

SAUL CENTERS INC
Form 10-Q
August 08, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED June 30, 2008
COMMISSION FILE NUMBER 1-12254

SAUL CENTERS, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of

52-1833074
(I.R.S. Employer

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incorporation or organization)

Identification No.)

7501 Wisconsin Avenue, Bethesda, Maryland 20814

(Address of principal executive office) (Zip Code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Number of shares of common stock, par value \$0.01 per share outstanding as of August 8, 2008: 17,841,000

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management all adjustments necessary for the fair presentation of the financial position and results of operations of Saul Centers, Inc. for the interim periods have been included. All such adjustments are of a normal recurring nature. These consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements of Saul Centers, Inc. for the year ended December 31, 2007, which are included in its Annual Report on Form 10-K. The results of operations for interim periods are not necessarily indicative of results to be expected for the year.

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Saul Centers, Inc.

CONSOLIDATED BALANCE SHEETS

<i>(Dollars in thousands,</i>	June 30,	December 31,
<i>except per share amounts)</i>	2008	2007
	<i>(Unaudited)</i>	
Assets		
Real estate investments		
Land	\$ 215,407	\$ 167,007
Buildings and equipment	711,592	673,328
Construction in progress	67,301	49,592
	994,300	889,927
Accumulated depreciation	(244,196)	(232,669)
	750,104	657,258
Cash and cash equivalents	36,964	5,765
Accounts receivable and accrued income, net	33,087	33,967
Deferred leasing costs, net	17,363	16,190
Prepaid expenses, net	1,407	2,571
Deferred debt costs, net	6,440	6,264
Other assets	6,674	5,428
Total assets	\$ 852,039	\$ 727,443
Liabilities		
Mortgage notes payable	\$ 565,194	\$ 524,726
Revolving credit facility outstanding		8,000
Dividends and distributions payable	14,803	12,887
Accounts payable, accrued expenses and other liabilities	20,140	13,159
Deferred income	22,654	15,147
Total liabilities	622,791	573,919
Minority interests	3,747	4,745
Stockholders' equity		
Preferred stock, 1,000,000 shares authorized:		
Series A Cumulative Redeemable, 40,000 shares issued and outstanding	100,000	100,000
Series B Cumulative Redeemable, 31,731 shares issued and outstanding	79,328	
Common stock, \$0.01 par value, 30,000,000 shares authorized, 17,817,057 and 17,747,529 shares issued and outstanding, respectively	180	178
Additional paid-in capital	162,263	161,618
Accumulated deficit	(116,270)	(113,017)
Total stockholders' equity	225,501	148,779
Total liabilities and stockholders' equity	\$ 852,039	\$ 727,443

The accompanying notes are an integral part of these statements

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Saul Centers, Inc.

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue				
Base rent	\$ 31,751	\$ 29,531	\$ 62,133	\$ 58,552
Expense recoveries	6,945	6,282	14,078	12,880
Percentage rent	232	312	546	514
Other	1,177	952	2,070	1,815
Total revenue	40,105	37,077	78,827	73,761
Operating expenses				
Property operating expenses	4,527	4,343	9,512	9,148
Provision for credit losses	241	103	424	215
Real estate taxes	4,278	3,538	8,289	7,064
Interest expense and amortization of deferred debt costs	8,705	8,325	17,309	16,619
Depreciation and amortization of deferred leasing costs	6,989	6,503	13,932	12,951
General and administrative	3,190	3,188	6,113	5,678
Total operating expenses	27,930	26,000	55,579	51,675
Operating income before minority interests and gain on sale of property	12,175	11,077	23,248	22,086
Non-operating item: Gain on property disposition			205	
Net operating income before minority interests	12,175	11,077	23,453	22,086
Minority interests				
Minority share of income	(1,946)	(2,151)	(4,094)	(4,286)
Net income	10,229	8,926	19,359	17,800
Preferred dividends	(3,786)	(2,000)	(5,883)	(4,000)
Net income available to common stockholders	\$ 6,443	\$ 6,926	\$ 13,476	\$ 13,800
Per share net income available to common stockholders				
Basic	\$ 0.36	\$ 0.40	\$ 0.76	\$ 0.79
Diluted	\$ 0.36	\$ 0.39	\$ 0.75	\$ 0.78
Distributions declared per common share outstanding	\$ 0.47	\$ 0.44	\$ 0.94	\$ 0.88

The accompanying notes are an integral part of these statements

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Saul Centers, Inc.

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

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Stockholders equity:					
Balance, December 31, 2007	\$ 100,000	\$ 178	\$ 161,618	\$ (113,017)	\$ 148,779
Issuance of 31,731 shares of preferred stock:	79,328		(2,999)		76,329
Issuance of 28,191 shares of common stock:					
26,673 shares due to dividend reinvestment plan		1	1,321		1,322
1,518 shares due to employee stock options and directors deferred stock plan and stock option awards			199		199
Net income				9,130	9,130
Distributions payable preferred stock:					
Series A, \$50.00 per share				(2,000)	(2,000)
Series B, \$56.25 per share				(97)	(97)
Distributions payable common stock (\$0.47 per share)				(8,355)	(8,355)
Balance, March 31, 2008	179,328	179	160,139	(114,339)	225,307
Issuance of 31,731 shares of preferred stock:			(12)		(12)
Issuance of 41,337 shares of common stock:					
26,915 shares due to dividend reinvestment plan		1	1,312		1,313
14,422 shares due to employee stock options and directors deferred stock plan and stock option awards			824		824
Net income				10,229	10,229
Distributions payable preferred stock:					
Series A, \$50.00 per share				(2,000)	(2,000)
Series B, \$56.25 per share				(1,786)	(1,786)
Distributions payable common stock (\$0.47 per share)				(8,374)	(8,374)
Balance, June 30, 2008	\$ 179,328	\$ 180	\$ 162,263	\$ (116,270)	\$ 225,501

The accompanying notes are an integral part of these statements

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Saul Centers, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS*(Unaudited)*

<i>(Dollars in thousands)</i>	For The Six Months Ended June 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 19,359	\$ 17,800
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on property disposition	(205)	
Minority interests	4,094	4,286
Depreciation and amortization of deferred leasing costs	13,932	12,951
Amortization of deferred debt costs	585	555
Non cash compensation costs from stock grants and options	762	720
Provision for credit losses	424	215
Decrease in accounts receivable and accrued income	604	2,575
Increase in deferred leasing costs	(1,125)	(1,303)
Decrease in prepaid expenses	1,164	1,158
Increase in other assets	(1,246)	(3,407)
Increase in accounts payable, accrued expenses and other liabilities	2,503	2,243
Decrease in deferred income	(1,217)	(978)
Net cash provided by operating activities	39,634	36,815
Cash flows from investing activities:		
Acquisitions of real estate investments, net*	(63,406)	(1,333)
Additions to real estate investments	(5,156)	(3,863)
Additions to development and redevelopment activities	(14,858)	(13,534)
Gain on property disposition	205	
Net cash used in investing activities	(83,215)	(18,730)
Cash flows from financing activities:		
Proceeds from mortgage notes payable	38,184	40,000
Repayments on mortgage notes payable	(8,065)	(7,098)
Proceeds from revolving credit facility	19,000	
Repayments on revolving credit facility	(27,000)	(35,000)
Additions to deferred debt costs	(761)	(493)
Proceeds from the issuance of:		
Preferred stock, net of issuance costs	76,317	
Common stock	2,896	11,599
Distributions to:		
Preferred stockholders	(4,000)	(4,000)
Common stockholders	(16,699)	(14,961)
Convertible limited partnership units in the Operating Partnership	(5,092)	(4,658)
Net cash provided (used) by financing activities	74,780	(14,611)
Net increase in cash and cash equivalents	31,199	3,474

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Cash and cash equivalents, beginning of period	5,765	8,061
Cash and cash equivalents, end of period	\$ 36,964	\$ 11,535

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

The 2008 real estate acquisition costs of \$63,406 are presented exclusive of a mortgage loan assumed of \$10,349.

The accompanying notes are an integral part of these statements

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1. Organization, Formation and Structure

Saul Centers, Inc. ("Saul Centers") was incorporated under the Maryland General Corporation Law on June 10, 1993. Saul Centers operates as a real estate investment trust (a "REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). 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.

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.

The following table lists the properties acquired and/or developed by the Company since December 31, 2005. All of the following properties are operating shopping centers ("Shopping Centers").

Name of Property	Location	Date of Acquisition/ Development
<i>Acquisitions</i>		
Smallwood Village Center	Waldorf, MD	2006
Hunt Club Corners	Apopka, FL	2006
Orchard Park	Dunwoody, GA	2007
Great Falls Shopping Center	Great Falls, VA	2008
BJ's Wholesale Club	Alexandria, VA	2008
Marketplace at Sea Colony	Bethany Beach, DE	2008
<i>Developments</i>		
Kentlands Place	Gaithersburg, MD	2005
Broadlands Village Phase III	Ashburn, VA	2006
Lansdowne Town Center	Leesburg, VA	2006/7
Ashland Square Phase I	Manassas, VA	2007

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As of June 30, 2008, the Company's properties (the "Current Portfolio Properties") consisted of 45 operating shopping center properties (the "Shopping Centers"), five predominantly office operating properties (the "Office Properties") and six (non-operating) land or development properties.

In September 1997, the Company established Saul QRS, Inc., a wholly owned subsidiary of Saul Centers, to facilitate the placement of collateralized mortgage debt. Saul QRS, Inc. was created to succeed to the interest of Saul Centers as the sole general partner of Saul Subsidiary I Limited Partnership. The remaining limited partnership interests in Saul Subsidiary I Limited Partnership and Saul Subsidiary II Limited Partnership are held by the Operating Partnership as the sole limited partner. Through this structure, the Company owns 100% of the Current Portfolio Properties.

2. Summary of Significant Accounting Policies

Nature of Operations

The Company, which conducts all of its activities through its subsidiaries, the Operating Partnership and Subsidiary Partnerships, engages in the ownership, operation, management, leasing, acquisition, renovation, expansion, development and financing of community and neighborhood shopping centers and office properties, primarily in the Washington, DC/Baltimore metropolitan area.

Because the properties are located primarily in the Washington, DC/Baltimore metropolitan area, the Company is subject to a concentration of credit risk related to these properties. A majority of the Shopping Centers are anchored by several major tenants. As of June 30, 2008, thirty of the Shopping Centers were anchored by a grocery store and offer primarily day-to-day necessities and services. Only two retail tenants, Giant Food (4.5%), a tenant at eight Shopping Centers and Safeway (3.1%), a tenant at eight Shopping Centers and one office tenant, the United States Government (2.8%), a tenant at six properties, individually accounted for more than 2.5% of the Company's total revenue for the six months ended June 30, 2008.

Principles of Consolidation

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

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management all adjustments necessary for the fair presentation of the financial position and results of operations of Saul Centers, Inc. for the interim periods have been included. All such adjustments are of a

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normal recurring nature. These consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements of Saul Centers, Inc. for the year ended December 31, 2007, which are included in its Annual Report on Form 10-K. The results of operations for interim periods are not necessarily indicative of results to be expected for the year.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Real Estate Investment Properties

The Company purchases real estate investment properties from time to time and allocates the purchase price to various components, such as land, buildings, and intangibles related to in-place leases and customer relationships in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) 141, Business Combinations (SFAS No. 141). The purchase price is allocated based on the relative fair value of each component. The fair value of buildings is determined as if the buildings were vacant upon acquisition and subsequently leased at market rental rates. As such, the determination of fair value considers the present value of all cash flows expected to be generated from the property including an initial lease up period. The Company determines the fair value of above and below market intangibles associated with in-place leases by assessing the net effective rent and remaining term of the lease relative to market terms for similar leases at acquisition. In the case of below market leases, the Company considers the remaining contractual lease period and renewal periods, taking into consideration the likelihood of the tenant exercising its renewal options. The fair value of a below market lease component is recorded as deferred income and amortized as additional lease revenue over the remaining contractual lease period and any renewal option periods included in the valuation analysis. The fair value of above market lease intangibles is recorded as a deferred asset and is amortized as a reduction of lease revenue over the remaining contractual lease term. The Company determines the fair value of at-market in-place leases considering the cost of acquiring similar leases, the foregone rents associated with the lease-up period and carrying costs associated with the lease-up period. Intangible assets associated with at-market in-place leases are amortized as additional lease expense over the remaining contractual lease term. To the extent customer relationship intangibles are present in an acquisition, the fair value of the intangibles are amortized over the life of the customer relationship.

Real estate investment properties, including properties under development and land held for future development, are reviewed for potential impairment losses quarterly or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If there is an event or change in circumstance indicating the potential for an impairment in the value of a real estate investment property, the Company's policy is to assess potential impairment in value by making a comparison of the current and projected cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying amount of

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that property and estimated cash flows associated with future development expenditures. If such carrying amount is in excess of the estimated projected cash flows of the assets, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair market value. The Company has not recognized an impairment loss on any of its real estate for the six month periods ended June 30, 2008 and 2007.

Interest, real estate taxes and other carrying costs are capitalized on projects under development and construction. Once construction is substantially completed and the assets are placed in service, their rental income, real estate tax expense, property operating expenses (consisting of payroll, repairs and maintenance, utilities, insurance and other property related expenses) and depreciation are included in current operations. Property operating expenses are charged to operations as incurred. Interest expense capitalized totaled \$1,686,000 and \$1,624,000, for the six month periods ended June 30, 2008 and 2007, respectively. 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 that extend the useful lives. In addition, we capitalize leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvement. Leasehold improvements are amortized, over the shorter of the lives of the related leases or the useful life of the improvement, using the straight-line method. The depreciation component included in depreciation and amortization expense in the consolidated statements of operations, totaled \$11,629,000 and \$10,492,000, for the six month periods ended June 30, 2008 and 2007, respectively. Repair and maintenance expense, included in property operating expenses for the six month periods ended June 30, 2008 and 2007, was \$4,344,000 and \$4,549,000, respectively.

Deferred Leasing Costs

Certain initial direct costs incurred by the Company in negotiating and consummating a successful lease are capitalized and amortized over the initial base term of the lease. In addition, deferred leasing costs include amounts attributed to in place leases associated with acquisition properties as determined pursuant to the application of SFAS No.141. These costs are amortized over the remaining initial term of the leases acquired. Collectively, these deferred leasing costs total \$17,363,000 and \$16,190,000, net of accumulated amortization of \$14,380,000 and \$14,457,000, as of June 30, 2008 and December 31, 2007, respectively. Amortization expense, included in depreciation and amortization in the consolidated statements of operations, totaled \$2,303,000 and \$2,459,000, for the six months ended June 30, 2008 and 2007, respectively. Deferred leasing costs consist of commissions paid to third party leasing agents as well as internal direct costs such as employee compensation and payroll related fringe benefits directly related to time spent performing leasing related activities for successful leases. Such activities include evaluating the prospective tenant's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating lease terms, preparing lease documents and closing the transaction. The carrying amount of these costs is written-off to expense if the applicable lease is terminated prior to expiration of the initial lease term.

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Construction in progress includes preconstruction costs and development costs of active projects. Preconstruction costs associated with these active projects include legal, zoning and permitting costs and other project carrying costs incurred prior to the commencement of construction. Development costs include direct construction costs and indirect costs incurred subsequent to the start of construction such as architectural, engineering, construction management and carrying costs consisting of interest, real estate taxes and insurance. Construction in progress balances as of June 30, 2008 and December 31, 2007 are as follows:

Construction in Progress

<i>(Dollars in thousands)</i>	June 30, 2008	December 31, 2007
Clarendon Center	\$ 37,798	\$ 27,323
Northrock	15,121	
Westview Village	9,507	6,382
Smallwood Village Center	2,617	
Boulevard	1,112	
Ashland Square Phase II		10,851
Lexington Center		2,813
Other	1,146	2,223
Total	\$ 67,301	\$ 49,592

As of January 1, 2008, active development at Ashland Square Phase II and Lexington Center was suspended. The carrying costs for these properties were removed from construction in progress and reclassified to land and buildings and equipment, while awaiting sufficient leasing activity to warrant the resumption of development.

Accounts Receivable, Accrued Income and Allowance for Doubtful Accounts

Accounts receivable primarily represent amounts currently due from tenants in accordance with the terms of the respective leases. Receivables are reviewed monthly and when, in the opinion of management, collection of the entire receivable is doubtful, revenue accrual is discontinued and an allowance for doubtful accounts is established. Accounts receivable in the accompanying financial statements are shown net of an allowance for doubtful accounts of \$527,000 and \$387,000, at June 30, 2008 and December 31, 2007, respectively.

In addition to amounts due currently, accounts receivable includes accrued income of \$25,624,000 and \$25,013,000, at June 30, 2008 and December 31, 2007, respectively, representing the cumulative difference between minimum rental income recognized on a straight-line basis and contractual payments due under the terms of respective tenant leases. These amounts are presented after netting allowances of \$50,000 and \$52,000, respectively, for tenants whose rent payment history or financial condition cast doubt upon the tenant's ability to perform under its lease obligations.

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Cash and Cash Equivalents

Cash and cash equivalents include short-term investments. Short-term investments are highly liquid investments that are both readily convertible to cash or so near their maturity that they present insignificant risk of changes in value arising from interest rate fluctuations. Short-term investments include money market accounts and other investments which generally mature within three months, measured from the acquisition date.

Deferred Debt Costs

Deferred debt costs consist of fees and costs incurred to obtain long-term financing, construction financing and the revolving line of credit. These fees and costs are capitalized and amortized over the terms of the respective loans or agreements, which approximates the effective interest method. Deferred debt costs in the accompanying financial statements are shown net of accumulated amortization of \$4,502,000 and \$5,393,000, at June 30, 2008 and December 31, 2007, respectively.

Deferred Income

Deferred income consists of payments received from tenants prior to the time they are earned and recognized by the Company as revenue. These payments include prepayment of the following month's rent, prepayment of real estate taxes when the taxing jurisdiction has a fiscal year differing from the calendar year reimbursements specified in the lease agreement and advance payments by tenants for tenant construction work provided by the Company. In addition, deferred income includes the fair value of a below market lease component associated with acquisition properties as determined pursuant to the application of SFAS No.141.

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 revenues, known as percentage rent, is accrued when a tenant reports sales that exceed a specified breakpoint, pursuant to the terms of their respective leases.

Income Taxes

The Company made an election to be treated, and intends to continue operating so as to qualify as a REIT under the Code, commencing with its taxable year ended December 31, 1993. A REIT generally will not be subject to federal income taxation on that portion of its income that qualifies as REIT taxable income to the extent that it distributes at least 90% of its REIT taxable income to stockholders and complies with certain other requirements. Therefore, no provision has been made for federal income taxes in the accompanying consolidated financial statements.

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In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 is an interpretation of FASB Statement No. 109, "Accounting for Income Taxes," and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN 48 requires expanded disclosure with respect to the uncertainty in income taxes and is effective as of the beginning of the 2007 reporting year. As of June 30, 2008, the Company had no material unrecognized tax benefits. The Company recognizes penalties and interest accrued related to unrecognized tax benefits, if any, as general and administrative expense. With few exceptions, the Company is no longer subject to U.S. federal, state, and local tax examinations by tax authorities for years before 2004.

Stock Based Employee Compensation, Deferred Compensation and Stock Plan for Directors

Effective January 2003, the Company adopted the fair value method to value and account for employee stock options using the prospective transition method specified under SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" and accounts for stock based compensation according to SFAS No. 123R. The Company had no options eligible for valuation prior to the grant of options in 2003. The fair value of options granted is determined at the time of each award using the Black-Scholes model, a widely used method for valuing stock based employee compensation, and the following assumptions: (1) Expected Volatility. Expected volatility is determined using the most recent trading history of the Company's common stock (month-end closing prices) corresponding to the average expected term of the options, (2) Average Expected Term. The options are assumed to be outstanding for a term calculated considering prior exercise history, scheduled vesting and the expiration date, (3) Expected Dividend Yield. This rate is a value management determines after considering the Company's current and historic dividend yield rates, the Company's yield in relation to other retail REITs and the Company's market yield at the grant date, and (4) Risk-free Interest Rate. This rate is based upon the market yields of US Treasury obligations with maturities corresponding to the average expected term of the options at the grant date. The Company amortizes the value of options granted, ratably over the vesting period, and includes the amounts as compensation in general and administrative expenses.

The Company established a stock option plan in 1993 (the 1993 Plan) for the purpose of attracting and retaining executive officers and other key personnel. The 1993 Plan provided for grants of options to purchase a specified number of shares of common stock. A total of 400,000 shares were made available under the 1993 Plan. The 1993 Plan authorized the Compensation Committee of the Board of Directors to grant options at an exercise price not less than the market value of the common stock on the date the option is granted. Following a May 23, 2003 grant of shares, no additional shares remained for issuance under the 1993 Plan.

At the annual meeting of the Company's stockholders in 2004, the stockholders approved the adoption of the 2004 stock plan (the 2004 Plan) for the purpose of attracting and retaining executive officers, directors and other key personnel. The 2004 Plan, as amended in 2008, provides for grants of options to purchase up to 1,000,000 shares of common stock as well as grants of up to 200,000 shares of common stock to directors. The 2004 Plan authorizes the Compensation Committee of the Board of Directors to grant options at an exercise price which may not be less than the market value of the common stock on the date the option is granted.

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Pursuant to the 2004 Plan, the Compensation Committee established a Deferred Compensation Plan for Directors for the benefit of its directors and their beneficiaries. The 2004 Plan replaced the Company's previous Deferred Compensation and Stock Plan for Directors. A director may elect to defer all or part of his or her director's fees and has the option to have the fees paid in cash, in shares of common stock or in a combination of cash and shares of common stock upon termination from the Board. If the director elects to have fees paid in stock, fees earned during a calendar quarter are aggregated and divided by the common stock's closing market price on the first trading day of the following quarter to determine the number of shares to be allocated to the director. As of June 30, 2008, 223,000 shares had been allocated to the directors pursuant to the deferred compensation plans.

The Compensation Committee has also approved an annual award of shares of the Company's common stock as additional compensation to each director serving on the Board of Directors as of the record date for the Annual Meeting of Stockholders. The shares are awarded as of each Annual Meeting of Shareholders, and their issuance may not be deferred. Each director was issued 200 shares, as of the 2008 Annual Meeting of Shareholders and for each of the years ended December 31, 2007, 2006 and 2005, respectively. The shares were valued at the closing stock price on the dates the shares were awarded and the total value is included in general and administrative expenses for the period of the award.

Minority Interests

Saul Centers is the sole general partner of the Operating Partnership, owning a 76.7% common interest as of June 30, 2008. Minority Interests in the Operating Partnership are comprised of limited partnership units owned by The Saul Organization. Minority Interests as reflected on the Balance Sheets are increased for earnings allocated to limited partnership interests, distributions reinvested in additional units and in certain situations for distributions to minority interests in excess of earnings allocated, and are decreased for limited partner distributions. Minority Interests as reflected on the Statements of Operations represent earnings allocated to limited partnership interests. Amounts distributed in excess of the limited partners' share of earnings, net of limited partner reinvestments of distributions, also increase minority interests expense in the respective period and are classified on the Statements of Operations as Distributions in excess of earnings to the extent such distributions in excess of earnings exceed the carrying amount of minority interests.

Per Share Data

Per share data is calculated in accordance with SFAS No. 128, Earnings Per Share. Per share data for net income (basic and diluted) is computed using weighted average shares of common stock. Convertible limited partnership units and employee stock options are the Company's potentially dilutive securities. For all periods presented, the convertible limited partnership units are anti-dilutive. With the exception of the options granted in 2007, the options are dilutive because the average share price of the Company's common stock exceeds the exercise prices. The treasury stock method was used to measure the effect of the dilution.

Table of Contents**Basic and Diluted Shares Outstanding**

<i>(In thousands)</i>	Quarter ended June 30, Six months ended June 30,			
	2008	2007	2008	2007
Weighted average common shares outstanding-Basic	17,803	17,531	17,785	17,473
Effect of dilutive options	175	176	176	190
Weighted average common shares outstanding-Diluted	17,978	17,707	17,961	17,663

Reclassifications

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

Legal Contingencies

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

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurement (SFAS No. 157), which is effective for fiscal years after November 15, 2007. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. On February 12, 2008, the FASB issued FASB Staff Position No. FAS 157-2 Effective Date of FASB Statement No. 157 which delayed the effective date of SFAS No. 157 for all non-financial assets and liabilities except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008. The Company adopted SFAS No. 157 effective January 1, 2008 for financial assets and financial liabilities. The adoption did not have a material impact on the Company's consolidated results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS No. 159). This standard permits entities to choose to measure many financial instruments and certain other items at fair value and is effective for the first fiscal year beginning after November 15, 2007. The Company adopted SFAS No. 159 effective January 1, 2008 and has elected not to measure any financial assets or liabilities at fair value.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interest in Consolidated Financial Statements (SFAS 160). SFAS 160 is effective for fiscal years

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beginning on or after December 15, 2008. SFAS 160 establishes consistent accounting and reporting standards for the non-controlling (or minority) interest in a subsidiary and for the deconsolidation of a subsidiary. Management does not expect the adoption of SFAS 160 to have a material impact on the Company's financial condition or results of operations.

On December 4, 2007, the FASB issued FAS No. 141 (Revised 2007), Business Combinations (FAS No. 141(R)). FAS No. 141(R) will change the accounting for business combinations. Under FAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. Transaction costs will no longer be included in the measurement of the business acquired. Instead, these items will be expensed as incurred. FAS No. 141(R) also includes a substantial number of new disclosure requirements. FAS No. 141(R) applies prospectively to business combinations occurring during fiscal years beginning on or after December 15, 2008, which for the Company begins with the 2009 calendar year. FAS No. 141(R) will impact the Company's financial statements dependent on the level of acquisition activity in the year 2009 and beyond.

3. Real Estate Acquired

Smallwood Village Center

On January 27, 2006, the Company acquired the Smallwood Village Center, located within the St. Charles planned community of Waldorf, Maryland, a suburb of metropolitan Washington, DC, through a wholly-owned subsidiary of its operating partnership. The center was acquired for a purchase price of \$17.5 million subject to the assumption of an \$11.3 million mortgage loan.

Hunt Club Corners

On June 1, 2006, the Company completed the acquisition of the Publix-anchored Hunt Club Corners shopping center located in Apopka, Florida. The center was acquired for a purchase price of \$11.1 million.

Great Eastern Plaza Land Parcel

On June 6, 2007, the Company acquired an additional parcel of undeveloped land adjacent to its Great Eastern Plaza shopping center in District Heights, Maryland, for a purchase price of \$1.3 million.

Orchard Park

On July 19, 2007, the Company completed the acquisition of the Kroger-anchored Orchard Park shopping center located in Dunwoody, Georgia. The center was acquired for a purchase price of \$17.0 million.

Westview Village

In November 2007, the Company purchased a land parcel in the Westview development on Buckeystown Pike (MD Route 85) in Frederick, Maryland. The purchase price was \$5.0 million. Construction has commenced for development of a neighborhood shopping center.

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Northrock

In January 2008, the Company acquired an undeveloped land parcel 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 land purchase price was \$12.5 million.

The Company has commenced site work construction for a neighborhood shopping center. The Harris Teeter supermarket chain has executed a lease for a grocery store to anchor the center.

Great Falls Center

On March 28, 2008, the Company completed the acquisition of the Safeway-anchored Great Falls Center located in Great Falls, Virginia. The center was acquired for a purchase price of \$36.6 million subject to the assumption of a \$10.3 million mortgage loan. As of the date of acquisition management determined the mortgage loan was fairly valued because the terms of the loan were not materially different from market terms.

BJ's Wholesale Club

On March 28, 2008, the Company completed the acquisition of the single tenant property anchored by BJ's Wholesale Club, located in Alexandria, Virginia. The property was acquired for a purchase price of \$21.0 million.

Marketplace at Sea Colony

On March 28, 2008, the Company completed the acquisition of Marketplace at Sea Colony, located in Bethany Beach, Delaware. The center was acquired for a purchase price of \$3.0 million.

Application of SFAS 141, for Real Estate Acquired

The Company accounted for the operating property acquisitions using the purchase method of accounting in accordance with SFAS No. 141. The Company allocates the purchase price to various components, such as land, buildings and intangibles related to in-place leases and customer relationships, if applicable, as described in Note 2.

The \$36.9 million total cost of acquiring Great Falls Center included both the purchase price and closing costs. A total of \$1,916,000 of the total cost was allocated as lease intangible assets and will be included in deferred leasing costs commencing April 1, 2008. The lease intangible assets are being amortized over the remaining periods of the leases acquired, a weighted average term of 13.6 years. The value of below market leases totaled \$6,856,000 and are being amortized over a weighted average term of 20.0 years, and were recorded as deferred income at the time of acquisition. The value of above market leases totaled \$72,000 and are being amortized over a weighted average term of 5.7 years, and were recorded as a deferred asset in accounts receivable at the time of acquisition.

The \$21.1 million total cost of acquiring the BJ's Wholesale Club property included both the purchase price and closing costs. A total of \$303,000 of the total cost was allocated as lease intangible assets and will be included in deferred leasing costs commencing April 1, 2008. The lease intangible assets are being amortized over the remaining periods of the leases acquired, a weighted average term of 21.1 years. The value of the below market lease totaled \$1,838,000 and are being amortized over a weighted average term of 21.1 years, and were recorded as deferred income at the time of acquisition.

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The \$3.1 million total cost of acquiring Marketplace at Sea Colony included both the purchase price and closing costs. A total of \$132,000 of the total cost was allocated as lease intangible assets and will be included in deferred leasing costs commencing April 1, 2008. The lease intangible assets are being amortized over the remaining periods of the leases acquired, a weighted average term of 3.5 years. The value of below market leases totaled \$30,000 and are being amortized over a weighted average term of 3.9 years, and were recorded as deferred income at the time of acquisition. The value of above market leases totaled \$76,000 and are being amortized over a weighted average term of 4.4 years, and were recorded as a deferred asset in accounts receivable at the time of acquisition.

The results of operations of the acquired properties are included in the consolidated statements of operations as of the acquisition date. The following unaudited pro forma combined condensed statements of operations set forth the consolidated results of operations for the three and six month periods ended June 30, 2008 and 2007, respectively, as if the above described acquisitions had occurred on January 1, 2008 and 2007, respectively. The unaudited pro forma information does not purport to be indicative of the results that actually would have occurred if the combination had been in effect for the three and six months ended June 30, 2008 and 2007, respectively.

Pro Forma Combined Condensed Statements of Operations

<i>(In thousands, except per share data, unaudited)</i>	Quarter ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Real estate revenues	\$ 40,105	\$ 38,228	\$ 80,092	\$ 76,117
Net income available to common stockholders	\$ 6,443	\$ 6,795	\$ 13,572	\$ 13,557
Earnings per common share-basic	\$ 0.36	\$ 0.39	\$ 0.76	\$ 0.78
Earnings per common share-diluted	\$ 0.36	\$ 0.38	\$ 0.76	\$ 0.77

4. Minority Interests - Holders of Convertible Limited Partner Units in the Operating Partnership

The Saul Organization has a 23.3% limited partnership interest, represented by 5,416,000 convertible limited partnership units, in the Operating Partnership, as of June 30, 2008. These convertible limited partnership units are convertible into shares of Saul Centers' common stock, at the option of the unit holder, on a one-for-one basis provided that, in accordance with the Saul Centers, Inc. Articles of Incorporation, the rights may not be exercised at any time that The Saul Organization beneficially owns, directly or indirectly, in the aggregate more than 39.9% of the value of the outstanding common stock and preferred stock of Saul Centers (the "Equity Securities"). As a result, as of June 30, 2008, approximately 2,157,000 units were not convertible into shares of Saul Centers common stock.

The impact of The Saul Organization's 23.3% limited partnership interest in the Operating Partnership is reflected as Minority Interests in the accompanying consolidated financial statements. Fully converted partnership units and diluted weighted average shares outstanding for the six months ended June 30, 2008 and 2007, were 23,377,000 and 23,079,000, respectively.

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

The Company's outstanding debt totaled \$565,194,000 at June 30, 2008, of which \$556,785,000 was fixed rate debt and \$8,409,000 was variable rate construction loan debt. No balance was outstanding on the Company's variable rate, \$150,000,000 unsecured revolving credit facility. The facility provides working capital and funds for acquisitions, certain developments and redevelopments, has a three-year term expiring on December 19, 2010 and provides for an additional one-year extension at the Company's option, 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 revolving credit facility. On June 30, 2008, of the \$150,000,000 available for borrowing, \$177,000 was committed for letters of credit, and the resulting balance of \$149,823,000 was available to borrow for working capital, operating property acquisitions or development projects. Interest rate pricing under the facility is primarily determined by operating income from the Company's existing unencumbered properties and to a lesser extent, certain leverage tests. As of June 30, 2008, operating income from the unencumbered properties determined the interest rate for up to \$100,000,000 of the line's available borrowings, with interest expense to be calculated based upon the 1, 2, 3 or 6 month LIBOR plus a spread of 1.40% to 1.60% or upon the bank's reference rate, at the Company's option. The remaining \$50,000,000 of the line's availability is determined based upon the Company's consolidated operating income after debt service. On this portion of the facility, interest accrues at a rate of LIBOR plus a spread of 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.

Saul Centers is the guarantor of the revolving credit facility, of which the Operating Partnership is the borrower. The mortgage notes payable are all non-recourse debt, except for certain guarantees described below.

On February 29, 2008, the Company closed on a \$7,500,000 increase to a fixed-rate mortgage secured by Shops at Fairfax and Boulevard shopping centers. The loan matures June 1, 2015 (same as the original financing), requires interest only payments of \$38,000, based upon a 6.08% interest rate, and requires a final principal payment of \$7,500,000 at maturity. The Company will initially guarantee \$1,875,000 of this loan until completion of the Boulevard redevelopment and until certain debt service coverage tests are achieved.

On March 23, 2008, the Company closed on a \$3,000,000 increase to a fixed-rate mortgage secured by Seabreeze Plaza. The loan matures May 1, 2014 (same as the original financing), requires equal monthly principal and interest payments of \$17,794, based upon a 5.90% interest rate and 30-year principal amortization, and requires a final principal payment of \$2,738,000 at maturity.

On March 28, 2008, the Company assumed a fully amortizing fixed-rate mortgage loan in the amount of \$10,349,000, secured by the acquisition property, Great Falls Center. The loan

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matures February 1, 2024 and requires equal monthly principal and interest payments of \$83,113, based upon a 5.80% interest rate and 20-year principal amortization. Management determined the mortgage loan was fairly valued at acquisition because the terms of the loan were not materially different from current market terms.

On March 31, 2008, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$12,750,000, secured by the BJ's Wholesale Club center. The loan matures April 1, 2023, requires equal monthly principal and interest payments of \$80,003, based upon a 6.43% interest rate and 30-year principal amortization, and requires a final principal payment of \$9,255,000 at maturity.

In April 2008, the Company closed on a \$10,825,000 additional financing secured by the Great Falls Center. Funding in the amount of \$6,525,000 occurred on April 6, 2008, payable at an interest rate of 6.80%, interest only for the first year, after which amortization will commence on a 30-year amortization schedule, requiring monthly payments of principal and interest totaling \$42,538. A final principal payment of \$1,274,000 will be due at maturity on February 1, 2024. The Company will initially guarantee \$2,000,000 of this loan, with the amount of any additional advance to also be guaranteed until certain debt service coverage tests are achieved. The balance totaling \$4,300,000 is a forward commitment to be funded prior to March 31, 2009, subject to achieving certain re-leasing requirements.

In May 2008, the Company closed on a \$21,822,000 secured construction loan, to fund the development of Northrock shopping center in Warrenton, Virginia. Funding in the amount of \$6,495,000 occurred at closing. The loan accrues interest, payable at an interest rate of LIBOR plus 1.6%. The loan matures on May 1, 2011, with one 2-year extension option, exercisable at the Company's option subject to completion of improvements and certain debt service coverage requirements. The loan is 100% guaranteed by the Company until such time as the construction is complete, at which time the guarantee will be limited to 50% of the total principal outstanding. A total of \$6,495,000 is outstanding as of June 30, 2008.

Also in May 2008, the Company closed a \$157,500,000 secured construction loan to finance the development of Clarendon Center, a mixed-use development adjacent to the Clarendon Metro station in Arlington, Virginia. The Company has guaranteed the loan, with the guarantee to be reduced subject to certain conditions related to pre-leasing, completion of construction and net operating income from the project. The loan accrues interest at an interest rate of LIBOR plus 2.5% and matures on November 14, 2011, which term may be extended by the Company for two additional 9-month periods, subject to the satisfaction of certain conditions. A total of \$1,914,000 was outstanding as of June 30, 2008.

At December 31, 2007, the Company's outstanding debt totaled \$532,726,000, of which \$524,726,000 was fixed rate and \$8,000,000 was variable rate debt outstanding on the Company's \$150,000,000 unsecured revolving credit facility.

At June 30, 2008, the scheduled maturities of all debt, including scheduled principal amortization, for years ending December 31, were as follows:

Table of ContentsDebt Maturity Schedule*(Dollars in thousands)*

July 1 through December 31, 2008	\$ 8,518
2009	18,054
2010	19,413
2011	91,494
2012	111,350
2013	48,709
Thereafter	267,656
	\$ 565,194

Interest expense and amortization of deferred debt costs for the quarter ended June 30, 2008 and 2007, respectively were as follows:

Interest Expense and Amortization of Deferred Debt Costs

<i>(Dollars in thousands)</i>	Quarter ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Interest incurred	\$ 9,324	\$ 8,811	\$ 18,410	\$ 17,689
Amortization of deferred debt costs	300	278	585	554
Capitalized interest	(919)	(764)	(1,686)	(1,624)
	\$ 8,705	\$ 8,325	\$ 17,309	\$ 16,619

6. Stockholders Equity and Minority Interests

The Consolidated Statement of Operations includes a charge for minority interests of \$1,946,000 and \$2,151,000 for the three months ended June 30, 2008 and June 30, 2007, respectively, and includes a charge of \$4,094,000 and \$4,286,000 for the six months ended June 30, 2008 and June 30, 2007, respectively, representing The Saul Organization's limited partnership interest share of net income for each period.

On March 20, 2008, the Company filed a shelf registration statement (the Shelf Registration Statement) with the SEC relating to the future offering of up to an aggregate of \$140 million of preferred stock and depositary shares. On March 27, 2008, the Company sold 3,000,000 depositary shares, each representing 1/100th of a share of 9% Series B Cumulative Redeemable Preferred Stock, providing net cash proceeds of \$72.1 million. The underwriters exercised an over-allotment option, purchasing an additional 173,115 depositary shares providing additional net cash proceeds of \$4.2 million.

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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 March 15, 2013. The depositary shares will pay an annual dividend of \$2.25 per share, equivalent to 9% of the \$25.00 liquidation preference. The first dividend will be paid on July 15, 2008 and will cover the period from March 27, 2008 through June 30, 2008. The Series B preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company. Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events.

7. Related Party Transactions

Chevy Chase Bank, an affiliate of The Saul Organization, leases space in 20 of the Company's properties. Total rental income from Chevy Chase Bank amounted to \$1,674,000 and \$1,423,000, for the six months ended June 30, 2008 and 2007, respectively.

The Company utilizes Chevy Chase Bank for its various checking and short-term investment accounts. As of June 30, 2008, approximately \$36,833,000 was held in deposit in these accounts.

The Chairman and Chief Executive Officer, the President, the Senior Vice President-General Counsel and the Vice President-Chief Accounting Officer of the Company are also officers of various members of The Saul Organization and their management time is shared with The Saul Organization. Their annual compensation is fixed by the Compensation Committee of the Board of Directors, with the exception of the Vice President-Chief Accounting Officer whose share of annual compensation allocated to the Company is determined by the shared services agreement (described below).

The Company participates in a multiemployer profit sharing retirement plan with other entities within The Saul Organization which covers those full-time employees who meet the requirements as specified in the plan. Beginning January 1, 2002, only employer contributions are made to the plan. Each participant who is entitled to be credited with at least one hour of service on or after January 1, 2002, shall be 100% vested in his or her employer contribution account and no portion of such account shall be forfeitable. Employer contributions, at the discretionary amount of up to six percent of the employee's cash compensation, subject to certain limits, were \$207,000 and \$156,000, for the six months ended June 30, 2008 and 2007, respectively. There are no past service costs associated with the plan since it is of the defined-contribution type.

The Company also participates in a multiemployer nonqualified deferred plan with entities in The Saul Organization which covers those full-time employees who meet the requirements as specified in the plan. The plan, which can be modified or discontinued at any time, requires participating employees to defer 2% of their compensation over a specified amount. The Company is required to contribute three times the amount deferred by employees. The Company's contribution totaled \$61,000 and \$47,000, for the six months ended June 30, 2008 and 2007, respectively. All amounts deferred by employees and the Company are fully vested. The cumulative unfunded liability under this plan was \$913,000 and \$857,000 at June 30, 2008 and December 31, 2007, respectively, and is included in accounts payable, accrued expenses and other liabilities in the consolidated balance sheets.

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The Company has entered into a shared services agreement (the Agreement) with The Saul Organization that provides for the sharing of certain personnel and ancillary functions such as computer hardware, software, and support services and certain direct and indirect administrative personnel. The method for determining the cost of the shared services is provided for in the Agreement and depending upon the service, is based upon head count, estimates of usage or estimates of time incurred, as applicable. The terms of the Agreement and the payments made thereunder are deemed reasonable by management and are reviewed annually by the Audit Committee of the Board of Directors, which consists entirely of independent directors. Billings by The Saul Organization for the Company's share of these ancillary costs and expenses for the six months ended June 30, 2008 and 2007, which included rental expense for the Company's headquarters lease, totaled \$2,603,000 and \$2,274,000, respectively. The amounts are expensed when billed and are primarily reported as general and administrative expenses in these consolidated financial statements. As of June 30, 2008 and December 31, 2007, accounts payable, accrued expenses and other liabilities included \$288,000 and \$298,000, respectively, representing billings due to The Saul Organization for the Company's share of these ancillary costs and expenses.

The Company's corporate headquarters lease, which commenced in March 2002, 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. Pursuant to the Agreement, the participants pay an allocation of total rental payments on a percentage proportionate to the number of employees employed by each party. The Company's rent expense for the six months ended June 30, 2008 and 2007 were \$404,000 and \$401,000, respectively, and are included in general and administrative expense.

8. Non-Operating Items

Gain on Property Disposition

The gain on property disposition of \$205,000 during the six months ended June 30, 2008 represents proceeds from an insurance settlement for HVAC units vandalized at the Company's West Park shopping center in Oklahoma City, Oklahoma. There were no property dispositions during the six months ended June 30, 2007.

9. Stock Option Plans

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

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The following table summarizes the amount and activity of each grant, the total value and variables used in the computation and the amount expensed and included in general and administrative expense in the Consolidated Statements of Operations for the six months ended June 30, 2008:

Stock options issued

Grant date	Officers					Directors					Subtotals	Grand Total
	05/23/2003	04/26/2004	05/06/2005	04/27/2007	Subtotals	04/26/2004	05/06/2005	05/01/2006	04/27/2007	04/25/2008		
Total grant	220,000	122,500	132,500	135,000	610,000	30,000	30,000	30,000	30,000	30,000	150,000	760,000
Vested	212,500	115,000	91,875	33,750	453,125	30,000	30,000	30,000	30,000	30,000	150,000	603,125
Exercised	91,922	25,625	6,250		123,797	3,700					3,700	127,497
Forfeited	7,500	7,500	11,250		26,250							26,250
Exercisable at June 30, 2008	120,578	89,375	85,625	33,750	329,328	26,300	30,000	30,000	30,000	30,000	146,300	475,628
Remaining unexercised	120,578	89,375	115,000	135,000	459,953	26,300	30,000	30,000	30,000	30,000	146,300	606,253
Exercise price	\$ 24.91	\$ 25.78	\$ 33.22	\$ 54.17		\$ 25.78	\$ 33.22	\$ 40.35	\$ 54.17	\$ 50.15		
Volatility	0.175	0.183	0.207	0.233		0.183	0.198	0.206	0.225	0.237		
Expected life (years)	7.0	7.0	8.0	6.5		5.0	10.0	9.0	8.0	7.0		
Assumed yield	7.00%	5.75%	6.37%	4.13%		5.75%	6.91%	5.93%	4.39%	4.09%		
Risk-free rate	4.00%	4.05%	4.15%	4.61%		3.57%	4.28%	5.11%	4.65%	3.49%		
Total value at grant date	\$ 332,200	\$ 292,775	\$ 413,400	\$ 1,258,848	\$ 2,297,223	\$ 66,600	\$ 71,100	\$ 143,400	\$ 285,300	\$ 254,700	\$ 821,100	\$ 3,118,323
Expensed in previous years	320,875	254,450	256,108	209,808	1,041,241	66,600	71,100	143,400	285,300		566,400	1,607,641
Forfeited options	11,325	17,925	35,100		64,350							64,350
Expensed during six months ended June 30, 2008		20,400	45,822	157,356	223,578					254,700	254,700	478,278
Future expense		\$	\$ 76,370	\$ 891,684	\$ 968,054							968,054
Weighted average term of future expense		2.7 years										

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The table below summarizes the option activity for the six months ended June 30, 2008:

	Number of Shares	Wtd Avg Exercise Price/sh	Aggregate Intrinsic Value
Outstanding at January 1	586,753	\$ 36.15	
Granted	30,000	50.15	
Exercised	10,500	24.91	
Expired/Forfeited			
Outstanding June 30	606,253	34.56	\$ 7,312,000
Exercisable at June 30	475,628	30.47	6,907,000

The intrinsic value presented in the table above measures the price difference between the options' exercise price and the closing share price quoted by the New York Stock Exchange as of the date of measurement. The date of exercise was the measurement date for shares exercised during the period. At June 30, 2008, the closing share price was \$46.99 and was used for the calculation of aggregate intrinsic value of options outstanding and exercisable at that date. The options awarded in 2007 and 2008 had an exercise price in excess of the June 30, 2008 closing price and thus have no intrinsic value. The weighted average remaining contractual life of the Company's outstanding and exercisable options are 7.0 and 6.6 years, respectively.

10. Commitments and Contingencies

Neither the Company nor the Current Portfolio Properties are subject to any material litigation, nor, to management's knowledge, is any material litigation currently threatened against the Company, other than routine litigation and administrative proceedings arising in the ordinary course of business. Management believes that these items, individually or in the aggregate, will not have a material adverse impact on the Company or the Current Portfolio Properties.

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The Company has two reportable business segments: Shopping Centers and Office Properties. The accounting policies for the segments presented below are the same as those described in the summary of significant accounting policies (see Note 2). The Company evaluates performance based upon net operating income for properties in each segment.

<i>(Dollars in thousands)</i>	Shopping Centers	Office Properties	Corporate and Other	Consolidated Totals
Quarter ended June 30, 2008				
(1)				
Real estate rental operations:				
Revenue	\$ 30,212	\$ 9,649	\$ 244	\$ 40,105
Expenses	(6,504)	(2,542)		(9,046)
Income from real estate	23,708	7,107	244	31,059
Interest expense & amortization of deferred debt costs			(8,705)	(8,705)
General and administrative			(3,190)	(3,190)
Subtotal	23,708	7,107	(11,651)	19,164
Depreciation and amortization of deferred leasing costs	(5,020)	(1,969)		(6,989)
Gain on property disposition				
Minority interests			(1,946)	(1,946)
Net income	\$ 18,688	\$ 5,138	\$ (13,597)	\$ 10,229
Capital investment	\$ 6,807	243	6,391	\$ 13,441
Total assets	\$ 657,806	117,531	76,702	\$ 852,039
Quarter ended June 30, 2007				
Real estate rental operations:				
Revenue	\$ 27,550	\$ 9,385	\$ 142	\$ 37,077
Expenses	(5,565)	(2,419)		(7,984)
Income from real estate	21,985	6,966	142	29,093
Interest expense & amortization of deferred debt costs			(8,325)	(8,325)
General and administrative			(3,188)	(3,188)
Subtotal	21,985	6,966	(11,371)	17,580
Depreciation and amortization of deferred leasing costs	(4,413)	(2,090)		(6,503)
Minority interests			(2,151)	(2,151)
Net income	\$ 17,572	\$ 4,876	\$ (13,522)	\$ 8,926
Capital investment	\$ 9,012	\$ 323	\$ 2,857	\$ 12,192
Total assets	\$ 541,963	\$ 128,512	\$ 36,392	\$ 706,867

(1) Clarendon development included because a significant component will be residential.

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<i>(Dollars in thousands)</i>	Shopping Centers	Office Properties	Corporate and Other	Consolidated Totals
Six months ended June 30, 2008				
(1)				
Real estate rental operations:				
Revenue	\$ 59,262	\$ 19,254	\$ 311	\$ 78,827
Expenses	(12,955)	(5,270)		(18,225)
Income from real estate	46,307	13,984	311	60,602
Interest expense & amortization of deferred debt costs			(17,309)	(17,309)
General and administrative			(6,113)	(6,113)
Subtotal	46,307	13,984	(23,111)	37,180
Depreciation and amortization of deferred leasing costs	(9,939)	(3,993)		(13,932)
Gain on property disposition	205			205
Minority interests			(4,094)	(4,094)
Net income	\$ 36,573	\$ 9,991	\$ (27,205)	\$ 19,359
Capital investment	\$ 74,260	311	8,849	\$ 83,420
Total assets	\$ 657,806	117,531	76,702	\$ 852,039
Six months ended June 30, 2007				
Real estate rental operations:				
Revenue	\$ 54,741	\$ 18,782	\$ 238	\$ 73,761
Expenses	(11,532)	(4,895)		(16,427)
Income from real estate	43,209	13,887	238	57,334
Interest expense & amortization of deferred debt costs			(16,619)	(16,619)
General and administrative			(5,678)	(5,678)
Subtotal	43,209	13,887	(22,059)	35,037
Depreciation and amortization of deferred leasing costs	(8,839)	(4,112)		(12,951)
Minority interests			(4,286)	(4,286)
Net income	\$ 34,370	\$ 9,775	\$ (26,345)	\$ 17,800
Capital investment	\$ 13,626	\$ 827	\$ 4,277	\$ 18,730
Total assets	\$ 541,963	\$ 128,512	\$ 36,392	\$ 706,867

(1) Clarendon development included because a significant component will be residential.

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

This section should be read in conjunction with the consolidated financial statements of the Company and the accompanying notes in Item 1. Financial Statements of this report and the more detailed information contained in our Form 10-K for the year ended December 31, 2007. Historical results and percentage relationships set forth in Item 1 and this section should not be taken as indicative of future operations of the Company. Capitalized terms used but not otherwise defined in this section, have the meanings given to them in Item 1 of this Form 10-Q.

Forward-Looking Statements

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

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

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

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

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

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

risks related to the Company's development activities;

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

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

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

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

such other risks as described in Item 1A of our Form 10-K for the year ended December 31, 2007.

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General

The following discussion is based primarily on the consolidated financial statements of the Company, as of June 30, 2008 and for the six month period ended June 30, 2008.

Critical Accounting Policies

The Company's accounting policies are in conformity with U.S. GAAP. The preparation of financial statements in conformity with U.S. 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 U.S. 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.

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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.

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.

Deferred Leasing 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. Deferred leasing costs consist of commissions paid to third party leasing agents as well as internal direct costs such as employee compensation and payroll related fringe benefits directly related to time spent performing leasing related activities. Such activities include evaluating prospective tenants' financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating lease terms, preparing lease documents and closing transactions. In addition, deferred leasing costs include amounts attributed to in place leases associated with acquisition properties as determined pursuant to the application of SFAS No.141.

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.

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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.

Results of Operations**Quarter ended June 30, 2008 compared to quarter ended June 30, 2007****Revenue**

<i>(Dollars in thousands)</i>	Quarters ended June 30,		2008 to 2007 Change	
	2008	2007	\$	%
Base rent	\$ 31,751	\$ 29,531	\$ 2,220	7.5%
Expense recoveries	6,945	6,282	663	10.6%
Percentage rent	232	312	(80)	-25.6%
Other	1,177	952	225	23.6%
Total revenue	\$ 40,105	\$ 37,077	\$ 3,028	8.2%

Total revenue increased 8.2% in the quarter ended June 30, 2008 (2008 Quarter) compared to the corresponding prior year's quarter (2007 Quarter). The revenue increase for the 2008 Quarter resulted primarily from net rental income from the operations of a 2007 developed property and three 2008 and one 2007 acquisition properties and to a lesser extent, the lease-up of Lansdowne Town Center. The development property (Ashland Square) and the acquisition properties (Great Falls Center, BJ's Wholesale Club and Marketplace at Sea Colony in 2008 and Orchard Park in 2007) together defined as the Development and Acquisition Properties, contributed \$1,744,000 of the revenue increase and Lansdowne contributed \$431,000. Improved operating results at the remaining properties and increased interest income contributed the balance of the quarter over quarter revenue growth. A discussion of the components of revenue follows.

Base rent. The increase in base rent for the 2008 Quarter versus the 2007 Quarter was primarily attributable to leases in effect at the Development and Acquisition Properties (68.9% or

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approximately \$1,529,000). The lease-up of Lansdowne Town Center (13.4% or approximately \$298,000). Rental rate growth in the core properties, particularly Southdale, Seven Corners and Beacon Center shopping centers provided 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 single contributor to the increase in expense recovery income resulted from operation of the Development and Acquisition Properties (31.7% or approximately \$210,000). Billings to tenants for their share of increased real estate tax expense and property operating expenses throughout the core operating properties produced the balance of the increase (68.3% or approximately \$453,000).

Percentage rent. Percentage rent is rental revenue calculated on the portion of a tenant's sales revenue that exceeds a specified breakpoint. Percentage rent for the 2008 Quarter decreased primarily due to two anchor tenants reporting reduced sales revenue compared to the prior year.

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. The increase in other revenue for the 2008 Quarter resulted primarily from interest income resulting from the investment of increased cash balances (44.9% or approximately \$101,000) and increased parking revenue at 601 Pennsylvania Avenue (29.8% or approximately \$67,000).

Operating Expenses

<i>(Dollars in thousands)</i>	Quarters ended June 30,		2008 to 2007 Change	
	2008	2007	\$	%
Property operating expenses	\$ 4,527	\$ 4,343	\$ 184	4.2%
Provision for credit losses	241	103	138	134.0%
Real estate taxes	4,278	3,538	740	20.9%
Interest expense and amortization of deferred debt	8,705	8,325	380	4.6%
Depreciation and amortization of leasing costs	6,989	6,503	486	7.5%
General and administrative	3,190	3,188	2	0.1%
Total operating expenses	\$ 27,930	\$ 26,000	\$ 1,930	7.4%

Increases in operating expenses resulted primarily from expenses resulting from the operation and financing of the Development and Acquisition Properties.

Property operating expenses. Property operating expenses consist of repairs and maintenance, utilities, payroll, insurance and other property related expenses. Expenses required to operate the

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Development and Acquisition Properties (56.0% or approximately \$103,000) and utility expense increases at Washington, DC office properties, 601 Pennsylvania Avenue and Van Ness Square (32.6% or approximately \$60,000), produced the majority of the increase.

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 increase in the 2008 Quarter versus the 2007 Quarter was primarily due to a credit loss provision established for a rent dispute with a major tenant. The amount reported in each quarter represents only six tenths of one percent (0.6%) or lower of total revenue for each quarter.

Real estate taxes. The increase in real estate taxes for the 2008 Quarter versus the 2007 Quarter was primarily due to a same property shopping center increase of \$449,000 (60.7% of total real estate tax increase), a 17.5% increase over the 2007 Quarter's amount, impacted largely by increased assessments at several of the Company's Northern Virginia shopping centers. The Office Properties, particularly Van Ness Square and 601 Pennsylvania Avenue contributed to the increase (22.8% or approximately \$169,000) as well as the Development and Acquisition Properties (16.5% or approximately \$122,000).

Interest expense and amortization of deferred debt. Interest expense increased in the 2008 Quarter versus the 2007 Quarter due to increased borrowing for the Development and Acquisition Properties offset in part by the reduction of credit line borrowings using proceeds received from the Company's issue of Series B preferred stock, March 27, 2008. Average outstanding fixed rate borrowings increased approximately \$62,100,000, offset in part by decreased average variable rate borrowings of approximately \$17,200,000 (approximately \$544,000 increase in interest expense). Interest capitalized as a cost of construction and development projects increased during the 2008 Quarter compared to the 2007 Quarter (\$919,000 versus \$764,000, respectively, approximately \$155,000 decrease in interest expense) resulting primarily from construction activity at Clarendon Center, Northrock and Westview Village. Deferred debt cost amortization was \$300,000 and \$278,000, for the 2008 and 2007 Quarters, respectively (approximately \$22,000 increase).

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

General and administrative. General and administrative expenses consist of payroll, administrative and other overhead expenses. During the 2008 Quarter, general and administrative expenses related to staff expenses increased approximately \$141,000, real estate taxes on future development land increased approximately \$51,000 and abandoned acquisition costs increase approximately \$35,000; all of which were offset by reduced professional fees, state income taxes and stock option expense.

Table of Contents**Six months ended June 30, 2008 compared to six months ended June 30, 2007**Revenue

<i>(Dollars in thousands)</i>	Six months ended June 30,		2008 to 2007 Change	
	2008	2007	\$	%
Base rent	\$ 62,133	\$ 58,552	\$ 3,581	6.1%
Expense recoveries	14,078	12,880	1,198	9.3%
Percentage rent	546	514	32	6.2%
Other	2,070	1,815	255	14.0%
Total revenue	\$ 78,827	\$ 73,761	\$ 5,066	6.9%

Total revenue increased 6.9% in the six month period ended June 30, 2008 (2008 Period) compared to the corresponding prior year's six month period (2007 Period). The revenue increase for the 2008 Period resulted primarily from net rental income from Development and Acquisition Properties (45.0% or approximately \$2,279,000) and the lease-up of Lansdowne Town Center (25.3% or approximately \$1,283,000). Improved operating results at the remaining properties and increased interest income contributed the balance of the period over period revenue growth. A discussion of the components of revenue follows.

Base rent. The increase in base rent for the 2008 Period versus the 2007 Period was primarily attributable to the Development and Acquisition Properties (55.0% or approximately \$1,969,000) and the lease-up of Lansdowne Town Center (26.1% or approximately \$933,000). Rental rate growth in the core properties, particularly Southdale, Seven Corners and Beacon Center shopping centers provided 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 majority of the increase in expense recovery income resulted from billings to tenants for their share of increased real estate tax expense and property operating expenses throughout the core operating properties (74.5% or approximately \$892,000). The Development and Acquisition Properties contributed the balance of the increase (25.5% or approximately \$306,000).

Percentage rent. Percentage rent is rental revenue calculated on the portion of a tenant's sales revenue that exceeds a specified breakpoint. Percentage rent increased slightly for the 2008 Period compared to the prior year period.

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. The increase in other revenue for the 2008 Period resulted primarily from increased parking revenue at 601 Pennsylvania Avenue (42.4% or approximately \$108,000) and from interest income resulting from the investment of increased cash balances (28.6% or approximately \$73,000).

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<i>(Dollars in thousands)</i>	Six months ended June 30,		2008 to 2007 Change	
	2008	2007	\$	%
Property operating expenses	\$ 9,512	\$ 9,148	\$ 364	4.0%
Provision for credit losses	424	215	209	97.2%
Real estate taxes	8,289	7,064	1,225	17.3%
Interest expense and amortization of deferred debt	17,309	16,619	690	4.2%
Depreciation and amortization of leasing costs	13,932	12,951	981	7.6%
General and administrative	6,113	&n		