other significant tenants.

Our net income could be adversely affected in the event of a downturn in the business, or the bankruptcy or insolvency, of any anchor store or anchor tenant. Our largest shopping center anchor tenant is Giant Food, which accounted for 4.5% of our total revenue for the year ended December 31, 2007. The closing of one or more anchor stores prior to the expiration of the lease of that store or the termination of a lease by one or more of a property s anchor tenants could adversely affect that property and result in lease terminations by, or reductions in rent from, other tenants whose leases may permit termination or rent reduction in those circumstances or whose own operations may suffer as a result. This could reduce our net income.

We may experience difficulty or delay in renewing leases or re-leasing space.

We derive most of our revenue directly or indirectly from rent received from our tenants. We are subject to the risks that, upon expiration, leases for space in our properties may not be renewed, the space may not be re-leased, or the terms of renewal or re-lease, including the cost of required renovations or concessions to tenants, may be less favorable than current lease terms. As a result, our results of operations and our net income could be reduced.

We have substantial relationships with members of The Saul Organization whose interests could conflict with the interests of other stockholders.

Influence of Officers, Directors and Significant Stockholders.

Three of our executive officers, Mr. Saul II, his son and our President, B. Francis Saul III, and Thomas H. McCormick, our Senior Vice President and General Counsel, are members of The Saul Organization, and persons associated with The Saul Organization constitute four of the 12 members of our Board of Directors. In addition, as of December 31, 2007, Mr. Saul II beneficially owned, for purposes of SEC reporting, 7,825,000 shares of our common stock representing 44.6% of our issued and outstanding shares of common stock. Mr. Saul II also beneficially owned, as of December 31, 2007, 5,416,000 units of the Operating Partnership. In general, these units are convertible into shares of our common stock on a one-for-one basis. The ownership limitation set forth in our articles of incorporation is 39.9% in value of our issued and outstanding equity securities (which includes both common and preferred stock). As of December 31, 2007, Mr. Saul II and members of The Saul Organization owned common stock representing approximately 33.7% in value of all our issued and outstanding equity securities. Members of the Saul Organization are permitted under our articles of incorporation to convert Operating Partnership units into shares of common stock or acquire additional shares of common stock until The Saul Organization s actual ownership of common stock reaches 39.9% in value of our equity securities.

As a result of these relationships, members of The Saul Organization will be in a position to exercise significant influence over our affairs, which influence might not be consistent with the interests of some, or a majority, of our stockholders. Except as discussed below, we do not have any written policies or procedures for the review, approval or ratification of transactions with related persons.

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Management Time.

Our Chief Executive Officer, President, Vice President-Chief Accounting Officer and Senior Vice President and General Counsel are also officers of various members of The Saul Organization. Although we believe that these officers spend sufficient management time to meet their responsibilities as our officers, the amount of management time devoted to us will depend on our specific circumstances at any given point in time. As a result, in a given period, these officers may spend less than a majority of their management time on our matters. Over extended periods of time, we believe that our Chief Executive Officer and Senior Vice President and General Counsel will spend less than a majority of their management time on Company matters, while our President and Vice President-Chief Accounting Officer may or may not spend less than a majority of their time on our matters.

Exclusivity and Right of First Refusal Agreements.

We will acquire, develop, own and manage shopping center properties and will own and manage other commercial properties, and, subject to certain exclusivity agreements and rights of first refusal to which we are a party, The Saul Organization will continue to develop, acquire, own and manage commercial properties and own land suitable for development as, among other things, shopping centers and other commercial properties. Therefore, conflicts could develop in the allocation of acquisition and development opportunities with respect to commercial properties other than shopping centers and with respect to development sites, as well as potential tenants and other matters, between us and The Saul Organization. The agreement relating to exclusivity and the right of first refusal between us and The Saul Organization (other than Chevy Chase Bank, F.S.B.) generally requires The Saul Organization to conduct its shopping center business exclusively through us and to grant us a right of first refusal to purchase commercial properties and development sites in certain market areas that become available to The Saul Organization. The Saul Organization has granted the right of first refusal to us, acting through our independent directors, in order to minimize potential conflicts with respect to commercial properties and development sites. We and The Saul Organization have entered into this agreement in order to minimize conflicts with respect to shopping centers and certain of our commercial properties.

Shared Services.

We share with The Saul Organization certain ancillary functions, such as computer and payroll services, benefits administration and in-house legal services. The terms of all sharing arrangements, including payments related thereto, are reviewed periodically by our Audit Committee, which is comprised solely of independent directors. Included in our general and administrative expenses or capitalized to specific development projects, for the year ended December 31, 2007, are charges totaling $4,890,000, related to such shared services, which included rental payments for the Company s headquarters lease, which were billed by The Saul Organization. Although we believe that the amounts allocated to us for such shared services represent a fair allocation between us and The Saul Organization, we have not obtained a third party appraisal of the value of these services.

Related Party Rents.

Chevy Chase Bank leases space in 18 of the properties owned by us. The total rental income from Chevy Chase Bank for the year ended December 31, 2007 was $2,946,000, representing approximately 2.0% of our total revenue for such period. Although we believe that these leases have comparable terms to leases we have entered into with third-party tenants, the terms of these leases were not set as a result of arm s-length negotiation. In addition, because Chevy Chase Bank is a member of The Saul Organization, we may be less inclined to take an action or the timing of any action could be influenced if there is a default. The terms of any lease with Chevy Chase Bank are approved in advance by our Audit Committee, which is comprised solely of independent directors.

In addition, the lease for our corporate headquarters, which commenced in March 2002, is with a member of The Saul Organization. The Company s corporate headquarters lease is leased by a member of The Saul Organization. The 10-year lease provides for base rent escalated at 3% per year, with payment of a pro-rata share of operating expenses over a base year amount. The Company and The Saul Organization entered into a Shared Services Agreement whereby each party pays an allocation of total rental payments on a percentage proportionate to the number of employees employed by each party. The Company s rent payment for the year ended December 31, 2007 was $796,000. Although the Company believes that this lease has comparable terms to what would have been obtained from a third party landlord, it did not seek bid proposals from any independent third parties when entering into its new corporate headquarters lease.

Conflicts Based on Individual Tax Considerations.

The tax basis of members of The Saul Organization in our portfolio properties which were contributed to certain partnerships at the time of our initial public offering in 1993 was substantially less than the fair market value thereof at the time of their contribution. In the event of our disposition of such properties, a disproportionately large share of the gain for federal income tax purposes would be allocated to members of The Saul Organization. In addition, future reductions of the level of our debt, or future releases of the guarantees or indemnities with respect thereto by members of The Saul Organization, would cause members of The Saul Organization to be considered, for federal income tax purposes, to have received constructive distributions. Depending on the overall level of debt and other factors, these distributions could be in excess of The Saul Organization s bases in their Partnership units, in which case such excess constructive distributions would be taxable.

Consequently, it is in the interests of The Saul Organization that we continue to hold the contributed portfolio properties, that a portion of our debt remains outstanding or is refinanced and that The Saul Organization guarantees and indemnities remain in place, in order to defer the taxable gain to members of The Saul Organization. Therefore, The Saul Organization may seek to cause us to retain the contributed portfolio properties, and to refrain from reducing our debt or releasing The Saul Organization guarantees and indemnities, even when such action may not be in the interests of some, or a majority, of our stockholders. In order to minimize these conflicts, decisions as to sales of the portfolio properties, or any refinancing, repayment or release of guarantees and indemnities with respect to our debt, will be made by the independent directors.

Ability to Block Certain Actions.

Under applicable law and the limited partnership agreement of the Operating Partnership, consent of the limited partners is required to permit certain actions, including the sale of all or substantially all of the Operating Partnership s assets. Therefore, members of The Saul Organization, through their status as limited partners in the Operating Partnership, could prevent the taking of any such actions, even if they were in the interests of some, or a majority, of our stockholders.

The amount of debt we have and the restrictions imposed by that debt could adversely affect our business and financial condition.

As of December 31, 2007, we had approximately $532.7 million of debt outstanding, $524.7 million of which was long-term fixed rate debt and was secured by 35 of our properties. The remaining $8.0 million of outstanding debt was borrowed under the revolving credit facility.

We currently have a general policy of limiting our borrowings to 50 percent of asset value, i.e., the value of our portfolio, as determined by our Board of Directors by reference to the aggregate annualized cash flow from our portfolio. Our organizational documents contain no limitation on the amount or percentage of indebtedness which we may incur. Therefore, the Board of Directors could alter or eliminate the current limitation on borrowing at any time. If our debt capitalization policy were changed, we could increase our leverage, resulting in an increase in debt service that could adversely affect our operating cash flow and our ability to make expected distributions to stockholders, and in an increased risk of default on our obligations.

We have established our debt capitalization policy relative to asset value, which is computed by reference to the aggregate annualized cash flow from the properties in our portfolio rather than relative to book value. We have used a measure tied to cash flow because we believe that the book value of our portfolio properties, which is the depreciated historical cost of the properties, does not accurately reflect our ability to borrow. Asset value, however, is somewhat more variable than book value, and may not at all times reflect the fair market value of the underlying properties.

The amount of our debt outstanding from time to time could have important consequences to our stockholders. For example, it could:

- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for operations, property acquisitions and other appropriate business opportunities that may arise in the future;

- limit our ability to obtain any additional financing we may need in the future for working capital, debt refinancing, capital expenditures, acquisitions, development or other general corporate purposes;

- make it difficult to satisfy our debt service requirements;
- limit our ability to make distributions on our outstanding common and preferred stock;
- require us to dedicate increased amounts of our cash flow from operations to payments on our variable rate, unhedged debt if interest rates rise;
- limit our flexibility in planning for, or reacting to, changes in our business and the factors that affect the profitability of our business, which may place us at a disadvantage compared to competitors with less debt or debt with less restrictive terms; and
- limit our ability to obtain any additional financing we may need in the future for working capital, debt refinancing, capital expenditures, acquisitions, development or other general corporate purposes.

Our ability to make scheduled payments of the principal of, to pay interest on, or to refinance, our indebtedness will depend primarily on our future performance, which to a certain extent is subject to economic, financial, competitive and other factors described in this section. If we are unable to generate sufficient cash flow from our business in the future to service our debt or meet our other cash needs, we may be required to refinance all or a portion of our existing debt, sell assets or obtain additional financing to meet our debt obligations and other cash needs. Our ability to refinance, sell assets or obtain additional financing may not be possible on terms that we would find acceptable.

We are obligated to comply with financial and other covenants in our debt that could restrict our operating activities, and the failure to comply could result in defaults that accelerate the payment under our debt.

Our secured debt generally contains customary covenants, including, among others, provisions:

- relating to the maintenance of the property securing the debt;
- restricting our ability to assign or further encumber the properties securing the debt; and
- restricting our ability to enter into certain new leases or to amend or modify certain existing leases without obtaining consent of the lenders.

Our unsecured debt generally contains various restrictive covenants. The covenants in our unsecured debt include, among others, provisions restricting our ability to:

- incur additional unsecured debt;
- guarantee additional debt;
- make certain distributions, investments and other restricted payments, including distribution payments on our outstanding stock;
- create certain liens;

- increase our overall secured and unsecured borrowing beyond certain levels; and

- consolidate, merge or sell all or substantially all of our assets.

Our ability to meet some of the covenants in our debt, including covenants related to the condition of the property or payment of real estate taxes, may be dependent on the performance by our tenants under their leases. In addition, our line of credit requires us and our subsidiaries to satisfy financial covenants. The material financial covenants require us, 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 $600 million plus 90% of our 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 2.5 to 1 on a trailing 12-full calendar month basis;

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- limit the amount of debt so that interest, scheduled principal amortization and preferred dividend coverage exceeds 1.6 to 1; and
- 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.

As of December 31, 2007, we were in compliance with all such covenants. If we were to breach any of our debt covenants and did not cure the breach within any applicable cure period, our lenders could require us to repay the debt immediately, and, if the debt is secured, could immediately begin proceedings to take possession of the property securing the loan. Some of our debt arrangements are cross-defaulted, which means that the lenders under those debt arrangements can put us in default and require immediate repayment of their debt if we breach and fail to cure a covenant under certain of our other debt obligations. As a result, any default under our debt covenants could have an adverse effect on our financial condition, our results of operations, our ability to meet our obligations and the market value of our shares.

Our development activities are inherently risky.

The ground-up development of improvements on real property, as opposed to the renovation and redevelopment of existing improvements, presents substantial risks. In addition to the risks associated with real estate investment in general as described elsewhere, the risks associated with our remaining development activities include:

- significant time lag between commencement and completion subjects us to greater risks due to fluctuation in the general economy;
- failure or inability to obtain construction or permanent financing on favorable terms;
- expenditure of money and time on projects that may never be completed;
- inability to achieve projected rental rates or anticipated pace of lease-up;
- higher-than-estimated construction costs, including labor and material costs; and
- possible delay in completion of the project because of a number of factors, including weather, labor disruptions, construction delays or delays in receipt of zoning or other regulatory approvals, or acts of God (such as fires, earthquakes or floods).

Redevelopments and acquisitions may fail to perform as expected.

Our investment strategy includes the redevelopment and acquisition of community and neighborhood shopping centers that are anchored by supermarkets, drugstores or high volume, value-oriented retailers that provide consumer necessities. The redevelopment and acquisition of properties entails risks that include the following, any of which could adversely affect our results of operations and our ability to meet our obligations:

- our estimate of the costs to improve, reposition or redevelop a property may prove to be too low, and, as a result, the property may fail to achieve the returns we have projected, either temporarily or for a longer time;
- we may not be able to identify suitable properties to acquire or may be unable to complete the acquisition of the properties we identify;

we may not be able to integrate new developments or acquisitions into our existing operations successfully;

properties we redevelop or acquire may fail to achieve the occupancy or rental rates we project at the time we make the decision to invest, which may result in the properties failure to achieve the returns we projected;

- our pre-acquisition evaluation of the physical condition of each new investment may not detect certain defects or identify necessary repairs until after the property is acquired, which could significantly increase our total acquisition costs; and

- our investigation of a property or building prior to our acquisition, and any representations we may receive from the seller, may fail to reveal various liabilities, which could reduce the cash flow from the property or increase our acquisition cost.

Our ability to grow will be limited if we cannot obtain additional capital.

Our growth strategy includes the redevelopment of properties we already own and the acquisition of additional properties. Because we are required to distribute to our stockholders at least 90% of our taxable income each year to continue to qualify as a real estate investment trust, or REIT, for federal income tax purposes, in addition to our undistributed operating cash flow, we rely upon the availability of debt or equity capital to fund our growth, which financing may or may not be available on favorable terms or at all. The debt could include mortgage loans from third parties or the sale of debt securities. Equity capital could include our common stock or preferred stock. Additional financing, refinancing or other capital may not be available in the amounts we desire or on favorable terms. Our access to debt or equity capital depends on a number of factors, including the general state of the capital markets, the market s perception of our growth potential, our ability to pay dividends, and our current and potential future earnings. Depending on the outcome of these factors, we could experience delay or difficulty in implementing our growth strategy on satisfactory terms, or be unable to implement this strategy.

Our performance and value are subject to general risks associated with the real estate industry.

Our economic performance and the value of our real estate assets, and, consequently, the value of our investments, are subject to the risk that if our properties do not generate revenue sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow and ability to pay distributions to our stockholders will be adversely affected. As a real estate company, we are susceptible to the following real estate industry risks:

- economic downturns in the areas where our properties are located;

- adverse changes in local real estate market conditions, such as oversupply or reduction in demand;

- changes in tenant preferences that reduce the attractiveness of our properties to tenants;

- zoning or regulatory restrictions;

- decreases in market rental rates;

- weather conditions that may increase energy costs and other operating expenses;

- costs associated with the need to periodically repair, renovate and re-lease space; and

- increases in the cost of adequate maintenance, insurance and other operating costs, including real estate taxes, associated with one or more properties, which may occur even when circumstances such as market factors and competition cause a reduction in revenue from one or more properties, although real estate taxes typically do not increase upon a reduction in such revenue.

Many real estate costs are fixed, even if income from our properties decreases.

Our financial results depend primarily on leasing space in our properties to tenants on terms favorable to us. Costs associated with real estate investment, such as real estate taxes and maintenance costs, generally are not reduced even when a property is not fully occupied, rental rates decrease, or other circumstances cause a reduction in income from the investment. As a result, cash flow from the operations of our properties may be reduced if a tenant does not pay its rent or we are unable to rent our properties on favorable terms. Under those circumstances, we might not be able to enforce our rights as landlord without delays, and may incur substantial legal costs. Additionally, new properties that we may acquire or develop may not produce any significant revenue immediately, and the cash flow from existing operations may be insufficient to pay the operating expenses and debt service associated with that property until the property is fully leased.

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Competition may limit our ability to purchase new properties and generate sufficient income from tenants.

Numerous commercial developers and real estate companies compete with us in seeking tenants for properties and properties for acquisition. This competition may:

- reduce properties available for acquisition;
- increase the cost of properties available for acquisition;
- reduce rents payable to us;
- interfere with our ability to attract and retain tenants;
- lead to increased vacancy rates at our properties; and
- adversely affect our ability to minimize expenses of operation.

Retailers at our shopping center properties also face increasing competition from outlet stores, discount shopping clubs, and other forms of marketing of goods, such as direct mail, internet marketing and telemarketing. This competition may reduce percentage rents payable to us and may contribute to lease defaults and insolvency of tenants. If we are unable to continue to attract appropriate retail tenants to our properties, or to purchase new properties in our geographic markets, it could materially affect our ability to generate net income, service our debt and make distributions to our stockholders.

We may be unable to sell properties when appropriate because real estate investments are illiquid.

Real estate investments generally cannot be sold quickly. In addition, there are some limitations under federal income tax laws applicable to real estate and to REITs in particular that may limit our ability to sell our assets. We may not be able to alter our portfolio promptly in response to changes in economic or other conditions. Our inability to respond quickly to adverse changes in the performance of our investments could have an adverse effect on our ability to meet our obligations and make distributions to our stockholders.

Our insurance coverage on our properties may be inadequate.

We carry comprehensive insurance on all of our properties, including insurance for liability, fire, flood, terrorism and rental loss. These policies contain coverage limitations. We believe this coverage is of the type and amount customarily obtained for or by an owner of real property assets. We intend to obtain similar insurance coverage on subsequently acquired properties.

As a consequence of the September 11, 2001 terrorist attacks and other significant losses incurred by the insurance industry, the availability of insurance coverage has decreased and the prices for insurance have increased. As a result, we may be unable to renew or duplicate our current insurance coverage in adequate amounts or at reasonable prices. In addition, insurance companies may no longer offer coverage against certain types of losses, such as losses due to terrorist acts and toxic mold, or, if offered, the expense of obtaining these types of insurance may not be justified. We therefore may cease to have insurance coverage against certain types of losses and/or there may be decreases in the limits of insurance available. If an uninsured loss or a loss in excess of our insured limits occurs, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property, but still remain obligated for any mortgage debt or other financial obligations related to the property. Material losses in excess of insurance proceeds may occur in the future. Also, due to inflation, changes in codes and ordinances, environmental considerations and other factors, it may not be feasible to use insurance proceeds to replace a building after it has been damaged or destroyed. Events such as these could adversely affect our results of operations and our ability to meet our obligations, including distributions to our stockholders.

Environmental laws and regulations could reduce the value or profitability of our properties.

All real property and the operations conducted on real property are subject to federal, state and local laws, ordinances and regulations relating to hazardous materials, environmental protection and human health and safety. Under various federal, state and local laws, ordinances and regulations, we and our tenants may be required to investigate and clean up certain hazardous or toxic substances released on or in properties we own or operate, and also may be required to pay other costs relating to hazardous or toxic substances. This liability may be imposed without regard to whether we or our tenants knew about the release of these types of substances or were responsible

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for their release. The presence of contamination or the failure to properly remediate contamination at any of our properties may adversely affect our ability to sell or lease those properties or to borrow using those properties as collateral. The costs or liabilities could exceed the value of the affected real estate. We are not aware of any environmental condition with respect to any of our properties that management believes would have a material adverse effect on our business, assets or results of operations taken as a whole. The uses of any of our properties prior to our acquisition of the property and the building materials used at the property are among the property-specific factors that will affect how the environmental laws are applied to our properties. If we are subject to any material environmental liabilities, the liabilities could adversely affect our results of operations and our ability to meet our obligations.

We cannot predict what other environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted or what environmental conditions may be found to exist on the properties in the future. Compliance with existing and new laws and regulations may require us or our tenants to spend funds to remedy environmental problems. Our tenants, like many of their competitors, have incurred, and will continue to incur, capital and operating expenditures and other costs associated with complying with these laws and regulations, which will adversely affect their potential profitability. Generally, our tenants must comply with environmental laws and meet remediation requirements. Our leases typically impose obligations on our tenants to indemnify us from any compliance costs we may incur as a result of the environmental conditions on the property caused by the tenant. If a tenant fails to or cannot comply, we could be forced to pay these costs. If not addressed, environmental conditions could impair our ability to sell or re-lease the affected properties in the future or result in lower sales prices or rent payments.

The Americans with Disabilities Act of 1990 could require us to take remedial steps with respect to newly acquired properties.

The properties, as commercial facilities, are required to comply with Title III of the Americans with Disabilities Act of 1990. Investigation of a property may reveal non-compliance with this Act. The requirements of the Act, or of other federal, state or local laws, also may change in the future and restrict further renovations of our properties with respect to access for disabled persons. Future compliance with the Act may require expensive changes to the properties.

The revenue generated by our tenants could be negatively affected by various federal, state and local laws to which they are subject.

We and our tenants are subject to a wide range of federal, state and local laws and regulations, such as local licensing requirements, consumer protection laws and state and local fire, life-safety and similar requirements that affect the use of the properties. The leases typically require that each tenant comply with all regulations. Failure to comply could result in fines by governmental authorities, awards of damages to private litigants, or restrictions on the ability to conduct business on such properties. Non-compliance of this sort could reduce our revenue from a tenant, could require us to pay penalties or fines relating to any non-compliance, and could adversely affect our ability to sell or lease a property.

Failure to qualify as a REIT for federal income tax purposes would cause us to be taxed as a corporation, which would substantially reduce funds available for payment of distributions.

We believe that we are organized and qualified as a REIT, and currently intend to operate in a manner that will allow us to continue to qualify as a REIT for federal income tax purposes under the Code. However, the IRS could successfully assert that we are not qualified as such. In addition, we may not remain qualified as a REIT in the future. Qualification as a REIT involves the application of highly technical and complex Code provisions. The complexity of these provisions and of the applicable income tax regulations that have been issued under the Code by the United States Department of Treasury is greater in the case of a REIT that holds its assets in partnership form. Certain facts and circumstances not entirely within our control may affect our ability to qualify as a REIT. For example, in order to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying rents and other income. Satisfying this requirement could be difficult, for example, if defaults by tenants were to reduce the amount of income from qualifying rents. Also, we must make annual distributions to stockholders of at least 90% of our net taxable income (excluding capital gains). In addition, new legislation, new regulations, new administrative interpretations or new court decisions may significantly change the tax laws with respect to qualification as a REIT or the federal income tax consequences of such qualification.

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If we fail to qualify as a REIT:

- we would not be allowed a deduction for dividend distributions to stockholders in computing taxable income;
- we would be subject to federal income tax at regular corporate rates;
- we could be subject to the federal alternative minimum tax;
- unless we are entitled to relief under specific statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified;
- we could be required to pay significant income taxes, which would substantially reduce the funds available for investment and for distribution to our stockholders for each year in which we failed to qualify; and
- we would no longer be required by law to make any distributions to our stockholders.

We believe that the Operating Partnership is treated as a partnership, and not as a corporation, for federal income tax purposes. If the IRS were to challenge successfully the status of the Operating Partnership as a partnership for federal income tax purposes:

- the Operating Partnership would be taxed as a corporation;
- we would cease to qualify as a REIT for federal income tax purposes; and
- the amount of cash available for distribution to our stockholders would be substantially reduced.

We may be required to incur additional debt to qualify as a REIT.

As a REIT, we must make annual distributions to stockholders of at least 90% of our REIT taxable income. We are subject to income tax on amounts of undistributed REIT taxable income and net capital gain. In addition, we would be subject to a 4% excise tax if we fail to distribute sufficient income to meet a minimum distribution test based on our ordinary income, capital gain and aggregate undistributed income from prior years.

We intend to make distributions to stockholders to comply with the Code s distribution provisions and to avoid federal income and excise tax. We may need to borrow funds to meet our distribution requirements because:

- our income may not be matched by our related expenses at the time the income is considered received for purposes of determining taxable income; and
- non-deductible capital expenditures or debt service requirements may reduce available cash but not taxable income.

In these circumstances, we might have to borrow funds on unfavorable terms and even if our management believes the market conditions make borrowing financially unattractive.

The structure of our leases may jeopardize our ability to qualify as a REIT.

If the IRS were to challenge successfully the characterization of one or more of our leases of properties as leases for federal income tax purposes, the Operating Partnership would not be treated as the owner of the related property or properties for federal income tax purposes. As a result, the Operating Partnership would lose tax depreciation and cost recovery deductions with respect to one or more of our properties, which in turn could cause us to fail to qualify as a REIT. Although we will use our best efforts to structure any leasing transaction for properties acquired in the future so the lease will be characterized as a lease and the Operating Partnership will be treated as the owner of the property for federal income tax purposes, we will not seek an advance ruling from the IRS and do not intend to seek an opinion of counsel that the Operating Partnership will be treated as the owner of any leased properties for federal income tax purposes. Thus, the IRS could successfully assert that future leases will not be treated as leases for federal income tax purposes, which could adversely affect our financial condition and results of operations.

To maintain our status as a REIT, we limit the amount of shares any one stockholder can own.

The Code imposes certain limitations on the ownership of the stock of a REIT. For example, not more than 50% in value of our outstanding shares of capital stock may be owned, actually or constructively, by five or fewer individuals (as defined in the Code). To protect our REIT status, our articles of incorporation restrict beneficial and constructive ownership (defined by reference to various Code provisions) to no more than 2.5% in value of our issued and outstanding equity securities by any single stockholder with the exception of members of The Saul Organization, who are restricted to beneficial and constructive ownership of no more than 39.9% in value of our issued and outstanding equity securities.

The constructive ownership rules are complex. Shares of our capital stock owned, actually or constructively, by a group of related individuals and/or entities may be treated as constructively owned by one of those individuals or entities. As a result, the acquisition of less than 2.5% or 39.9% in value of our issued and outstanding equity securities, by an individual or entity could cause that individual or entity (or another) to own constructively more than 2.5% or 39.9% in value of the outstanding stock. If that happened, either the transfer or ownership would be void or the shares would be transferred to a charitable trust and then sold to someone who can own those shares without violating the respective ownership limit.

As of December 31, 2007, Mr. Saul II and members of The Saul Organization owned common stock representing approximately 33.7% in value of all our issued and outstanding equity securities. In addition, members of The Saul Organization beneficially owned Operating Partnership units that are, in general, convertible into our common stock on a one-for-one basis. Members of the Saul Organization are permitted under our articles of incorporation to convert Operating Partnership units into shares of common stock or acquire additional shares of common stock until The Saul Organization s actual ownership of common stock reaches 39.9% in value of our equity securities.

The Board of Directors may waive these restrictions on a case-by-case basis. The Board has authorized the Company to grant waivers to look-through entities, such as mutual funds, in which shares of equity stock owned by the entity are treated as owned proportionally by individuals who are the beneficial owners of the entity. Even though these entities may own stock in excess of the 2.5% ownership limit, no individual beneficially or constructively would own more than 2.5%. In addition, in September 1999, our Board of Directors agreed to waive the ownership limit with respect to Wells Fargo Bank National Association and U.S. Bank National Association, the pledgees of certain shares of our common stock and units issued by the Operating Partnership and held by members of The Saul Organization.

The ownership restrictions may delay, defer or prevent a transaction or a change of our control that might involve a premium price for our equity stock or otherwise be in the stockholders best interest.

The lower tax rate on dividends of regular corporations may cause investors to prefer to hold stock of regular corporations instead of-REITs.

On May 28, 2003, the President signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003 (which we will refer to as the Act). Under the Act, the maximum tax rate on the long-term capital gains of non-corporate taxpayers is 15% (applicable to sales occurring from May 7, 2003 through December 31, 2008). The Act also reduced the tax rate on qualified dividend income to the maximum capital gains rate. Because, as a REIT, we are not generally subject to tax on the portion of our REIT taxable income or capital gains distributed to our stockholders, our distributions are not generally eligible for this new tax rate on dividends. As a result, our ordinary REIT dividends generally continue to be taxed at the higher tax rates applicable to ordinary income. Without further legislation, the maximum tax rate on long-term capital gains will revert to 20% in 2009, and dividends will again be subject to tax at ordinary rates.

We cannot assure you we will continue to pay dividends at historical rates.

Our ability to continue to pay dividends on our common stock at historical rates or to increase our common stock dividend rate will depend on a number of factors, including, among others, the following:

- our financial condition and results of future operations;
- the performance of lease terms by tenants;

the terms of our loan covenants; and

our ability to acquire, finance, develop or redevelop and lease additional properties at attractive rates.

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If we do not maintain or increase the dividend rate on our common stock, it could have an adverse effect on the market price of our common stock and other securities. Payment of dividends on our common stock may be subject to payment in full of the dividends on any preferred stock or depositary shares and payment of interest on any debt securities we may offer.

Certain tax and anti-takeover provisions of our articles of incorporation and bylaws may inhibit a change of our control.

Certain provisions contained in our articles of incorporation and bylaws and the Maryland General Corporation Law may discourage a third party from making a tender offer or acquisition proposal to us. If this were to happen, it could delay, deter or prevent a change in control or the removal of existing management. These provisions also may delay or prevent the stockholders from receiving a premium for their stock over then-prevailing market prices. These provisions include:

- the REIT ownership limit described above;
- authorization of the issuance of our preferred stock with powers, preferences or rights to be determined by the Board of Directors;
- a staggered, fixed-size Board of Directors consisting of three classes of directors;
- special meetings of our stockholders may be called only by the Chairman of the Board, the president, by a majority of the directors or by stockholders possessing no less than 25% of all the votes entitled to be cast at the meeting;
- the Board of Directors, without a stockholder vote, can classify or reclassify unissued shares of preferred stock;
- a member of the Board of Directors may be removed only for cause upon the affirmative vote of 75% of the Board of Directors or 75% of the then-outstanding capital stock;
- advance notice requirements for proposals to be presented at stockholder meetings; and
- the terms of our articles of incorporation regarding business combinations and control share acquisitions.

We may amend or revise our business policies without your approval.

Our Board of Directors may amend or revise our operating policies without stockholder approval. Our investment, financing and borrowing policies and policies with respect to all other activities, such as growth, debt, capitalization and operations, are determined by the Board of Directors or those committees or officers to whom the Board of Directors has delegated that authority. The Board of Directors may amend or revise these policies at any time and from time to time at its discretion. A change in these policies could adversely affect our financial condition and results of operations, and the market price of our securities.

Item 1B. Unresolved Staff Comments

We have received no written comments from the Securities and Exchange Commission staff regarding our periodic or current reports in the 180 days preceding December 31, 2007 that remain unresolved.

Item 2. Properties

Overview

The Company is the owner and operator of a real estate portfolio composed of 48 operating properties totaling approximately 8,009,000 square feet of gross leasable area (GLA) and five development parcels as of December 31, 2007. The properties are located primarily in the Washington, DC/Baltimore, Maryland metropolitan area. The portfolio is composed of 43 neighborhood and community Shopping Centers, and five predominantly

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Office Properties totaling approximately 6,803,000 and 1,206,000 square feet of GLA, respectively. A majority of the Shopping Centers are anchored by several major tenants. Twenty-nine of the Shopping Centers were anchored by a grocery store and offer primarily day-to-day necessities and services. No single property accounted for more than 7.1% of the total gross leasable area. Only two retail tenants, Giant Food (4.5%), a tenant at nine Shopping Centers and Safeway (3.0%), a tenant at seven Shopping Centers and one office tenant, the United States Government (2.7%), a tenant at six properties, individually accounted for more than 2.5% of the Company s total revenue for the year ended December 31, 2007.

The Company s Current Portfolio Properties primarily consists of seasoned properties that have been owned and managed by The Saul Organization for 20 years or more. The Company expects to hold its properties as long-term investments, and it has no maximum period for retention of any investment. It plans to selectively acquire additional income-producing properties and to expand, renovate, and improve its properties when circumstances warrant. See Item 1. Business Operating Strategies and Business Capital Policies.

The Shopping Centers

Community and neighborhood shopping centers typically are anchored by one or more supermarkets, discount department stores or drug stores. These anchors offer day-to-day necessities rather than apparel and luxury goods and, therefore, generate consistent local traffic. By contrast, regional malls generally are larger and typically are anchored by one or more full-service department stores.

In general, the Shopping Centers are seasoned community and neighborhood shopping centers located in well established, highly developed, densely populated, middle and upper income areas. The 2007 average estimated population within a one and three-mile radius of the Shopping Centers is approximately 16,000 and 100,000, respectively. The 2007 average household income within the one and three-mile radius of the Shopping Centers is approximately $96,800 and $98,100, respectively, compared to a national average of $73,100. Because the Shopping Centers generally are located in highly developed areas, management believes that there is little likelihood that significant numbers of competing centers will be developed in the future.

The Shopping Center properties range in size from 4,000 to 569,000 square feet of GLA, with six in excess of 300,000 square feet, and an average of approximately 158,000 square feet. A majority of the Shopping Centers are anchored by several major tenants and other tenants offering primarily day-to-day necessities and services. Twenty-nine of the 43 Shopping Centers are anchored by a grocery store.

The Office Properties

Four of the five Office Properties are located in the Washington, DC metropolitan area and contain an aggregate GLA of approximately 1,009,000 square feet, comprised of 922,000 and 87,000 square feet of office and retail space, respectively. The fifth Office Property is located in Tulsa, Oklahoma and contains GLA of 197,000 square feet. The Office Properties represent three distinct styles of facilities, are located in differing commercial environments with distinctive demographic characteristics, and are geographically removed from one another. As a consequence, management believes that the Washington, DC area office properties compete for tenants in different commercial and geographic sub-markets of the metropolitan Washington, DC market and do not compete with one another.

Management believes that the Washington, DC office market is one of the strongest and most stable leasing markets in the nation, with relatively low vacancy rates in comparison to other major metropolitan areas. Management believes that the long-term stability of this market is attributable to the status of Washington, DC as the nation s capital and to the presence of the Federal government, international agencies, and an expanding private sector job market. 601 Pennsylvania Avenue is a nine-story, 227,000 square foot Class A office building (with a small amount of street level retail space) built in 1986 and located in a prime location in downtown Washington, DC. Van Ness Square is a six-story, 156,000 square foot office/retail building which was redeveloped in 1990. Van

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Ness Square is located in a highly developed commercial area of Northwest Washington, DC which offers extensive retail and restaurant amenities. Washington Square at Old Town is a 235,000 square foot Class A mixed-use office/retail complex completed in 2000 and located on a two-acre site along Alexandria s main street, North Washington Street, in historic Old Town Alexandria, Virginia. Avenel Business Park is a 391,000 square foot research park located in the suburban Maryland, I-270 biotech corridor. The business park consists of twelve one-story buildings built in six phases, completed in 1981, 1985, 1989, 1998, 1999 and 2000.

Crosstown Business Center is a 197,000 square foot flex office/warehouse property located in Tulsa, Oklahoma. The property is located in close proximity to Tulsa s international airport and major roadways and has attracted tenants requiring light industrial and distribution facilities.

The following table sets forth, at the dates indicated, certain information regarding the Current Portfolio Properties:

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Saul Centers, Inc.

Schedule of Current Portfolio Properties

December 31, 2007

Property	Location	Leasable Area (Square Feet)	Year Developed or Acquired (Renovated)	Land Area (Acres)	Percentage Leased Dec-07	Dec-06	Anchor/ Significant Tenants
Shopping Centers							
Ashland Square Phase I	Manassas, VA	3,650	2007	2.0	100%	N / A	
Ashburn Village	Ashburn, VA	221,687	1994/00/01/02/06	26.4	95%	99%	Giant Food, Ruby Tuesday, Hallmark Cards, Starbucks
Beacon Center	Alexandria, VA	356,115	1972 (1993/99/07)	32.3	100%	100%	Lowe s, Giant Food, Office Depot, Outback Steakhouse, Marshalls, Hancock Fabrics, Party Depot, Panera Bread, TGI Fridays, Starbucks
Belvedere	Baltimore, MD	54,941	1972	4.8	36%	41%	Family Dollar
Boca Valley Plaza	Boca Raton, FL	121,269	2004	12.7	96%	97%	Publix, Wachovia Bank
Boulevard	Fairfax, VA	56,350	1994 (1999)	5.0	100%	100%	Panera Bread, Party City, Petco
Briggs Chaney MarketPlace	Silver Spring, MD	194,347	2004	18.2	99%	100%	Safeway, Ross Dress For Less, Chuck E Cheese, Family Dollar
Broadlands Village I, II & III	Ashburn, VA	159,734	2003/4/6	24.0	98%	100%	Safeway, The Original Steakhouse and Sports Theatre, Bonefish Grill, Starbucks
Clarendon/Clarendon Station	Arlington, VA	11,808	1973/1996	0.6	61%	70%	
Countryside	Sterling, VA	141,696	2004	16.0	97%	96%	Safeway, CVS Pharmacy, Starbucks
Cruse MarketPlace	Cumming, GA	78,686	2004	10.6	97%	97%	Publix
Flagship Center	Rockville, MD	21,500	1972, 1989	0.5	100%	100%	
French Market	Oklahoma City, OK	244,724	1974 (1984/98)	13.8	94%	93%	Burlington Coat Factory, Bed Bath & Beyond, Staples, Famous Footwear, Lakeshore Learning Center, Alfred Angelo, Dollar Tree
Germantown	Germantown, MD	27,241	1992	2.7	84%	92%	
Giant	Baltimore, MD	70,040	1972 (1990)	5.0	100%	100%	Giant Food
The Glen	Lake Ridge, VA	134,317	1994 (2005)	14.7	96%	98%	Safeway Marketplace, The Original Steakhouse and Sports Theatre, Panera Bread
Great Eastern	District Heights, MD	254,448	1972 (1995)	31.9	99%	100%	Giant Food, Pep Boys, Big Lots, Capital Sports Complex
Hampshire Langley	Takoma Park, MD	131,700	1972 (1979)	9.9	100%	100%	Safeway, Radio Shack, Starbucks
Hunt Club Corners	Apopka, FL	101,522	2006	13.1	99%	94%	Publix, Walgreens, Radio Shack
Jamestown Place	Altamonte Springs, FL	96,372	2005	10.9	95%	100%	Publix, Carrabas Italian Grill
Kentlands Square	Gaithersburg, MD	114,381	2002	11.5	100%	100%	Lowe s, Chipotle
Kentlands Place	Gaithersburg, MD	40,648	2005	3.4	100%	100%	

Elizabeth Arden s Red Door Salon, Bonefish Grill

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Saul Centers, Inc.

Schedule of Current Portfolio Properties

December 31, 2007

Property	Location	Leasable Area (Square Feet)	Year Developed or Acquired (Renovated)	Land Area (Acres)	Percentage Leased Dec-07	Percentage Leased Dec-06	Anchor / Significant Tenants
Shopping Centers (continued)							
Lansdowne Town Center	Leesburg, VA	189,414	2006	23.4	99%(A)	N/A	Harris Teeter, CVS Pharmacy, Panera Bread, Not Your Average Joes, Starbucks
Leesburg Pike	Baileys Crossroads, VA	97,752	1966 (1982/95)	9.4	100%	100%	CVS Pharmacy, Party Depot, FedEx Kinko s, Radio Shack, Verizon Wireless
Lexington Pads	Lexington, KY	13,646	1974	4.1	100%	100%	Applebees
Lumberton Plaza	Lumberton, NJ	193,044	1975 (1992/96)	23.3	98%	98%	SuperFresh, Rite Aid, Virtua Health Center, Radio Shack, Family Dollar
Shops at Monocacy	Frederick, MD	109,144	2004	13.0	100%	100%	Giant Food, Panera Bread, Starbucks
Olde Forte Village	Ft. Washington, MD	143,062	2003	16.0	95%	93%	Safeway, Radio Shack
Olney	Olney, MD	53,765	1975 (1990)	3.7	100%	97%	Rite Aid
Orchard Park	Dunwoody, GA	87,782	2007	10.5	93%	N/A	Kroger, Starbucks
Palm Springs Center	Altamonte Springs, FL	126,446	2005	12.0	97%	100%	Albertson s, Office Depot, Mimi s Cafe, Toojay s Deli
Ravenwood	Baltimore, MD	93,328	1972 (2006)	8.0	100%	100%	Giant Food, Hollywood Video, Starbucks
Seabreeze Plaza	Palm Harbor, FL	146,673	2005	18.4	90%	100%	Publix, Palm Harbor Health Food, World Gym
Seven Corners	Falls Church, VA	568,831	1973 (1994-7/07)	31.6	100%	100%	The Home Depot, Shoppers Food & Pharmacy, Michaels Arts & Crafts, Barnes & Noble, Ross Dress For Less, G Street Fabrics, Off-Broadway Shoes, The Room Store, Dress Barn, Starbucks, Dogfishhead Ale

							House
Shops at Fairfax	Fairfax, VA	68,743	1975 (1993/99)	6.7	100%	100%	Super H Mart
Smallwood Village Center	Waldorf, MD	197,861	2006	25.1	73%	84%	Safeway, CVS
Southdale	Glen Burnie, MD	484,115	1972 (1986)	39.6	100%	100%	Giant Food, The Home Depot, Circuit City, Michaels Arts & Crafts, Marshalls, PetSmart, Value City Furniture, Athletic Warehouse, Starbucks
Southside Plaza	Richmond, VA	373,651	1972	32.8	93%	96%	Farmers Foods, Maxway, Citi Trends, City of Richmond
South Dekalb Plaza	Atlanta, GA	163,418	1976	14.6	83%	95%	Maxway, Consolidated Stores
Thruway	Winston-Salem, NC	355,116	1972 (1997)	30.5	97%	93%	Harris Teeter, Borders Books, Bed Bath & Beyond, Stein Mart, Rite Aid, JoS. A Banks, Bonefish Grill, Chico s, Ann Taylor Loft, Coldwater Creek, Kinkos/FedEx, New Balance, Aveda Salon, Christies Hallmark, Rite Aid
Village Center	Centreville, VA	143,109	1990	17.2	99%	97%	Giant Food, Tuesday Morning
West Park	Oklahoma City, OK	76,610	1975	11.2	19%	19%	Family Dollar
White Oak	Silver Spring, MD	480,156	1972 (1993)	28.5	100%	100%	Giant Food, Sears, Rite Aid
	Total Shopping Centers	6,802,842		649.6	95.3%	96.1%	

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Saul Centers, Inc.

Schedule of Current Portfolio Properties

December 31, 2007

Property	Location	Leasable Area (Square Feet)	Year Developed or Acquired (Renovated)	Land Area (Acres)	Percentage Leased Dec-07	Percentage Leased Dec-06	Anchor / Significant Tenants
Office Properties							
Avenel Business Park	Gaithersburg, MD	390,579	1981-2000	37.1	93%	99%	General Services Administration, VIRxSYS, Broadsoft, Quanta Systems, SeraCare Life Sciences, Panacos Pharmaceutical
Crosstown Business Center	Tulsa, OK	197,135	1975 (2000)	22.4	88%	88%	Compass Group, Roxtec, Keystone Automotive, Gofit, Freedom Express
601 Pennsylvania Ave.	Washington, DC	226,604	1973 (1986)	1.0	100%	100%	National Gallery of Art, American Assn. of Health Plans, Credit Union National Assn., Southern Company, HQ Global, Freedom Forum, Pharmaceutical Care Management Assn., Capital Grille
Van Ness Square	Washington, DC	156,493	1973 (1990)	1.2	97%	97%	Team Video Intl, Office Depot, Pier 1
Washington Square	Alexandria, VA	235,042	1975 (2000)	2.0	99%	100%	Vanderweil Engineering, Agentrics, EarthTech, Thales, Cooper Carry, Bank of America, Trader Joe s, Fed Ex/Kinko s, Talbot s
	Total Office Properties	1,205,853		63.7	95.2%	97.3%	
	Total Portfolio	**8,008,695**		**713.3**	**95.3%**	**96.3%**	

Development Parcels

Property	Location	Year	Land Area (Acres)	Status
Clarendon Center	Arlington, VA	2002	1.3	Obtained zoning approvals from Arlington County, June 2006. South block building demolition expected to be completed February 2008. A development timetable has not been determined.
Westview Village	Frederick, MD	2007	10.4	Land purchased November 2007. Site work construction commenced in early 2008.
Ashland Square Phase II	Manassas, VA	2004	17.3	Marketing to grocers and other retail businesses, with a development timetable yet to be

				finalized.
Lexington Center	Lexington, KY	1974	26.0	The former mall is now vacant and the Company has prepared conceptual designs for a shopping center development and is marketing the site to prospective retailers.
New Market	New Market, MD	2005	35.5	Parcel will accommodate retail development in excess of 120,000 SF near I-70, east of Frederick, Maryland. A development timetable has not been determined.
	Total Development Properties		90.5	

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Item 3. Legal Proceedings

In the normal course of business, the Company is involved in litigation, including litigation arising out of the collection of rents, the enforcement or defense of the priority of its security interests, and the continued development and marketing of certain of its real estate properties. In the opinion of management, litigation that is currently pending should not have a material adverse impact on the financial condition or future operations of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Shares of Saul Centers common stock are listed on the New York Stock Exchange under the symbol BFS . The composite high and low closing sale prices for the shares of common stock as reported by the New York Stock Exchange for each quarter of 2007 and 2006 were as follows:

	Share Price	
Period	**High**	**Low**
October 1, 2007 December 31, 2007	$ 62.58	$ 50.56
July 1, 2007 September 30, 2007	$ 51.50	$ 42.32
April 1, 2007 June 30, 2007	$ 56.31	$ 43.95
January 1, 2007 March 31, 2007	$ 60.37	$ 52.15
October 1, 2006 December 31, 2006	$ 56.99	$ 44.99
July 1, 2006 September 30, 2006	$ 45.55	$ 38.37
April 1, 2006 June 30, 2006	$ 42.35	$ 35.67
January 1, 2006 March 31, 2006	$ 43.96	$ 36.04

On February 25, 2008, the closing price was $48.32 per share.

Holders

The approximate number of holders of record of the common stock was 330 as of February 25, 2008.

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Dividends and Distributions

Under the Code, REIT s are subject to numerous organizational and operating requirements, including the requirement to distribute at least 90% of REIT taxable income. The Company distributed amounts greater than the required amount in 2007 and 2006. Distributions by the Company to common stockholders and holders of limited partnership units in the Operating Partnership were $40,613,000 in 2007 and $37,611,000 in 2006. Distributions to preferred stockholders were $8,000,000 in both 2007 and 2006. See Notes to Financial Statements, No. 14, Distributions. The Company may or may not elect to distribute in excess of 90% of REIT taxable income in future years.

The Company s estimate of cash flow available for distributions is believed to be based on reasonable assumptions and represents a reasonable basis for setting distributions. However, the actual results of operations of the Company will be affected by a variety of factors, including actual rental revenue, operating expenses of the Company, interest expense, general economic conditions, federal, state and local taxes (if any), unanticipated capital expenditures, the adequacy of reserves and preferred dividends. While the Company intends to continue paying regular quarterly distributions, any future payments will be determined solely by the Board of Directors and will depend on a number of factors, including cash flow of the Company, its financial condition and capital requirements, the annual distribution requirements required to maintain its status as a REIT under the Code, and such other factors as the Board of Directors deems relevant. We are obligated to pay regular quarterly distributions to holders of depositary shares of Series A preferred stock at the rate of $2.00 per annum per depositary share, prior to distributions on the common stock.

The Company paid four quarterly distributions totaling $1.77, $1.68 and $1.60, per common share during each of the years ended December 31, 2007, 2006 and 2005, respectively. The annual distribution amounts paid by the Company exceed the distribution amounts required for tax purposes. Distributions to the extent of our current and accumulated earnings and profits for federal income tax purposes generally will be taxable to a stockholder as ordinary dividend income. Distributions in excess of current and accumulated earnings and profits will be treated as a nontaxable reduction of the stockholder s basis in such stockholder s shares, to the extent thereof, and thereafter as taxable gain. Distributions that are treated as a reduction of the stockholder s basis in its shares will have the effect of deferring taxation until the sale of the stockholder s shares. The Company has determined that 100% of the total $1.77 per common share dividend paid in 2007 represents currently taxable dividend income to the stockholders. The Company has determined that 86.0% of the total $1.68 per common share dividend paid in 2006 represents currently taxable dividend income to the stockholders, while the balance of 14.0% is considered return of capital. The Company has determined that for the $1.60 per common share dividend paid in 2005, 95.0% was taxable dividend income and 5.0% was considered return of capital. No assurance can be given regarding what portion, if any, of distributions in 2008 or subsequent years will constitute a return of capital for federal income tax purposes. All of the preferred stock dividends paid are considered ordinary dividend income.

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Performance Graph

Rules promulgated under the Exchange Act require the Company to present a graph comparing the cumulative total stockholder return on its Common Stock with the cumulative total stockholder return of (i) a broad equity market index, and (ii) a published industry index or peer group. The graph compares the cumulative total stockholder return of the Company s Common Stock, based on the market price of the Common Stock and assuming reinvestment of dividends, with the National Association of Real Estate Investment Trust Equity Index (NAREIT Equity), the S&P 500 Index (S&P 500) and the Russell 2000 Index (Russell 2000). The graph assumes the investment of $100 on January 1, 2003.

Item 6. Selected Financial Data

The selected financial data of the Company contained herein has been derived from the consolidated financial statements of the Company. The data should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements included elsewhere in this report. The historical selected financial data have been derived from audited financial statements for all periods.

Saul Centers, Inc.

SELECTED FINANCIAL DATA

(In thousands, except per share data)

	Years Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Operating Data:					
Total revenue	$ 150,585	$ 137,978	$ 127,015	$ 112,842	$ 97,884
Operating expenses	105,203	97,505	89,990	79,135	70,738
Operating income	45,382	40,473	37,025	33,707	27,146
Non-operating income (loss)					
Gain on property disposition	139			572	182
Income before minority interests	45,521	40,473	37,025	34,279	27,328
Minority interests	(8,818)	(7,793)	(7,798)	(8,105)	(8,086)
Net income	36,703	32,680	29,227	26,174	19,242
Preferred dividends	(8,000)	(8,000)	(8,000)	(8,000)	(1,244)
Net income available to common stockholders	$ 28,703	$ 24,680	$ 21,227	$ 18,174	$ 17,998
Per Share Data (diluted):					
Net income available to common stockholders	$ 1.62	$ 1.43	$ 1.27	$ 1.12	$ 1.15
Basic and Diluted Shares Outstanding					
Weighted average common shares basic	17,589	17,075	16,663	16,154	15,591
Effect of dilutive options	180	158	107	57	17
Weighted average common shares diluted	17,769	17,233	16,770	16,211	15,608
Weighted average convertible limited partnership units	5,416	5,395	5,233	5,194	5,182
Weighted average common shares and fully converted limited partnership units diluted	23,185	22,628	22,003	21,405	20,790
Dividends Paid:					
Cash dividends to common stockholders (1)	$ 31,026	$ 28,579	$ 26,542	$ 25,061	$ 24,171
Cash dividends per share	$ 1.77	$ 1.68	$ 1.60	$ 1.56	$ 1.56
Balance Sheet Data:					
Real Estate Investments					
(net of accumulated depreciation)	$ 657,258	$ 627,651	$ 567,417	$ 501,388	$ 387,292
Total assets	727,443	700,537	631,469	583,396	471,616
Total debt, including accrued interest	535,319	525,125	484,902	455,925	359,051
Preferred stock	100,000	100,000	100,000	100,000	100,000
Total stockholders equity (deficit)	148,779	132,091	111,414	100,964	92,643
Other Data					
Cash flow provided by (used in):					

Operating activities	$ 71,197	$ 62,174	$ 58,674	$ 50,686	$ 37,716
Investing activities	$ (52,036)	$ (65,699)	$ (73,805)	$ (113,467)	$ (49,121)
Financing activities	$ (21,457)	$ 3,579	$ (10,423)	$ 51,098	$ 55,340
Funds from operations (2)					
Net income	$ 36,703	$ 32,680	$ 29,227	$ 26,174	$ 19,242
Minority Interests	8,818	7,793	7,798	8,105	8,086
Real estate depreciation and amortization	26,464	25,648	24,197	21,324	17,838
Gain on property disposition	(139)			(572)	(182)
Funds from operations	71,846	66,121	61,222	55,031	44,984
Preferred dividends	(8,000)	(8,000)	(8,000)	(8,000)	(1,244)
Funds from operations available to common shareholders	$ 63,846	$ 58,121	$ 53,222	$ 47,031	$ 43,740

(1) For the years 2007, 2006, 2005, 2004 and 2003, shareholders reinvested $18,725, $14,842, $15,330, $13,774 and $13,349, in newly issued common stock by operation of the Company's dividend reinvestment plan, respectively.

(2) Funds From Operations (FFO) is a non-GAAP financial measure. For a definition of FFO, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations-Funds From Operations.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) begins with the Company s primary business strategy to give the reader an overview of the goals of the Company s business. This is followed by a discussion of the critical accounting policies that the Company believes are important to understanding the assumptions and judgments incorporated in the Company s reported financial results. The next section, beginning on page 38, discusses the Company s results of operations for the past two years. Beginning on page 42, the Company provides an analysis of its liquidity and capital resources, including discussions of its cash flows, debt arrangements, sources of capital and financial commitments. Finally, on page 50, the Company discusses funds from operations, or FFO, which is a relative non-GAAP financial measure of performance of an equity REIT used by the REIT industry.

The MD&A should be read in conjunction with the other sections of this Annual Report on Form 10-K, including the consolidated financial statements and notes thereto appearing in Item 8 of this report. Historical results set forth in Selected Financial Information, the Financial Statements and Supplemental Data included in Item 6 and Item 8 and this section should not be taken as indicative of the Company s future operations.

Overview

The Company s principal business activity is the ownership, management and development of income-producing properties. The Company s long-term objectives are to increase cash flow from operations and to maximize capital appreciation of its real estate.

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 growth in cash flow as existing leases for space in the Shopping Centers 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 maximize this potential for increased cash flow. 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 goal of increasing cash flow. 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 with 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.

Management believes that attractive acquisition and development opportunities for investment in existing and new shopping center properties will continue to be available from time to time. Management believes that the Company s capital structure will enable it to take advantage of these opportunities as they arise. In addition, management believes its shopping center expertise should permit it to optimize the performance of shopping centers once they have been acquired.

Management also believes that opportunities may arise for investment in new office properties. It is management s view that several of the office sub-markets in which the Company operates have attractive supply/demand characteristics. The Company will continue to evaluate new office development and redevelopment as an integral part of its overall business plan.

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Although it is management s present intention to concentrate future acquisition and development activities on community and neighborhood shopping centers and office properties in the Washington, DC/Baltimore metropolitan area and the southeastern region of the United States, the Company may, in the future, also acquire other types of real estate in other areas of the country as opportunities present themselves. While the Company may diversify in terms of property locations, size and market, the Company does not set any limit on the amount or percentage of Company assets that may be invested in any one property or any one geographic area. In addition to investing in properties in the Washington, DC/Baltimore metropolitan area, from 2004 through 2007, the Company also acquired five grocery-anchored neighborhood shopping centers in Florida, totaling 592,000 square feet and two grocery-anchored neighborhood shopping centers in Georgia totaling 167,000 square feet.

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 basis less depreciation. Management believes that these assets have generally appreciated in value and, accordingly, the aggregate current value exceeds their aggregate net book value and also exceeds the value of the Company s liabilities as reported in these financial statements. Because these financial statements are prepared in conformity with GAAP, they do not report the current value of the Company s real estate assets. The purchase price of real estate assets acquired is allocated between land, building and in-place acquired leases based on the relative fair values of the components at the date of acquisition. Buildings are depreciated on a straight-line basis over their estimated useful lives of 35 to 50 years. Intangibles associated with acquired in-place leases are amortized over the remaining base lease terms.

If there is an event or change in circumstance that indicates an impairment in the value of a real estate investment property, the Company assesses an impairment in value by making a comparison of the current and projected operating cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying amount or projected carrying amount of that property. If such carrying amount is greater than the estimated projected cash flows, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair market value.

When incurred, the Company capitalizes the cost of improvements that extend the useful life of property and equipment and all repair and maintenance expenditures are expensed. In addition, we capitalize leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvement.

Interest, real estate taxes 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.

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In the initial rental operations of development projects, 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. Leasehold improvements are amortized over the lives of the related leases using the straight-line method.

Lease Acquisition Costs

Certain initial direct costs incurred by the Company in negotiating and consummating successful leases are capitalized and amortized over the initial base term of the leases. Capitalized 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 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.

Revenue Recognition

Rental and interest income is accrued as earned except when doubt exists as to collectibility, in which case the accrual is discontinued. Recognition of rental income commences when control of the space has been given to the tenant. When rental payments due under leases vary from a straight-line basis because of free rent periods or 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.

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. These matters 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 the financial position or the results of operations. Once it has been determined that a loss is probable to occur, the estimated amount of the loss is recorded in the financial statements. Both the amount of the loss and the point at which its occurrence is considered probable can be difficult to determine.

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Results of Operations

Revenue

(Dollars in thousands)

	For the year ended December 31,			Percentage Change	
	2007	2006	2005	2007 to 2006	2006 to 2005
Base rent	$ 118,806	$ 110,121	$ 99,448	7.9%	10.7%
Expense recoveries	26,090	22,636	20,027	15.3%	13.0%
Percentage rent	1,497	1,767	2,057	-15.3%	-14.1%
Other	4,192	3,454	5,483	21.4%	-37.0%
Total revenue	$ 150,585	$ 137,978	$ 127,015	9.1%	8.6%

Total revenue increased 9.1% for the 2007 year compared to 2006 primarily due to (1) the contribution of operating revenue from three development properties (Lansdowne Town Center, Broadlands Village III and Ashland Square Phase I) and an acquisition property (Orchard Park) placed in service during 2007 and two operating properties acquired during 2006, (Hunt Club Corners and Smallwood Village Center) together defined as the 2007/2006 Development and Acquisition Properties whose operating results are included in 2007 s operating income but not fully in the previous year s results. The 2007/2006 Development and Acquisition Properties contributed $7,013,000 or 55.6% of the increase in revenue. Also contributing to the 2007 revenue increase was rental rate growth in the remainder of the Company s Current Portfolio Properties (the Core Properties) and increased lease termination fees.

Total revenue increased 8.6% for the 2006 year compared to 2005 primarily due to (1) the contribution of operating revenue from two development properties (Broadlands Village III and Lansdowne Town Center) and two acquisition properties (Smallwood Village Center and Hunt Club Corners) placed in service during 2006 and four operating properties developed or acquired during 2005, (Kentlands Place, Palm Springs, Jamestown Place and Seabreeze Plaza) together defined as the 2006/2005 Development and Acquisition Properties whose operating results are included in 2006 s operating income but not fully in the previous year s results, which was offset in part by (2) the payment related to resolution of a land use dispute with a property owner adjacent to the Company s Lexington Mall included in 2005 other revenue. The 2006/2005 Development and Acquisition Properties contributed $8,184,000 or 74.7% of the increase in revenue. The increase in revenue from 2005 to 2006 was offset by the net payment related to the resolution of the Lexington Mall land use dispute of $1,801,000 included in 2005 revenue (-16.4% of the change in revenue) . Also contributing to the 2006 revenue increase were rents earned at the Company s Great Eastern Plaza, Shops at Monocacy, The Glen (impacted by a 22,000 square foot expansion completed November 2005) and Southside Plaza shopping centers, which provided increased revenue of $736,000 or 6.7%, $691,000 or 6.3%, $562,000 or 5.1% and $493,000 or 4.5%, respectively. A discussion of the components of revenue follows.

Base rent

The $8,685,000 increase in base rent for 2007 versus 2006 was primarily attributable (68.5% or approximately $5,950,000) to leases in effect at the 2007/2006 Development and Acquisition Properties. New leases at higher base rental rates than the predecessor leases at certain other properties accounted for the balance of the increase.

The $10,673,000 increase in base rent for 2006 versus 2005 was primarily attributable (58.4% or approximately $6,229,000) to leases in effect at the 2006/2005 Development and Acquisition Properties. Base rent was also increased by (1) the maturation of 2004 development property, Shops at Monocacy (5.4% or approximately $577,000), (2) 22,000 square feet of new space placed in service at The Glen during 2005 (4.9% or approximately $524,000) and (3) improved leasing at Southside Plaza (4.8% or approximately $507,000). New leases at higher base rental rates than the predecessor leases at certain other properties accounted for the balance of the increase.

Expense recoveries

Expense recoveries represent a portion of property operating expenses billable to tenants, including common area maintenance, real estate taxes and other recoverable costs. The largest portion of the $3,454,000 increase in expense recovery income from 2006 to 2007 resulted from recovery of increased real estate tax resulting from higher assessed valuations in the Core Properties, and to a lesser extent the payment of taxes at 2007/2006 Development and Acquisition Properties (40.6% or approximately $1,402,000). Increased property operating expenses, particularly snow removal costs, at the core properties (39.4% or approximately $1,360,000) and 2007/2006 Development and Acquisition Properties (20.0% or approximately $692,000) contributed the balance of the increase.

The majority of the $2,609,000 increase in expense recovery income from 2005 to 2006 was contributed by the 2006/2005 Development and Acquisition Properties (65.4% or approximately $1,707,000). Increased expense recovery income was provided by the leasing of a large space at Great Eastern Plaza, which was not contributing expense recovery income in 2005 (10.2% or approximately $265,000). Increased real estate taxes, insurance, repairs and utilities expenses at several of the Company s other properties were incurred and recovered from tenants.

Percentage rent

Percentage rent is rental revenue calculated on the portion of a tenant s sales revenue that exceeds a specified breakpoint. Percentage rent decreased $270,000 in 2007 versus 2006 primarily as a result of timing differences in the submission of sales reports used to calculate percentage rent by two retail tenants (50.7% or approximately $137,000, each).

Percentage rent decreased $290,000 in 2006 versus 2005 primarily as a result of two tenants renewing leases at Leesburg Pike (88.3% or approximately $256,000) and Southdale (36.6% or approximately $106,000) at higher base rents in lieu of percentage rents and timing differences in the submission of sales reports used to calculate percentage rent by one retail tenant (37.6% or approximately $109,000). Percentage rental income was positively impacted by new tenants in the 2006/2005 Development and Acquisition Properties (73.4% or approximately $213,000).

Other revenue

Other revenue consists primarily of parking revenue at three of the Office Properties, temporary lease rental income, payments associated with early termination of leases and interest income from the investment of cash balances. Other revenue increased $738,000 during 2007 versus 2006 as a result of increased lease termination fees (62.3% or approximately $460,000), increased interest income from short-term investments (16.3% or approximately $120,000), and increased parking revenue in the office portfolio (11.7% or approximately $86,000).

Other revenue decreased $2,029,000 during 2006 versus 2005 as a result of $1,801,000 (88.8 % of decrease) related to resolution of a land use dispute with a property owner adjacent to the Company s Lexington Mall and decreased interest income from short-term investments (16.1% or $327,000). Other revenue was also impacted by the collection of a lease termination fee and settlement of a rent dispute in 2005 with two former tenants at 601 Pennsylvania Avenue (12.9% or $262,000), the negative impact of which was more than offset by increased parking revenue in the office portfolio (16.6% or $336,000), primarily at 601 Pennsylvania Avenue where parking revenues increased compared to the prior year, when spaces were temporarily placed out of service during scheduled maintenance.

Operating expenses

(Dollars in thousands)

	For the year ended December 31,			Percentage Change	
	2007	2006	2005	2007 to 2006	2006 to 2005
Property operating expenses	$ 18,758	$ 16,278	$ 14,724	15.2%	10.6%
Provision for credit losses	376	400	237	-6.0%	68.8%
Real estate taxes	14,084	12,503	11,040	12.6%	13.3%
Interest expense and amortization of deferred debt	33,855	32,534	30,207	4.1%	7.7%
Depreciation and amortization	26,464	25,648	24,197	3.2%	6.0%
General and administrative	11,666	10,142	9,585	15.0%	5.8%
Total operating expenses	$ 105,203	$ 97,505	$ 89,990	7.9%	8.4%

Property operating expenses

Property operating expenses consist primarily of repairs and maintenance, utilities, payroll, insurance and other property related expenses. The $2,480,000 increase in 2007 versus 2006 property operating expenses was caused primarily by the operation of the 2007/2006 Development and Acquisition Properties (47.9% or approximately $1,188,000) and increased snow removal costs due to winter storms experienced during the 2007 year (22.1% or approximately $549,000). The balance of the increase represents a 4.9% increase in property operating expenses for the Core Properties.

The $1,554,000 increase in 2006 versus 2005 property operating expenses was caused primarily by the operation of the 2006/2005 Development and Acquisition Properties (90.3% or approximately $1,403,000). Property operating expenses increased an average of 1.1% at the Company s remaining properties compared to the prior year period.

Provision for credit losses

The provision for credit losses represents the Company s estimation that amounts previously included in income and owed by tenants may not be collectible. The provision for credit losses was virtually unchanged from the prior year, a decrease of $24,000 for 2007 versus 2006. The provision for credit losses is less than three tenths of one percent (0.3%) of total revenue for each period, a reflection of the relative credit quality of the Company s tenants.

The provision for credit losses increased $163,000 for 2006 versus 2005 due primarily to the absence of significant credit losses experienced during 2005. The provision for credit losses is less than three tenths of one percent (0.3%) of total revenue for each period, a reflection of the relative credit quality of the Company s tenants.

Real estate taxes

The $1,581,000 increase in real estate taxes for 2007 versus 2006 was largely impacted by an increased value assessment at 601 Pennsylvania Avenue (35.8% or approximately $566,000). The 2007/2006 Development and Acquisition Properties also contributed to the increase (24.0% or approximately $380,000). In addition, several of the Company s properties (Ashburn Village, Beacon Center, Countryside, The Glen and White Oak) received increases in assessed values during 2007 resulting in increased tax expense (together 28.3% or approximately $447,000).

The $1,463,000 increase in real estate taxes for 2006 versus 2005 was impacted by the 2006/2005 Development and Acquisition Properties (67.0% or approximately $980,000). In addition, several of the Company s properties received increases in assessed values during 2006, primarily properties located in the Metropolitan Washington, DC area.

Interest and amortization of deferred debt

Interest expense increased $1,261,000 and Deferred debt cost amortization increased $60,000 in 2007 versus 2006. Interest expense increased primarily due to the placement of a new permanent 15-year fixed rate mortgage on Lansdowne Town Center. During 2006, interest on Lansdowne s construction borrowings were capitalized while those dollars were largely expensed in 2007 as the property became fully operational. On a portfolio wide basis, the average outstanding borrowings from 2006 to 2007 increased approximately $13,000,000 (approximately $871,000 increase in interest expense). Additionally, interest capitalized as a cost of construction and development projects decreased during 2007 compared to 2006 ($784,000 increase in interest expense). The change in capitalized interest is the equivalent of approximately $11,500,000 in construction borrowings converted to operating property debt. Offsetting these increases in interest expense was an approximately 8 basis point decrease in the average interest rate for the loan portfolio resulting from Lansdowne s permanent mortgage rate being lower than the variable rate borrowings the permanent loan replaced ($394,000 decrease in interest expense). Deferred debt cost amortization expense was $1,149,000 and $1,089,000, for the 2007 and 2006 periods, respectively, ($60,000 increase in interest expense).

Interest expense increased $2,399,000 and Deferred debt cost amortization decreased $72,000 in 2006 versus 2005. Interest expense increased due to new borrowings, as the Company placed permanent 15-year fixed rate mortgages on selected 2006/2005 Development and Acquisition Properties. The increase in average outstanding borrowings of approximately $51,000,000 resulted from financing selected 2006/2005 Development and Acquisition Properties and construction in progress (approximately $3,538,000 increase in interest expense). Offsetting the increase in interest expense was (1) an approximately 13 basis point decrease in the average interest rate for the loan portfolio as the Company financed the new borrowings at interest rates lower than the average existing mortgage debt (approximately $638,000 decrease in interest expense), (2) interest capitalized as a cost of construction and development projects during 2006 compared to 2005 in the amount of $3,673,000 and $3,258,000, respectively ($415,000 decrease in interest expense) and (3) the inclusion in 2005 interest expense of a $92,000 prepayment premium on the refinancing of a mortgage loan in order to obtain a new 15-year loan at a lower interest rate. Deferred debt cost amortization expense was $1,089,000 and $1,161,000, for the 2006 and 2005 periods, respectively. The decreased expense ($72,000) resulted primarily from the early write-off of unamortized costs incident to the refinancing of the Company s revolving credit facility during 2005.

Depreciation and amortization

The $816,000 increase in depreciation and amortization expense resulted primarily from the 2007/2006 Development and Acquisition Properties placed in service during 2007 and 2006, and reflects the Company s reduced level of acquisition activity compared to the 2004 and 2005 years.

The $1,451,000 increase in depreciation and amortization expense resulted primarily from the 2006/2005 Development and Acquisition Properties placed in service during 2006 and 2005.

General and administrative

General and administrative expenses consists of payroll, administrative and other overhead expenses. The $1,524,000 increase in general and administrative expenses for 2007 versus 2006 was largely attributable to increased payroll and employee benefit expenses for staff over 2006 levels and to the addition of several new administrative staff members (49.1% or approximately $748,000), the write-off of costs related to an abandoned acquisition of a land parcel (31.8% or approximately $484,000) and an increase in non-cash expense related to the issue of options to the Company s directors and officers (19.4% or approximately $296,000).

The $557,000 increase in general and administrative expenses for 2006 versus 2005 was attributable primarily to increased local and state taxes (52.2% or approximately $291,000), increased corporate expenses related to the 2006 annual meeting of shareholders and other legal expenses related to property acquisitions (58.7% or approximately $327,000) and the increased expense of employee health and retirement benefits (32.5% or approximately $181,000). Also contributing to the increase in general and administrative expenses was an increase in non-cash expense related to the issue of options to the Company s officers and directors (15.4% or approximately $86,000). The impact of the expense increases was offset in part by the write-off of abandoned Lexington Mall development costs in the 2005 Period (44.2% or $246,000).

Gain on Property Disposition

The Company recognized a gain on the disposition of real estate of $139,000 in 2007. The 2007 gain represents additional condemnation proceeds recognized from the State of Maryland s condemnation and taking of a small strip of unimproved land for a road widening project at White Oak shopping center. Original proceeds from the condemnation were received in 2004. There were no property dispositions in 2006 or 2005.

Impact of Inflation

Inflation has remained relatively low and has had a minimal impact on the operating performance of the Company s portfolio; however, substantially all of the Company s leases contain provisions designed to mitigate the adverse impact of inflation on the Company s results of operations. These provisions include upward periodic adjustments in base rent due from tenants, usually based on a stipulated increase and to a lesser extent on a factor of the change in the consumer price index, commonly referred to as the CPI.

Substantially all of the Company s properties are leased to tenants under long-term leases, which provide for reimbursement of operating expenses by tenants. These leases tend to reduce the Company s exposure to rising property expenses due to inflation. Inflation and increased costs may have an adverse impact on the Company s tenants if increases in their operating expenses exceed increases in their revenue.

Liquidity and Capital Resources

Cash and cash equivalents were $5,765,000 and $8,061,000 at December 31, 2007 and 2006, respectively. The changes in cash and cash equivalents during the years ended December 31, 2007 and 2006 were attributable to operating, investing and financing activities, as described below.

	Year Ended December 31,	
(Dollars in thousands)	**2007**	**2006**
Cash provided by operating activities	$ 71,197	$ 62,174
Cash used in investing activities	(52,036)	(65,699)
Cash (used) provided by financing activities	(21,457)	3,579
(Decrease) increase in cash	$ (2,296)	$ 54

Operating Activities

Cash provided by operating activities increased $9,023,000 to $71,197,000 for the year ended December 31, 2007 compared to $62,174,000 for the year ended December 31, 2006 primarily reflecting increased operating income of the 2007/2006 Development and Acquisition Properties as well as positive contributions from the core portfolio. Cash provided by operating activities represents, in each year, cash received primarily from rental income, plus other income, less property operating expenses, normal recurring general and administrative expenses and interest payments on debt outstanding.

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Investing Activities

Cash used in investing activities decreased $13,663,000 to $52,036,000 for the year ended December 31, 2007 compared to $65,699,000 for the year ended December 31, 2006. Investing activities for 2007 primarily reflects the development and construction of new properties (Lansdowne Town Center, Ashburn Village V, Ashland Square and Clarendon Center), the acquisition of properties (Orchard Park and the Westview land parcel), other construction in progress, tenant improvements and property capital expenditures throughout the portfolio. Investing activities for 2006 primarily reflects the acquisition of properties (Smallwood Village and Hunt Club Corners), the construction of new shopping center properties (Lansdowne Town Center, Broadlands Village III as well as the Ravenwood and Ashburn Village expansions), tenant improvements and property capital expenditures throughout the portfolio. Tenant improvement and property capital expenditures totaled $7,302,000 and $10,145,000, for 2007 and 2006, respectively.

Financing Activities

Cash used by financing activities for the year ended December 31, 2007 was $21,457,000 and cash provided by financing activities for the year ended December 31, 2006 was $3,579,000. Cash used by financing activities for the year ended December 31, 2007 primarily reflects:

- the repayment of borrowings on mortgage notes payable totaling $14,717,000;
- amounts repaid under the revolving credit facility totaling $47,000,000;
- distributions made to common stockholders and holders of convertible limited partnership units in the Operating Partnership during the year totaling $40,613,000;
- distributions made to preferred stockholders during the year totaling $8,000,000; and
- payments of $2,085,000 for financing costs of the revolving credit facility and two mortgage loans during 2005.

which was partially offset by:

- $52,000,000 of proceeds received from mortgage notes payable incurred during the year;
- amounts borrowed from the revolving credit facility totaling $20,000,000; and
- $18,958,000 of proceeds received from the issuance of common stock under the dividend reinvestment program and from the exercise of stock options, and from the issuance of convertible limited partnership interests in the Operating Partnership;

Cash provided by financing activities for the year ended December 31, 2006 primarily reflects:

- amounts borrowed from the revolving credit facility totaling $31,000,000;
- proceeds received from two new mortgage notes payable totaling $17,500,000; and

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- $21,054,000 of proceeds received from the issuance of common stock under the dividend reinvestment program and from the exercise of stock options, and from the issuance of convertible limited partnership interests in the Operating Partnership;

which was partially offset by:

- the scheduled repayment (amortization) of mortgage notes payable totaling $13,322,000;
- the partial repayments of the revolving credit facility totaling $6,500,000;
- distributions made to common stockholders and holders of convertible limited partnership units in the Operating Partnership during the year totaling $37,611,000;
- distributions made to preferred stockholders during the year totaling $8,000,000; and
- payments of $542,000 for financing costs of two new mortgage loans during 2006.

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 consisted primarily of obligations under our long-term debt and dividends paid to our preferred shareholders. We anticipate that long-term liquidity requirements will also include amounts required for property acquisitions and developments. Management anticipates that during the coming year the Company may:

- redevelop certain of the Current Portfolio Properties,
- develop additional freestanding outparcels or expansions within certain of the Shopping Centers,
- acquire existing neighborhood and community shopping centers and/or office properties, and
- develop new shopping center or office sites.

Acquisition and development of properties are undertaken only after careful analysis and review, and management s determination that such properties are expected to provide long-term earnings and cash flow growth. During the coming year, developments, expansions or acquisitions are expected to be funded with available cash, bank borrowings from the Company s credit line, construction and permanent financing, proceeds from the operation of the Company s dividend reinvestment plan or other external debt or equity capital resources available to the Company and proceeds from the sale of properties. 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.

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Contractual Payment Obligations

As of December 31, 2007, the Company had unfunded contractual payment obligations of approximately $33.0 million, excluding operating obligations, due within the next 12 months. The table below specifies the total contractual payment obligations as of December 31, 2007.

(Dollars in thousands)		**Payments Due By Period**			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Notes Payable	$ 532,726	$ 16,162	$ 44,081	$ 192,846	$ 279,637
Operating Leases (1)	11,265	164	334	349	10,418
Corporate Headquarters Lease (1)	3,294	754	1,577	963	
Development Obligations	4,361	4,361			
Contracts to acquire land (2)	11,600	11,600			
Total Contractual Cash Obligations	$ 563,246	$ 33,041	$ 45,992	$ 194,158	$ 290,055

(1) See Note 7 to Consolidated Financial Statements. Corporate Headquarters Lease amounts represent an allocation to the Company based upon employees time dedicated to the Company s business as specified in the Shared Services Agreement. Future amounts are subject to change as the number of employees, employed by each of the parties to the lease, fluctuate.

(2) As of December 31, 2007, the Company had executed a contract to acquire a parcel of land for future retail development (see Acquisitions, Redevelopments and Renovations for a discussion of this project-Northrock). The purchase closed on January 23, 2008. The amount is scheduled net of a good faith deposit totaling $1,000.

(3) Subsequent to December 31, 2007, the Company committed to certain development obligations relating to two of its development parcels and other redevelopment properties. These obligations totaled approximately $15,600 and are expected to be funded over 12 to 18 months.

Management believes that the Company s capital resources, which at December 31, 2007 included cash balances of $5.8 million and borrowing availability of approximately $142.0 million on its revolving line of credit will be sufficient to meet its contractual obligations for the foreseeable future.

Preferred Stock Issue

On July 16, 2003, the Company filed a shelf registration statement with the SEC relating to the future offering of up to an aggregate of $100 million of preferred stock and depositary shares. On November 5, 2003, the Company sold 3,500,000 depositary shares, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock. The underwriters exercised an over-allotment option, purchasing an additional 500,000 depositary shares on November 26, 2003.

The depositary shares may be redeemed, in whole or in part, at the $25.00 liquidation preference at the Company s option on or after November 5, 2008. The depositary shares pay an annual dividend of $2.00 per depositary share, equivalent to 8% of the $25.00 liquidation preference. The first dividend, paid on January 15, 2004 was for less than a full quarter and covered the period from November 5 through December 31, 2003. The Series A preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company. Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events.

Dividend Reinvestments

In December 1995, the Company established a Dividend Reinvestment Plan (the Plan) to allow its common stockholders and holders of limited partnership interests an opportunity to buy additional shares of common stock by reinvesting all or a portion of their dividends or distributions. The Plan provides for investing in newly issued shares of common stock at a 3% discount from market price without payment of any brokerage commissions, service charges or other expenses. All expenses of the Plan are paid by the Company. The Company issued 381,662 and 358,563 shares under the Plan at a weighted average discounted price of $48.11 and $41.43 per share during the years ended December 31, 2007 and 2006, respectively. The Company also credited 7,535 and 8,173 shares to directors pursuant to the reinvestment of dividends specified by the Directors Deferred Compensation Plan at a weighted average discounted price of $49.13 and $40.03 per share, during the years ended December 31, 2007 and 2006, respectively.

Additionally, the Operating Partnership issued 106,157 limited partnership units under a dividend reinvestment plan mirroring the Plan at a weighted average discounted price of $37.69 per unit during the year ended December 31, 2006. No limited partnership units were issued during the year ended December 31, 2007.

Capital Strategy and Financing Activity

As a general policy, the Company intends to maintain a ratio of its total debt to total asset value of 50% or less and to actively manage the Company s leverage and debt expense on an ongoing basis in order to maintain prudent coverage of fixed charges. Asset value is the aggregate fair market value of the Current Portfolio Properties and any subsequently acquired properties as reasonably determined by management by reference to the properties aggregate cash flow. Given the Company s current debt level, it is management s belief that the ratio of the Company s debt to total asset value was below 50% as of December 31, 2007.

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

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The following is a summary of notes payable as of December 31, 2007 and 2006:

Notes Payable *(Dollars in thousands)*	**December 31, 2007**	**2006**	**Interest Rate ***	**Scheduled Maturity ***
Fixed rate mortgages:	$ 83,078 (a)	$ 87,307	8.00%	Dec-2011
	119,340 (b)	123,130	7.67%	Oct-2012
	11,022 (c)	11,188	6.12%	Jan-2013
	30,041 (d)	31,155	7.88%	Jan-2013
	8,131 (e)	8,331	5.77%	Jul-2013
	12,935 (f)	13,253	5.28%	May-2014
	11,930 (g)	12,337	8.33%	Jun-2015
	39,099 (h)	39,886	6.01%	Feb-2018
	44,495 (i)	45,516	5.88%	Jan-2019
	14,395 (j)	14,726	5.76%	May-2019
	19,878 (k)	20,338	5.62%	Jul-2019
	19,661 (l)	20,100	5.79%	Sep-2019
	17,601 (m)	18,015	5.22%	Jan-2020
	12,535 (n)	12,723	5.60%	May-2020
	11,858 (o)	12,125	5.30%	Jun-2020
	10,139 (p)	10,341	5.81%	Feb-2021
	6,884 (q)	6,972	6.01%	Aug-2021
	39,740 (r)		5.62%	Jun-2022
	11,964 (s)		6.08%	Sep-2022
Total fixed rate	524,726	487,443	6.72%	8.2 Years
Variable rate loan:				
Revolving credit facility	8,000 (t)	35,000	LIBOR + 1.475 %	Dec-2010
Total variable rate	8,000	35,000	6.33%	3.0 Years
Total notes payable	$ 532,726	$ 522,443	6.71%	8.1 Years

* *Interest rate and scheduled maturity data presented as of December 31, 2007. Totals computed using weighted averages.*

(a) *The loan is collateralized by Avenel Business Park, Van Ness Square, Ashburn Village, Leesburg Pike, Lumberton Plaza and Village Center. The loan has been increased on four occasions since its inception in 1997. The 8.00% blended interest rate is the weighted average of the initial loan rate and additional borrowing rates. The loan requires equal monthly principal and interest payments of $920,000 based upon a weighted average 23-year amortization schedule and a final payment of $63,153,000 at loan maturity. Principal of $4,229,000 was amortized during 2007.*

(b) *The loan is collateralized by nine shopping centers (Seven Corners, Thruway, White Oak, Hampshire Langley, Great Eastern, Southside Plaza, Belvedere, Giant and Ravenwood) and requires equal monthly principal and interest payments of $1,103,000 based upon a 25-year amortization schedule and a final payment of $97,403,000 at loan maturity. Principal of $3,790,000 was amortized during 2007.*

(c) *The loan is collateralized by Smallwood Village Center and requires equal monthly principal and interest payments of $71,000 based upon a 30 year amortization schedule and a final payment of $10,071,000 at loan maturity. Principal of $166,000 was amortized during 2007.*

(d) *The loan is collateralized by 601 Pennsylvania Avenue and requires equal monthly principal and interest payments of $294,000 based upon a 25-year amortization schedule and a final payment of $22,961,000 at loan maturity. Principal of $1,114,000 was amortized during 2007.*

(e) The loan is collateralized by Cruse MarketPlace and requires equal monthly principal and interest payments of $56,000 based upon an amortization schedule of approximately 24 years and a final payment of $6,830,000 at loan maturity. Principal of $200,000 was amortized during 2007.

(f) The loan is collateralized by Seabreeze Plaza and requires equal monthly principal and interest payments of $84,000 based upon a 25-year amortization schedule and a final payment of $10,531,000 at loan maturity. Principal of $318,000 was amortized during 2007.

(g) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires monthly principal and interest payments of $118,000 based upon a 22-year amortization schedule and a final payment of $7,630,000 at loan maturity. Principal of $407,000 was amortized during 2007.

(h) The loan is collateralized by Washington Square and requires equal monthly principal and interest payments of $264,000 based upon a 27.5-year amortization schedule and a final payment of $28,012,000 at loan maturity. Principal of $787,000 was amortized during 2007.

(i) The loan, consisting of two notes dated December 2003 and two notes dated February and December 2004, is currently collateralized by three shopping centers, Broadlands Village (Phases I, II & III), The Glen and Kentlands Square, and requires equal monthly principal and interest payments of $306,000 based upon a 25-year amortization schedule and a final payment of $28,393,000 at loan maturity. Principal of $1,021,000 was amortized during 2007.

(j) The loan is collateralized by Olde Forte Village and requires equal monthly principal and interest payments of $98,000 based upon a 25-year amortization schedule and a final payment of $8,985,000 at loan maturity. Principal of $331,000 was amortized during 2007.

(k) The loan is collateralized by Countryside and requires equal monthly principal and interest payments of $133,000 based upon a 25-year amortization schedule and a final payment of $12,288,000 at loan maturity. Principal of $460,000 was amortized during 2007.

(l) The loan is collateralized by Briggs Chaney MarketPlace and requires equal monthly principal and interest payments of $133,000 based upon a 25-year amortization schedule and a final payment of $12,192,000 at loan maturity. Principal of $439,000 was amortized during 2007.

(m) The loan is collateralized by Shops at Monocacy and requires equal monthly principal and interest payments of $112,000 based upon a 25-year amortization schedule and a final payment of $10,568,000 at loan maturity. Principal of $414,000 was amortized during 2007.

(n) The loan is collateralized by Boca Valley Plaza and requires equal monthly principal and interest payments of $75,000 based upon a 30-year amortization schedule and a final payment of $9,149,000 at loan maturity. Principal of $188,000 was amortized during 2007.

(o) The loan is collateralized by Palm Springs Center and requires equal monthly principal and interest payments of $75,000 based upon a 25-year amortization schedule and a final payment of $7,075,000 at loan maturity. Principal of $267,000 was amortized during 2007.

(p) The loan is collateralized by Jamestown Place and requires equal monthly principal and interest payments of $66,000 based upon a 25-year amortization schedule and a final payment of $6,102,000 at loan maturity. Principal of $202,000 was amortized during 2007.

(q) The loan is collateralized by Hunt Club Corners and requires equal monthly principal and interest payments of $42,000 based upon a 30-year amortization schedule and a final payment of $5,018,000 at loan maturity. Principal of $88,000 was amortized during 2007.

(r) The loan is collateralized by Lansdowne Town Center and requires monthly principal and interest payments of $230,000 based on a 30-year amortization schedule and a final payment of $28,177,000 at loan maturity. Principal of $260,000 was amortized during 2007.

(s) The loan is collateralized by Orchard Park and requires equal monthly principal and interest payments of $73,000 based upon a 30-year amortization schedule and a final payment of $8,628,000 at loan maturity. Principal of $36,000 was amortized during 2007.

(t) The loan is an unsecured revolving credit facility totaling $150,000,000. Interest expense during 2007 was calculated based upon the 1 month LIBOR rate plus a spread of 1.50% (reduced to 1.475% effective December 19, 2007) or upon the bank s reference rate at the Company s option. The line may be extended one year with payment of a fee of 1/4% at the Company s option. Monthly payments, if applicable, are interest only and vary depending upon the amount outstanding and the applicable interest rate for any given month.

The December 31, 2007 and 2006 depreciation adjusted cost of properties collateralizing the mortgage notes payable totaled $557,820,000 and $508,236,000, respectively. Notes payable at December 31, 2007 and 2006, totaling $157,381,000 and $189,285,000, respectively, are guaranteed by members of The Saul Organization. The Company s credit facility requires the Company and its subsidiaries to maintain certain financial covenants. As of December 31, 2007, 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 $600 million plus 90% of our 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 2.5 to 1 on a trailing 12-full calendar month basis;
- limit the amount of debt so that interest, scheduled principal amortization and preferred dividend coverage exceeds 1.6 to 1; and
- 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.

As of December 31, 2007, the Company was in compliance with all such covenants.

2007 Financing Activity

On and effective December 19, 2007, the Company entered into a new $150,000,000 unsecured revolving credit facility (the Facility), with a syndication of lenders. The Facility replaced the Company s existing unsecured credit facility. Saul Centers, Inc. and certain subsidiaries of Saul Holdings Limited Partnership have guaranteed the payment obligations of Saul Holdings Limited Partnership under the Facility. The Facility provides for a $150,000,000 revolving credit facility maturing on December 19, 2010, which term may be extended by the Company for one additional year subject to the Company s satisfaction of certain conditions. Until December 19, 2009, certain or all of the lenders may, upon request by the Company, increase the Facility by $50,000,000. Letters of credit may be issued under the Facility. On December 31, 2007, of the $150,000,000 available for borrowing, $8,000,000 was outstanding, $177,000 was committed for letters of credit, and the resulting balance of $141,823,000 was available to borrow for working capital, operating property acquisitions or development projects. In general, loan availability under the Facility is primarily determined by operating income from the Company s existing unencumbered properties. As of December 31, 2007, the unencumbered properties supported availability of $99,000,000. Interest expense is calculated based upon the 1, 2, 3 or 6 month LIBOR plus a spread of 1.40% to 1.60%, determined by certain leverage tests, or upon the bank s reference rate, at the Company s option. An additional $51,000,000 is available 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 1.70% to 2.25%, determined by certain leverage tests, or upon the bank s reference rate plus a spread of 0.575%, at the Company s option.

On August 15, 2007, the Company closed on a new 15-year, fixed-rate mortgage financing in the amount of $12,000,000, secured by Orchard Park. The loan matures September 5, 2022, requires equal monthly principal and interest payments of $72,565, based upon a 6.08% interest rate and 30-year principal amortization, and requires a final payment of $8,628,000 at maturity.

On May 30, 2007, the Company closed on a new 15-year, fixed-rate mortgage financing in the amount of $40,000,000, secured by Lansdowne Town Center. The loan matures June 10, 2022, requires equal monthly principal and interest payments of $230,137, based upon a 5.62% interest rate and 30-year principal amortization, and requires a final payment of $28,177,000 at maturity.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that are reasonably likely to have a current or future material effect on the Company s financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

Funds From Operations

In 2007, the Company reported Funds From Operations (FFO)[1] available to common shareholders (common stockholders and limited partner unitholders) of $63,846,000 representing a 9.9% increase over 2006 FFO available to common shareholders of $58,121,000. The following table presents a reconciliation from net income to FFO available to common shareholders for the periods indicated:

	For the Year Ended December 31,				
(Dollars in thousands)	**2007**	**2006**	**2005**	**2004**	**2003**
Net income	$ 36,703	$ 32,680	$ 29,227	$ 26,174	$ 19,242
Subtract:					
Gain on property disposition	(139)			(572)	(182)
Add:					
Minority interests	8,818	7,793	7,798	8,105	8,086
Real estate depreciation and amortization	26,464	25,648	24,197	21,324	17,838
FFO	71,846	66,121	61,222	55,031	44,984
Preferred dividends	(8,000)	(8,000)	(8,000)	(8,000)	(1,244)
FFO available to common shareholders	$ 63,846	$ 58,121	$ 53,222	$ 47,031	$ 43,740
Average shares and units used to compute FFO per share	23,185	22,628	22,003	21,405	20,790

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

Acquisitions, Redevelopments and Renovations

Management anticipates that during the coming year the Company may: (i) redevelop certain of the Current Portfolio Properties, (ii) develop additional freestanding outparcels or expansions within certain of the Shopping Centers, (iii) acquire existing neighborhood and community shopping centers and/or office properties, and (iv) develop new shopping center or office sites. Acquisition and development of properties are undertaken only after careful analysis and review, and management s determination that such properties are expected to provide long-term earnings and cash flow growth. During the coming year, any developments, expansions or acquisitions are expected to be funded with 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, redevelopment and renovation activities. It continues to evaluate the acquisition of land parcels for retail and office development and acquisitions of operating properties for opportunities to enhance operating income and cash flow growth. The Company also continues to take advantage of redevelopment, renovation and expansion opportunities within the portfolio, as demonstrated by its recent activities at Olde Forte Village, Broadlands Village, Thruway, The Glen, Ravenwood and Lansdowne Town Center. The following describes the acquisitions, redevelopments and renovations which affected the Company s financial position and results of operations in 2007, 2006 and 2005.

Olde Forte Village

The Company redeveloped in 2005, Olde Forte Village, a neighborhood shopping center located in Fort Washington, Maryland. The center, acquired in 2003, is anchored by the then newly constructed 58,000 square foot Safeway supermarket, which relocated from a smaller store within the center. The center then contained approximately 50,000 square feet of vacant space, consisting primarily of the former Safeway space. The reconfigured shopping center totals 143,000 square feet of leasable space. The Company s total redevelopment costs, including the initial property acquisition cost, were approximately $22 million. The center was 95% leased at December 31, 2007.

Broadlands Village

The Company purchased 24 acres of undeveloped land in the Broadlands section of the Dulles Technology Corridor of Loudoun County, Virginia in April 2002. Broadlands is a 1,500 acre planned community consisting of 3,500 residences, approximately half of which are constructed and currently occupied. In October 2003, the Company completed construction of the first phase of the Broadlands Village shopping center. The 58,000 square foot Safeway supermarket opened in October 2003 with a pad building and many in-line small shops also opening in the fourth quarter of 2003. Construction of a 30,000 square foot second phase was substantially completed in 2004. The Company s total development costs of both phases, including the land acquisition, were approximately $22 million. During the second quarter of 2006, the Company substantially completed construction of a third phase of this development, totaling approximately 22,000 square feet of shop space and two pad site locations. Development costs for this phase totaled approximately $7.5 million. The center was 98% leased and fully operational at December 31, 2007.

The Glen

In February 2005, the Company commenced construction of a 22,000 square foot expansion building to provide additional restaurants and small shop service space at The Glen shopping center in Prince William County, Virginia. Construction of the expansion building was substantially completed in the fall of 2005, and development costs were approximately $4.1 million. The resulting 134,000 square foot Safeway anchored center was 96% leased at December 31, 2007.

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Kentlands Place

In January 2004, the Company purchased 3.4 acres of undeveloped land adjacent to its 114,000 square foot Kentlands Square shopping center in Gaithersburg, Maryland. The Company substantially completed construction of a 40,600 square foot retail/office property, comprised of 23,800 square feet of in-line retail space and 16,800 square feet of professional office suites, in early 2005. Development costs, including the land acquisition, were approximately $8.5 million. The property was 100% leased at December 31, 2007 and includes significant retail tenants Bonefish Grill and Elizabeth Arden s Red Door Salon.

Briggs Chaney MarketPlace

In April 2004, the Company acquired Briggs Chaney MarketPlace in Silver Spring, Maryland. Briggs Chaney MarketPlace is a 194,000 square foot neighborhood shopping center on Route 29 in Montgomery County, Maryland. The center, constructed in 1983, was 99% leased at December 31, 2007 and is anchored by a 45,000 square foot Safeway supermarket and a 28,000 square foot Ross Dress For Less. The property was acquired for $27.3 million. During 2005, the Company completed interior construction to reconfigure a portion of space vacant at acquisition, totaling approximately 11,000 square feet of leasable area, and completed construction of a façade renovation of the shopping center. Redevelopment costs totaled approximately $1.9 million.

Ashland Square

On December 15, 2004, the Company acquired a 19.3 acre parcel of land in Manassas, Prince William County, Virginia for a purchase price of $6.3 million. The Company has plans to develop the parcel into a grocery-anchored neighborhood shopping center. The Company received site plan approval during the third quarter of 2006 to develop approximately 125,000 square feet of retail space. A site plan for an additional 35,000 square feet of commercial space is under review by Prince William County. During the third quarter of 2006, the Company commenced site work consisting primarily of clearing, grading and site utility construction. A lease has been executed with Chevy Chase Bank which built a branch on a pad site. The bank branch opened for business October 2007. The balance of the center is being marketed to grocers and other retail businesses, with a development timetable yet to be finalized.

Palm Springs Center

On March 3, 2005, the Company completed the acquisition of the 126,000 square foot Albertson s anchored Palm Springs Center located in Altamonte Springs, Florida (metropolitan Orlando). The center was 97% leased at December 31, 2007 and was acquired for a purchase price of $17.5 million.

New Market

On March 3, 2005, the Company acquired a 7.1 acre parcel of land located in New Market, Maryland for a purchase price of $500,000. On September 8, 2005, the Company acquired a 28.4 acre contiguous parcel for a purchase price of $1.5 million. Together, these parcels will accommodate a neighborhood shopping center development in excess of 120,000 square feet of leasable space. The Company had contracted to purchase one additional parcel with the intent to assemble additional acreage for further retail development near this I-70 interchange, east of Frederick, Maryland. During December 2007, the Company abandoned the acquisition of this final parcel and wrote-off to general and administrative expense all costs related to this parcel.

Lansdowne Town Center

During the first quarter of 2005, the Company received approval of a zoning submission to Loudoun County which allowed the development of a neighborhood shopping center named Lansdowne Town Center, within the Lansdowne Community in northern Virginia. On March 29, 2005, the Company finalized the acquisition of an additional 4.5 acres of land to bring the total acreage of the development parcel to 23.4 acres (including the 18.9 acres acquired in 2002). The additional purchase price was approximately $1.0 million. In late 2006, the Company substantially completed construction of an approximately 189,000 square foot retail center. A lease was executed with Harris Teeter for a 55,000 square foot grocery store, which opened in November 2006. Project costs, upon completion of final tenant improvements, are expected to total approximately $41.5 million. As of December 31, 2007, the project was fully operational and 99% leased, however rent is not expected to commence for approximately 16,000 square feet of second floor office space until spring of 2008, when tenant improvements are expected to be substantially complete.

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Jamestown Place

On November 17, 2005, the Company completed the acquisition of the 96,000 square foot Publix-anchored Jamestown Place located in Altamonte Springs, Florida (metropolitan Orlando). The center was 95% leased at December 31, 2007 and was acquired for a purchase price of $14.8 million.

Seabreeze Plaza

On November 30, 2005, the Company completed the acquisition of the 147,000 square foot Publix-anchored Seabreeze Plaza located in Palm Harbor, Florida (metropolitan Tampa). The center was 90% leased at December 31, 2007 and was acquired for a purchase price of $25.9 million subject to the assumption of a $13.6 million mortgage loan.

Smallwood Village Center

On January 27, 2006, the Company acquired the 198,000 square foot Smallwood Village Center, located on 25 acres within the St. Charles planned community of Waldorf, Maryland. The center was acquired for a purchase price of $17.5 million subject to the assumption of an $11.3 million mortgage loan, and was 73% leased at December 31, 2007. The Company is obtaining final permits for a capital improvement project to improve access to the center, reconfigure portions of the center and upgrade the center s façade. Construction is expected to commence during the spring of 2008.

Ravenwood

In January 2006, the Company commenced construction of a 7,380 square foot shop space expansion to the Giant anchored Ravenwood shopping center, located in Towson, Maryland. Construction was substantially completed in June 2006. All of the new space is leased and operational at December 31, 2007. Development costs totaled approximately $2.2 million.

Lexington Center

On September 29, 2005, the Company announced the resolution of a land use dispute at Lexington Mall, allowing increased flexibility in future development rights for its property. The Company and the land owner of the adjacent 16 acre site, have resolved a dispute arising from a reciprocal easement agreement governing land use between the two owners. The parties have executed a new land use agreement which grants each other the flexibility to improve its property. The Company also reached an agreement with Dillard s to terminate its lease, without consideration exchanged by either party. The mall is vacant and the Company has prepared conceptual designs for the shopping center s development and marketing to prospective retailers.

Hunt Club Corners

On June 1, 2006, the Company completed the acquisition of the 101,500 square foot Publix-anchored Hunt Club Corners shopping center located in Apopka, Florida (metropolitan Orlando). The center was 99% leased at December 31, 2007 and was acquired for a purchase price of $11.1 million.

Ashburn Village-Phase V

The Company completed construction during the fourth quarter of 2006 of a 10,000 square foot shop space expansion to the Ashburn Village shopping center located in Loudoun County, Virginia. The space was 100% leased and operational at December 31, 2007. Development costs totaled approximately $2.2 million.

Clarendon Center

The Company owns an assemblage of land parcels (including its Clarendon and Clarendon Station operating properties) totaling approximately 1.5 acres adjacent to the Clarendon Metro Station in Arlington, Virginia. In June 2006, the Company obtained zoning approvals for a mixed-use development project to include up to approximately 45,000 square feet of retail space, 170,000 square feet of office space and 244 residential units.

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The Company has substantially completed construction documents. An existing vacant building located on a portion of the land is being demolished to prepare this portion of the site for development. A development timetable has not yet been completed.

Westview Village

In November 2007, the Company purchased a 10.4 acre site in the Westview development on Buckeystown Pike (MD Route 85) in Frederick, Maryland. The purchase price was $5.0 million. Construction documents have been completed and site permits have been received for development of approximately 105,000 square feet of commercial space, including 60,000 square feet of retail shop space, 15,000 square feet of retail pads and 30,000 square feet of professional office space. The Company is currently marketing the space and has executed leases for 9,606 square feet of the retail space. The Company commenced site work construction in early 2008 and anticipates total construction and development costs, including land, to be approximately $26.0 million. Substantial completion of the building shell is scheduled for late 2008.

Great Eastern Plaza Land Parcel

On June 6, 2007, the Company acquired 8.0 acres of undeveloped land adjacent to its Great Eastern Plaza shopping center in District Heights, Maryland, for a purchase price of $1.3 million. The Company is analyzing options to expand the existing shopping center onto this parcel at some future date.

Orchard Park

On July 19, 2007, the Company completed the acquisition of the 88,000 square foot Kroger-anchored Orchard Park shopping center located in Dunwoody, GA. The center is 93% leased as of December 31, 2007 and was acquired for a purchase price of $17.0 million.

Northrock Land Parcel

In January 2008, the Company acquired approximately 15.4 acres of undeveloped land in Warrenton, Virginia. The site is located in the City of Warrenton at the southwest corner of the U. S. Route 29/211 and Fletcher Drive intersection. The Company has commenced site work construction for Northrock Shopping Center, a neighborhood shopping center totaling approximately 103,000 square feet of leasable area. The Harris Teeter supermarket chain has executed a lease for a 52,700 square foot grocery store to anchor the center. The land purchase price was $12.5 million, and the Company anticipates total construction and development costs, including land, to be approximately $27.5 million. Construction substantial completion is anticipated for mid 2009.

Portfolio Leasing Status

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

As of	Total Properties		Total Square Footage		Percent Leased	
December 31,	Shopping Centers	Office	Shopping Centers	Office	Shopping Centers	Office
2007	43	5	6,803,000	1,206,000	95.3%	95.2%
2006	42	5	6,698,000	1,206,000	96.1%	97.3%
2005	39	5	6,170,000	1,206,000	97.2%	96.6%

The 2007 leasing percentages decreased due to a net 67,000 square foot decrease in leased space, 42,000 in the shopping center portfolio and 25,000 in the office portfolio. The shopping center decrease in leased space occurred due to a 22,000 square foot decrease at Smallwood Village, where the Company is planning a façade renovation of the common areas and a 20,000 square foot decrease at South Dekalb Plaza. The 2006 shopping center leasing percentages decreased due to the departure of two local grocery anchors at the Belvedere and West Park shopping centers totaling 59,000 square feet.

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Item 7A. 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 does not enter into financial instruments for trading purposes.

The Company is exposed to interest rate fluctuations primarily as a result of its variable rate debt used to finance the Company s development and acquisition activities and for general corporate purposes. As of December 31, 2007, the Company had variable rate indebtedness totaling $8,000,000. Interest rate fluctuations will affect the Company s annual interest expense on its variable rate debt. If the interest rate on the Company s variable rate debt instruments outstanding at December 31, 2007 had been one percent higher, our annual interest expense relating to these debt instruments would have increased by $80,000, based on those balances. Interest rate fluctuations affect the fair value of the Company s fixed rate debt instruments. As of December 31, 2007, the Company had fixed rate indebtedness totaling $524,726,000 with a weighted average interest rate of 6.72%. If interest rates on the Company s fixed rate debt instruments at December 31, 2007 had been one percent higher, the fair value of those debt instruments on that date would have decreased by approximately $26,530,000.

Item 8. Financial Statements and Supplementary Data

The financial statements of the Company and its consolidated subsidiaries are included in this report on the pages indicated, and are incorporated herein by reference:

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Quarterly Assessment.

The Company carried out an assessment as of December 31, 2007 of the effectiveness of the design and operation of its disclosure controls and procedures and its internal control over financial reporting. This assessment was done under the supervision and with the participation of management, including the Company s Chairman and Chief Executive Officer, its Senior Vice President-Chief Financial Officer, Secretary and Treasurer, and its Vice President-Chief Accounting Officer as appropriate. Rules adopted by the SEC require that the Company present the conclusions of the Company s Chairman and Chief Executive Officer and its Senior Vice President-Chief Financial Officer, Secretary and Treasurer about the effectiveness of the Company s disclosure controls and procedures and the conclusions of the Company s management about the effectiveness of its internal control over financial reporting as of the end of the period covered by this Annual Report on Form 10-K.

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CEO and CFO Certifications.

Included as Exhibits 31 to this Annual Report on Form 10-K are forms of Certification of the Company s Chairman and Chief Executive Officer and its Senior Vice President-Chief Financial Officer, Secretary and Treasurer. The forms of Certification are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2003. This section of the Annual Report on Form 10-K that you are currently reading is the information concerning the assessment referred to in the Section 302 certifications and this information should be read in conjunction with the Section 302 certifications for a more complete understanding of the topics presented.

Disclosure Controls and Procedures and Internal Control over Financial Reporting.

Management is responsible for establishing and maintaining adequate disclosure controls and procedures and internal control over financial reporting. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures are also designed to provide reasonable assurance that such information is accumulated and communicated to the Company s management, including the Company s Chairman and Chief Executive Officer, its Senior Vice President-Chief Financial Officer, Secretary and Treasurer, and its Vice President-Chief Accounting Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal control over financial reporting is a process designed by, or under the supervision of the Company s Chairman and Chief Executive Officer, its Senior Vice President-Chief Financial Officer, Secretary and Treasurer, and its Vice President-Chief Accounting Officer, and effected by the Company s Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company s assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that the Company s receipts and expenditures are being made only in accordance with authorizations of management or the Company s Board of Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material adverse effect on the Company s financial statements.

Limitations on the Effectiveness of Controls.

Management, including the Company s Chairman and Chief Executive Officer, its Senior Vice President-Chief Financial Officer, Secretary and Treasurer, and its Vice President-Chief Accounting Officer, does not expect that the Company s disclosure controls and procedures or internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no assessment of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some

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persons, by collusion of two or more people, or by management s override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Scope of the Assessments.

The assessment by the Company s Chairman and Chief Executive Officer, its Senior Vice President-Chief Financial Officer, Secretary and Treasurer, and its Vice President-Chief Accounting Officer of the Company s disclosure controls and procedures and the assessment by the Company s management of the Company s internal control over financial reporting included a review of procedures and discussions with the Company s Disclosure Committee and others in the Company. In the course of the assessments, management sought to identify data errors, control problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken. Management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework to assess the effectiveness of the Company s internal control over financial reporting. The evaluation of the Company s disclosure controls and procedures and internal control over financial reporting is done on a quarterly basis so that the conclusions concerning controls effectiveness can be reported in the Company s Quarterly Reports on Form 10-Q and Annual Report on Form 10-K.

The Company s internal control over financial reporting is also evaluated on an ongoing basis by management, other personnel in the Company s accounting department and the Company s internal audit function. The effectiveness of the Company s internal control over financial reporting is audited by the Company s independent registered public accounting firm. We consider the results of these various assessment activities as we monitor the Company s disclosure controls and procedures and internal control over financial reporting and when deciding to make modifications as necessary. Management s intent in this regard is that the disclosure controls and procedures and the internal control over financial reporting will be maintained and updated (including improvements and corrections) as conditions warrant.

Assessment of Effectiveness of Disclosure Controls and Procedures

Based upon the assessments, the Company s Chairman and Chief Executive Officer, its Senior Vice President-Chief Financial Officer, Secretary and Treasurer, and its Vice President-Chief Accounting Officer have concluded that, as of December 31, 2007, the Company s disclosure controls and procedures were effective.

Assessment of Effectiveness of Internal Control Over Financial Reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework to assess the effectiveness of the Company s internal control over financial reporting. Based upon the assessments, the Company s management has concluded that, as of December 31, 2007, the Company s internal control over financial reporting was effective. The Company s independent registered public accounting firm has issued a report on the effectiveness of the Company s internal control over financial reporting, which appears on page F-2 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting.

During the three months ended December 31, 2007, there was no change in the Company s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company s internal control for financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information this Item requires is incorporated by reference to the information under the captions The Board of Directors, Corporate Governance Ethical Conduct Policy and Senior Financial Officer Code of Ethics, Section 16(a) Beneficial Ownership Reporting Compliance, Corporate Governance Nominating and Corporate Governance Committee Selection of Director Nominees, and Corporate Governance Audit Committee of the Company s Proxy Statement to be filed with the SEC for its annual stockholders meeting to be held on April 25, 2008.

Item 11. Executive Compensation

The information this Item requires is incorporated by reference to the information under the captions Corporate Governance Compensation of Directors, Report of the Compensation Committee, and Executive Compensation of the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information this Item requires is incorporated by reference to the information under the captions Equity Compensation Plan Information and Security Ownership of Certain Beneficial Owners and Management of the Proxy Statement.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information this Item requires is incorporated by reference to the information under the captions Certain Relationships and Transactions and Corporate Governance Board of Directors of the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information this Item requires is incorporated by reference to the information contained in the Proxy Statement under the caption Audit Committee Report 2007 and 2006 Independent Registered Public Accounting Firm Fee Summary of the Proxy Statement.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Financial Statements

The following financial statements of the Company and their consolidated subsidiaries are incorporated by reference in Part II, Item 8.

(a) Report of Independent Registered Public Accounting Firm Ernst & Young LLP

(a) Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting Ernst & Young LLP

(b) Consolidated Balance Sheets December 31, 2007 and 2006

(c) Consolidated Statements of Operations Years ended December 31, 2007, 2006 and 2005

(d) Consolidated Statements of Stockholders Equity (Deficit) Years ended December 31, 2007, 2006 and 2005

(e) Consolidated Statements of Cash Flows Years ended December 31, 2007, 2006 and 2005

(f) Notes to Consolidated Financial Statements

2. Financial Statement Schedule and Supplementary Data

(a) Selected Quarterly Financial Data for the Company are incorporated by reference in Part II, Item 8

(b) Schedule of the Company:

Schedule III Real Estate and Accumulated Depreciation

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

3. Exhibits

(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 Form 10-K are 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 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 Restated 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. The First Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership, 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 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 3.(b) of the 1997 Annual Report of the Company on Form 10-K are 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.

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) 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.

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 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 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 is 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) Loan Agreement dated as of November 7, 1996 by and among Saul Holdings Limited Partnership, Saul Subsidiary II Limited Partnership and PFL Life Insurance Company, c/o AEGON USA Realty Advisors, Inc., filed as Exhibit 10.(t) of the March 31, 1997 Quarterly Report of the Company, is hereby incorporated by reference.

(k) Promissory Note dated as of January 10, 1997 by and between Saul Subsidiary II Limited Partnership and The Northwestern Mutual Life Insurance Company, filed as Exhibit 10.(z) of the March 31, 1997 Quarterly Report of the Company, is hereby incorporated by reference.

(l) Loan Agreement dated as of October 1, 1997 between Saul Subsidiary I Limited Partnership as Borrower and Nomura Asset Capital Corporation as Lender filed as Exhibit 10.(p) of the 1997 Annual Report of the Company on Form 10-K is hereby incorporated by reference.

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(m) Amended and Restated Promissory Note dated January 13, 2003 by and between Saul Holdings Limited Partnership as Borrower and Metropolitan Life Insurance Company as lender, as filed as Exhibit 10.(p) of the December 31, 2002 Annual Report of the Company on Form 10-K, is hereby incorporated by reference.

(n) 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, is filed herewith.

(o)