

Manitex International, Inc.
Form 10-K
March 30, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

Commission File No.: 001-32401

MANITEX INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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Michigan
(State of incorporation)

42-1628978
(I.R.S. Employer

9725 Industrial Drive

Identification No.)

Bridgeview, Illinois
(Address of principal executive offices)

60455
(Zip Code)

Registrant's telephone number, including area code: (708) 430-7500

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

Title of each class	Name of each exchange on which registered
Common Stock, no par value	The NASDAQ Stock Market LLC
Preferred Share Purchase Rights	The NASDAQ Stock Market LLC

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

None

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

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

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 requirements for the past 90 days. Yes No

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

Indicate by check mark 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 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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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 Act). Yes No

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The aggregate market value of the shares of common stock, no par value (Common Stock), held by non-affiliates of the registrant as of June 30, 2010 was approximately \$16.0 million based upon the closing price for the Common Stock of \$1.80 on the NASDAQ Stock Market on such date. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the registrant s common stock outstanding as of March 9, 2011 was 11,394,621

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference information (to the extent specific sections are referred to herein) from the registrant s Proxy Statement for its 2011 Annual Meeting (the 2011 Proxy Statement) to be filed with the Commission within 120 days after the end of the fiscal year ended December 31, 2010.

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PART I

References to the Company, we, our and us refer to Manitex International, Inc., together in each case with our subsidiaries and any predecessor entities unless the context suggests otherwise.

Forward-Looking Statements

When reading this section of this Annual Report on Form 10-K, it is important that you also read the financial statements and related notes thereto. This Annual Report on Form 10-K and certain information incorporated herein by reference contain forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements contained in this Annual Report on Form 10-K, other than statements that are purely historical, are forward-looking statements and are based upon management's present expectations, objectives, anticipations, plans, hopes, beliefs, intentions or strategies regarding the future. We use words such as anticipate, estimate, plan, project, continuing, ongoing, expect, believe, intend, may, will, should, could, and similar expressions to identify forward-looking statements. Forward-looking statements in this Annual Report on Form 10-K include, without limitation: (1) projections of revenue, earnings, capital structure and other financial items, (2) statements of our plans and objectives, (3) statements regarding the capabilities and capacities of our business operations, (4) statements of expected future economic conditions and the effect on us and on our customers, (5) expected benefits of our cost reduction measures, and (6) assumptions underlying statements regarding us or our business. Our actual results may differ from information contained in these forward looking-statements for many reasons, including those described below and in the section entitled Item 1A. Risk Factors :

- (1) substantial deterioration in economic conditions, especially in the United States and Europe;
- (2) our customers' diminished liquidity and credit availability;
- (3) difficulties in implementing new systems, integrating acquired businesses, managing anticipated growth, and responding to technological change;
- (4) our ability to negotiate extensions of our credit agreements and to obtain additional debt or equity financing when needed.
- (5) the cyclical nature of the markets we operate in;
- (6) increases in interest rates;
- (7) government spending; fluctuations in the construction industry, and capital expenditures in the oil and gas industry;
- (8) the performance of our competitors;
- (9) shortages in supplies and raw materials or the increase in costs of materials;
- (10) our level of indebtedness and our ability to meet financial covenants required by our debt agreements;

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- (11) product liability claims, intellectual property claims, and other liabilities;
- (12) the volatility of our stock price;
- (13) future sales of our common stock;
- (14) the willingness of our stockholders and directors to approve mergers, acquisitions, and other business transactions;
- (15) currency transactions (foreign exchange) risks and the risk related to forward currency contracts;
- (16) certain provisions of the Michigan Business Corporation Act and the Company's Articles of Incorporation, as amended, Amended and Restated Bylaws, and the Company's Preferred Stock Purchase Rights may discourage or prevent a change in control of the Company;
- (17) a substantial portion of our revenues are attributed to limited number of customers which may decrease or cease purchasing any time; and

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The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results. We do not undertake, and expressly disclaim, any obligation to update this forward-looking information, except as required under applicable law.

ITEM 1. BUSINESS

Our Business

Overview

Lifting Equipment Segment

The Company is a leading provider of engineered lifting solutions. The Company designs, manufactures and distributes a diverse group of products that serve different functions and are used in a variety of industries. Through its Manitex, Inc. subsidiary it markets a comprehensive line of boom trucks and sign cranes. Manitex's boom trucks and crane products are primarily used for industrial projects, energy exploration and infrastructure development, including, roads, bridges and commercial construction. Its Badger Equipment Company (Badger) subsidiary, acquired on July 10, 2009, is a manufacturer of specialized rough terrain cranes and material handling products, including a 30-ton model introduced in October 2009, the first in a new line of specialized high quality rough terrain cranes. Badger primarily serves the needs of the construction, municipality, and railroad industries.

Through its Manitex Liftking subsidiary, the Company also sells a complete line of rough terrain forklifts, a line of stand-up electric forklifts, cushioned tired forklifts with lifting capacities from 18 thousand to 40 thousand pounds, and special mission oriented vehicles, as well as other specialized carriers, heavy material handling transporters and steel mill equipment. Manitex Liftking's rough terrain forklifts are used in both commercial and military applications. Specialty mission oriented vehicles and specialized carriers are designed and built to meet the Company's unique customer needs and requirements. The Company's specialized lifting equipment has met the particular needs of customers in various industries that include utility, ship building and steel mill industries.

On December 31, 2009, our subsidiary, Manitex Load King, Inc. (Load King) acquired the operating assets of Load King Trailers, an Elk Point, South Dakota-based manufacturer of specialized custom trailers and hauling systems typically used for transporting heavy equipment. Load King Trailers serve niche markets in the commercial construction, railroad, military, and equipment rental industries through a dealer network. Load King complements our existing material handling business.

On July 1, 2010, the Company's newly formed Italian subsidiary, CVS Ferrari, srl, entered into an agreement to rent certain assets of CVS SpA, on an exclusive rental basis, while CVS SpA proceeds through the Italian bankruptcy process (concordato preventivo). CVS SpA was located near Milan, Italy and designed and manufactured a range of reach stackers and associated lifting equipment for the global container handling market, which were sold through a broad dealer network. During the third quarter 2010, CVS Ferrari, srl commenced operations and employed the rental assets in its operations.

Distribution Equipment Segment

The Company operates a crane dealership located in Bridgeview, Illinois that distributes Terex rough terrain and truck cranes, Fuchs material handlers, and Manitex boom trucks and sky cranes. We treat these operations as a separate reporting segment entitled Equipment Distribution. Our Equipment Distribution segment also supplies repair parts for a wide variety of medium to heavy duty construction equipment sold both domestically and internationally. Our crane products are used primarily for infrastructure development and commercial construction; applications include road and bridge construction, general contracting, roofing, scrap handling and sign construction and maintenance.

In the second quarter of 2010, we expanded our Equipment Distribution segment by creating a new division, North American Equipment Exchange, (NAEE) to market previously-owned construction and heavy

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equipment, domestic and internationally. This division provides a wide range of used lifting and construction equipment of various ages and condition, and the Company has the capability to refurbish the equipment to the customers' specification.

History

The Company's predecessor was founded in 1993. In October 2003, our predecessor company was purchased by Veri-Tek International, Corp., formerly known as Quantum-Veri-Tek, Inc., a Michigan corporation incorporated on October 17, 2003, and an affiliate of Quantum Value Partners, LP, pursuant to an asset purchase agreement. Following the acquisition by Quantum-Veri-Tek in 2003, the Company's single line of business was to design, develop, and build specialty Testing & Assembly Equipment for the automotive and heavy equipment industries that identifies defects through the use of signature analysis and in-process verification. We refer to this operation as our Testing & Assembly Equipment segment. On March 29, 2007, our Board of Directors approved a plan to sell our Testing & Assembly Equipment segment's operating assets including its inventory, machinery, equipment and patents. On August 1, 2007, the assets used in connection with the Company's diesel engine testing equipment were sold to EuroMaint Industry, Inc., a Delaware corporation (EuroMaint). As of August 31, 2007, all operations of the former Testing & Assembly Equipment segment had ceased.

In 2006, the Company committed to a new strategic direction. In fiscal year 2006, we completed two acquisitions that introduced boom trucks, sign cranes and lifting equipment into our operations as a new business segment. Additional acquisitions since 2006 have further expanded our Lifting Equipment segment and established a Distribution Equipment segment. A summary of our acquisitions follows the section immediately below entitled "Discontinued Operations".

On May 27, 2008, Veri-Tek International, Corp. filed a Certificate of Amendment to its Articles of Incorporation changing its name to Manitex International, Inc. The name change was effective as of May 28, 2008.

Discontinued Operations

On March 29, 2007, the Company's Board of Directors approved a plan to sell the Company's Testing & Assembly Equipment segment in order to focus management's attention and financial resources on the Company's Lifting Equipment segment. The plan to sell the Testing & Assembly Equipment segment followed a strategic review made by the Company triggered by a history of significant operating losses by the Testing & Assembly Equipment segment.

In connection with the preparation of our 2006 year-end financial statements, the Board determined that certain assets used in connection with our Testing & Assembly Equipment segment were impaired. Accordingly, we recorded an impairment charge of \$6.6 million.

On July 5, 2007, the Company entered into an Asset Purchase Agreement with EuroMaint. Under the terms of the Asset Purchase Agreement, the Company agreed to sell and EuroMaint agreed to purchase certain assets of the Company used in connection with the Company's diesel engine testing equipment business. EuroMaint also assumed and agreed to pay, perform and discharge when due certain obligations of the Company arising in connection with the operation of the Company's diesel engine testing equipment business. In addition to the assumption of those certain assumed liabilities, EuroMaint agreed to pay to the Company the aggregate purchase price of \$1.1 million. This transaction was completed on August 1, 2007. As of August 31, 2007, all operations of the Company's Testing & Assembly Equipment segment had ceased. The Testing & Assembly Equipment segment operated from a leased facility. The lease termination date for this facility was August 31, 2007 (See Note 6 to our consolidated financial statements).

As a result of the Company's decision to sell the Testing & Assembly Equipment segment, the results of this operation have been reported as a discontinued operation for all periods presented in the Consolidated Financial Statements.

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Summary of Acquisitions

Effective July 3, 2006, the Company completed the purchase of Manitex, Inc. (Manitex subsidiary) via an acquisition of all of the membership interests in Quantum Value Management, LLC (an entity owned by certain stockholders of the Company). On November 30, 2006, the Company, through its wholly owned subsidiary, Manitex Liftking, ULC, an Alberta, Canada unlimited liability corporation (Manitex Liftking), completed the acquisition (the Liftking Acquisition) of all of the operating assets of Liftking Industries, Inc., an Ontario, Canada corporation (Liftking). As a result of these two acquisitions, the Company became a leading provider of engineered lifting solutions including boom truck cranes, rough terrain forklifts and special mission oriented vehicles. Through the Company s Manitex subsidiary, it markets a comprehensive line of boom trucks and sign cranes. The Company s boom trucks and crane products are primarily used for industrial projects, energy exploration and infrastructure development, including roads, bridges and commercial construction. Through the Company s Manitex Liftking subsidiary, it sells a complete line of rough terrain forklifts and special mission oriented vehicles, as well as other specialized carriers, heavy material handling transporters and steel mill equipment. Manitex Liftking s rough terrain forklifts are used in both commercial and military applications.

On July 31, 2007, the Company entered into an asset purchase agreement with GT Distribution, LLC (GT Distribution), a related party, pursuant to which the Company acquired its Noble product line. The Noble product line, which is comprised of four rough terrain forklifts in several configurations, is produced in our two current production facilities, which are located in Woodbridge, Ontario and Georgetown, Texas. The results for the Noble Forklift product line acquisition have been included in the accompanying consolidated statement of operations from the date of the acquisition.

On October 6, 2008, the Company completed the acquisition of substantially all of the assets of Schaeff Lift Truck Inc. (Schaeff) and Crane & Machinery, Inc. (Crane) pursuant to an asset purchase agreement with Schaeff, Crane, and their parent company, GT Distribution, LLC (GT). Mr. Langevin, the Company s Chairman and Chief Executive Officer owned 38.8% of the membership interests of GT. Due to the related-party aspects of this transaction, the asset purchase agreement and the transactions contemplated thereby were approved by a committee of the Company s independent directors (the Special Committee) and the Audit Committee of the Company s Board of Directors. The Special Committee also received a fairness opinion from an independent financial advisory firm that the consideration to be paid by the Company for the assets of Schaeff and GT was fair to the shareholders of the Company from a financial point of view. In January 2009, Mr. Langevin assigned his ownership interest in GT to Bob Litchev, a Senior Vice President of Manitex International, Inc. Mr. Langevin s assignment of his minority ownership interest was made in conjunction with the assignment of the other remaining prior owners interest in GT to Mr. Litchev. At the date of assignment, the other prior owners had no ownership interest, or an insignificant ownership interest, in Manitex International, Inc. The assignments to Mr. Litchev, who served as President of GT from April 2002 through the date of assignment, were made for reasons unrelated to the Manitex International, Inc. and in no way were related to Mr. Litchev s employment by the Manitex International, Inc. As a result of the transfer of Mr. Langevin s minority interest to Mr. Litchev in January 2009, Mr. Langevin no longer has an ownership interest in GT.

Located in Bridgeview, Illinois, Crane is a distributor of Terex rough terrain and truck cranes and Manitex boom trucks and sign cranes and is being treated as a separate reporting segment entitled Equipment Distribution. The Equipment Distribution segment has a long-standing dealer relationship with Terex Corporation and is the authorized Terex rough terrain and truck crane dealer for Cook County, Illinois. Truck cranes differ from boom trucks in that they are built on a specialized chassis and, though road-worthy, are neither licensed or titled but instead are considered a piece of construction equipment. Rough terrain cranes are designed to operate on unpaved, unfinished construction sites and must be delivered by a freight hauler.

On July 10, 2009, the Company purchased Badger, a Winona, Minnesota-based manufacturer of specialized rough terrain cranes and material handling products. The Badger product line includes: lattice cranes marketed under the Little Giant trade name, excavators and a specialized 30 ton rough terrain crane, which at the time acquisition was newly designed crane. This 30 ton rough terrain crane is the first in a new line of specialized high

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quality rough terrain cranes that the Company plans to develop and introduce. Badger primarily serves the needs of the construction, municipality, and railroad industries. The Company has an advantage over its competitors in selling to railroads as it is the only crane manufacturer that has integrated the installation of rail gear into its production process. Competitors send their cranes to a third party to have rail gear added which both increases cost and delays deliveries.

On December 31, 2009, Manitex International, Inc. acquired the operating assets of Load King, an Elk Point, South Dakota-based manufacturer of specialized custom trailers and hauling systems typically used for transporting heavy equipment. Load King Trailers serve niche markets in the commercial construction, railroad, military, and equipment rental industries through a dealer network. Load King complements our existing material handling business.

Recent Economic Conditions

Beginning in September of 2008, the United States and world financial markets came under unprecedented stress. The immediate impact was a dramatic decrease in liquidity and credit availability throughout the world. An incredibly rapid and significant deterioration in economic conditions, especially in the United States and Europe followed. These events had an immediate significant adverse impact on the Company, including a very dramatic curtailment of new orders, requests to delay deliveries and, in some cases to cancel existing orders. Currently, the market for our products has stabilized but generally remains significantly below pre-2008 levels. The demand for our military products, although typically cyclical has recently been strong, and recently we have seen certain sectors of the economy appearing to show signs of improving, particularly the energy, and power distribution sectors domestically and certain international markets.

In response to the impact of economic conditions and longer sales cycles, it was determined that swift management action was necessary to ensure that operating activity was balanced with current demand levels. The actions taken to align our cost structure to current demand levels included headcount reductions, reduction of overtime, suspension of additional hires and merit increases, reduction in executive and salaried pay, bonus and benefits and the introduction of shortened workweeks. These actions, although difficult, were required to enable the Company to adjust to current conditions and position it to respond quickly when the market recovers. As a result of the aforementioned actions, the Company has operated at a profit throughout 2010. Nevertheless, management continues to closely monitor its costs.

General Corporate Information

The Company's principal executive offices are located at 725 Industrial Drive, Bridgeview, Illinois 60455 and our telephone number is (708) 430-7500. The Company's website address is www.manitexinternational.com. Information contained on our website is not incorporated by reference into this report and such information should not be considered to be part of this report.

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The following is financial information about our Lifting Equipment and Equipment Distribution segments for the years ending December 31, 2010, 2009 and 2008. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K, except corporate expenses are not allocated to segments. The Company evaluates segment performance based upon operating income before corporate expenses. Amounts shown are in thousands of dollars.

	AS OF OR FOR THE YEAR ENDED		
	DECEMBER 31,		
	2010(1)(2)	2009(1)	2008(1)
Revenues from continuing operations:			
Lifting Equipment	\$ 88,736	\$ 52,392	\$ 103,343
Equipment Distribution	7,139	3,495	2,998
Total	\$ 95,875	\$ 55,887	\$ 106,341
Operating income from continuing operations:			
Lifting Equipment	\$ 8,722	\$ 5,420	\$ 6,382
Equipment Distribution	33	(79)	68
Corporate expense	(3,218)	(1,997)	(3,042)
Total	\$ 5,537	\$ 3,344	\$ 3,408
Total assets:			
Lifting Equipment	\$ 99,702	\$ 89,384	\$ 79,635
Equipment Distribution	5,595	5,154	6,368
Corporate	220	147	225
Total	\$ 105,517	\$ 94,685	\$ 86,228

- (1) Financial results for acquisitions are included from the date of acquisition: October 6, 2008 for the assets of Crane & Machinery, Inc. and Schaeff Lift Truck, Inc.; July 10, 2009 for Badger Equipment Company; and December 31, 2009 for the assets of Manitek Load King, Inc. The Company acquired its Equipment Distribution segment on October 6, 2008 with the acquisition of substantially all the assets of Crane & Machinery.
- (2) CVS Ferrari, srl was incorporated in June 2010, with an initial capitalization of 10 Euros. Financial results include the results for CVS Ferrari, srl (our Italian Subsidiary) from the date the Company was formed in June 2010. On July 1, 2010, CVS Ferrari, srl entered into an agreement to rent on an exclusive basis certain assets of CVS SpA, while CVS SpA proceeds through the Italian bankruptcy process (concordato preventivo). CVS Ferrari, srl commenced operations in the third quarter of 2010 utilizing the rented assets to manufacture reach stackers and associated lifting equipment for the global container handling market.

Lifting Equipment Segment**Boom Trucks**

A boom truck is a straight telescopic boom crane outfitted with a hook and winch which is mounted on a standard flatbed commercial (Class 7 or 8) truck chassis. Relative to other lifting equipment, boom trucks provide increased versatility capable of transporting relatively large payloads from site to site at highway speeds. A boom truck is usually sold with outriggers, pads and devices for reinforcing the chassis in order to improve safety and stability. Although produced in a wide range of models and sizes, boom trucks can be broadly distinguished by their normal lifting capability as light, medium, and heavy-cranes. Various models of medium or heavy-lift boom trucks can safely lift loads from 15 to 50 tons and operating radii can exceed 100 feet. Another advantage of the boom truck is the ability to provide occasional manlift capabilities at a very low cost to height ratio. While it is not uncommon to see a very old boom truck, most replacement cycles seem to trend to seven years.

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The Company sells its boom trucks through a network of approximately thirty-five full service dealers in the United States, Canada, Mexico, the Middle East and Russia. A number of our dealers maintain a rental fleet of their own. Boom cranes can be rented for either short or long-term periods. The market for boom cranes has historically been cyclical. Sales of boom cranes grew from 1992, to a peak, in 1998 of 2,719 units. Since then, the market has experienced periods of declines and recovery. Between 1992 and 2008, unit sales were the lowest in 2003 when only 1,445 units were sold. In 2006, the demand for boom trucks exceeded the industry capacity to produce the product. In 2006, the industry delivered approximately 2,700 units. Although the industry deliveries for 2007 remained strong at approximately 2,500 units, the demand softened somewhat and allowed the industry to catch up to demand. Although the industry's unit shipments decreased modestly from 2006 to 2007, the Company unit shipments were up approximately 10% for 2007. The overall industry demand in 2008 decreased by approximately 36% to approximately 1,600 units. Our boom truck shipments were, however, only down approximately 10% in 2008, as our market share continued to increase, rising from 21% in 2007 to 30% in 2008. As discussed above, the United States and world financial markets came under unprecedented stress beginning in September 2008. As a result, the market for boom trucks in 2009 shrunk to approximately 721 units, a level significantly below what we saw in earlier recessions. Our market share, however, continued to improve in 2009 growing to an approximate 36% market share. The boom truck market in 2010 continued to be extremely depressed with industry sales of approximately 640 units. Our market share declined slightly to 34%. The aforementioned market share is based on the sale of boom trucks with lifting capacity of 17 tons and above, as the company does not produce boom trucks with lifting capacity below 17 tons. The Company currently expects a modest increase in overall industry demand in 2011; unit demand is expected to still be below 1,000 units.

The Company is the second leading producer of boom trucks in North America with approximately 34% of all unit sales. Market share based on revenues is even higher because the Company's sales are skewed to boom trucks with higher lifting capacity which are more expensive. Although the Company offers a complete line of boom trucks from light to heavy capacity cranes, we believe it is an advantage to be skewed towards the heavier lifting capacity. The heavier capacity cranes have somewhat higher margins and historically are believed to be less cyclical. Markets that drive demand for boom trucks include power distribution, oil and gas recovery, and new home construction. The new home construction market, which uses lower capacity cranes, is probably the most cyclical and is where our market share is the lowest. We believe that oil and gas extraction and power distribution, offer the best chance for long-term growth and are markets where the Manitex subsidiary's products are well represented.

Sign Cranes

A sign crane is similar to a boom truck in that it is a straight telescopic boom crane mounted on a commercially available chassis, but it differs in application. Whereas a boom truck is primarily utilized as a lifting device and occasionally for manlift applications, the sign crane application is the inverse. It is primarily utilized in manlift applications and occasionally used as a relatively low capacity crane. Historically these cranes possessed maximum lifting capacities of three tons and working heights to 140 feet. Only recently has a sign crane been introduced with a maximum capacity of 12 tons. As the primary application revolves around putting people into the air to erect and service signs, the sign crane possesses advanced basket capabilities. Baskets automatically level throughout boom movement, and all utilities necessary to perform erection and service work are provided at the basket. These can include weld leads, gas, air, water and electricity. It is very common for a sign crane to be utilized for 10 to 15 years. Larger fleet replacements are generally at approximately five years.

Over the last 10 years, there has been significant consolidation among companies erecting and servicing highway signage. Three companies now control the large majority of the business. Each possesses several hundred units in its fleet and none has experienced a purchase cycle over the last several years. Sales to any of these customers are performed on a direct basis and not through a dealer network. Currently, the Company has no contracts to supply sign cranes to any of these three companies.

The Company offers its sign cranes through a network of dealers who sell to family run and smaller sized businesses. We are not aware of any centralized reporting agency that exists to size this industry, but

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management estimates that it could be around 375 machines in an average year. This represents a wholesale market of approximately \$30 million when the value of the chassis is excluded and \$55 million when included. The Company believes its market share in this segment is approximately 10%. The market has historically been somewhat cyclical fluctuating with general economic conditions. The market for sign cranes was relatively soft during the first nine months of 2008, before coming to a near halt in the fourth quarter. The precipitous decrease in demand in the fourth quarter was the result of the distress in the financial markets and the resulting diminished liquidity and credit availability along with the substantial deterioration in economic condition that followed. The market for sign cranes remains severely depressed. It is estimated that total annual sign crane sales in both 2009 and 2010 were under a 100 units. The Company does not expect the market for sky cranes to improve significantly in 2011.

Rough Terrain Cranes

Our subsidiary, Badger, sells specialized rough terrain cranes through a network of dealers. The Badger product line includes: lattice cranes with 20 to 30 ton lifting capacity marketed under the Little Giant trade name, and a specialized 30 ton rough terrain crane designed in 2009 is sold under the Badger name. The 30 ton rough terrain crane launched in 2009 is the first in a new line of specialized high quality rough terrain cranes that the Company plans to develop and introduce.

The Little Giant line has five lattice boom models, three of which are dedicated rail cranes. In addition to the rail cranes, Badger sells a 30 ton truck crane and a 25 ton crawler crane. Although Badger end customers include states and municipalities, our sales are predominately to railroads. The Company has an advantage over its competitors in selling to railroads as it is the only crane manufacturer that has integrated the installation of rail gear into its production process. Competitors send their cranes to a third party to have rail gear added which both increases cost and delays deliveries.

The recently designed 30 ton rough terrain crane, which is sold under the Badger name, is available with or without rail gear. The Company shipped its first crane in October 2009. The response from the railroad industry has been very favorable. To date we have received orders from three different railroads. Additionally, three other railroads are currently renting one of our 30 ton rough terrain cranes from a third party rental company that had purchased the cranes from Badger. In the future, the Company expects to generate significant non-railroad revenues for this crane. These revenues are expected to come from states, municipalities and oil refineries.

Specialized Highly Engineered Trailers

Our subsidiary, Load King, acquired on December 31, 2009, designs and sells build-to-order specialized, highly engineered low-bed, heavy-haul, bottom-dump, and platform trailers and hauling systems. The trailers, except for the bottom-dump, are typically used for transporting heavy equipment. Additionally, Load King has recently launched a trailer refurbishment service. Our trailers are utilized by commercial construction firms, equipment rental companies, oil field service companies, the railroad industry, the U.S. military, and other end users to safely and efficiently haul specialized equipment. The Company routinely customizes its trailers and/or innovates new features to address specific customer, end-market or application needs.

Manitex Load King markets its products through a network of dealers.

Rough Terrain Forklifts

Manitex Liftking manufactures a complete range of straight mast forklifts with capacities from 6,000 to 50,000 lbs. and lift heights from 10 to 32 feet. All Manitex Liftking straight mast forklifts feature exceptional ground clearance, easy access to service points, ergonomic controls and easy operation. The Company also produces a series of tag along forklifts that mount to trucks with lifting capacity ranging from 4,000 to 6,000 pounds. These mounted forklifts are ideal for bricklaying, landscaping, construction or any other application that requires a forklift to tag along. The forklifts feature an easy to mount system, which allows an operator to securely mount or dismount the forklift quickly.

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Manitex Liftking forklifts includes four rough terrain forklifts, in several configurations, which are sold under the Noble trade name. The Noble product line was originally designed and marketed by Caterpillar in 1983 and subsequently through Eagle Pitcher's dealers. Noble has a reputation for providing durable, innovative and high quality products, and as a result, the Noble product has benefited from very strong distribution, and has a large installed base giving rise to a healthy after-market parts business. The Noble rough terrain forklifts are currently distributed through the Caterpillar dealer network.

The Company sells its rough terrain forklifts through a network of approximately fifty dealers in the United States and Canada.

Military Forklifts

Manitex Liftking military forklifts are used worldwide during both periods of conflict and peace. Manitex Liftking military units are working for national militaries including the United States, Canada, and Britain. The Company exported military products (including products sold to the U.S.) are sold through the Canadian Commercial Corporation which has direct contracts with various foreign (outside of Canada) government agencies. The U.S. Department of Defense alone has hundreds of Manitex Liftking vehicles in the Navy, Army and Air Force that they depend on daily. These vehicles range from small shipboard approved forklifts to the biggest articulating, rough-terrain forklift in the world.

Manitex Liftking military forklifts have innovative features that allow them to meet strict military standards and perform in almost any terrain. These features include the patented hydraulically removable counterweight that permits aircraft transportability of the forklift without exceeding the load limits of the aircraft. The water fording capability of some Manitex Liftking vehicles allow continuous operation in water depths of up to 5 feet (1.5 meters), providing true all-terrain operation. The Company believes that these features have helped position Manitex Liftking as the product of choice for rough terrain military forklifts.

All of Manitex Liftking's shipboard approved vehicles are structurally engineered to withstand a depth charge explosion while on an aircraft carrier, and still be fully operational. The detachable mast and 2-piece operator's cab on some of Manitex Liftking's bigger vehicles allow easy disassembly to satisfy height restrictions while being transported by road or rail. Attachments such as fork rollers and standard ISO container handlers further increase the versatility of a Manitex Liftking forklift.

Manitex Liftking's forklifts are built to exacting military standards including compliance with the quality controls required by ISO 9001-2008. Before being shipped each machine is thoroughly tested on a military approved endurance track located adjacent to Manitex Liftking's military vehicle manufacturing plant. There are a limited number of test tracks in North America, and having a military approved test track is an advantage.

The timing of customer orders can be expected to result in fluctuations in revenues from period to period. The expected fluctuations, however, are not as dependent on general economic conditions as is our commercial business.

Mission Oriented Vehicles and Specialized Carriers

Special mission oriented vehicles and specialized carriers are designed and built to meet the Company's unique customer needs and requirements. The Company's specialized lifting equipment has met the particular needs of customers in various industries including utility, ship building and steel mill industries. Mission oriented vehicles and specialized carriers are sold directly to the end users.

The transporters, used in ship building, are one example of a specialized carrier built by Manitex Liftking. The ship builder will construct a segment of the hull on our transporter. When the section of the hull is complete, the ship builder will move the section to the already completed portion of the hull and attach it. Manitex Liftking has built transporters capable of transporting 300,000 pounds.

Table of Contents**Container Handling Equipment**

The Company through its Italian subsidiary, CVS Ferrari, srl manufactures a range of container handling equipment to serve ports and inter-modal customers on a worldwide basis. The products currently being marketed include: reach stackers, empty container handlers, forklifts and straddle carriers. The Company sells its products through a dealer network.

Part Sales

The Lifting Equipment segment supplies repair and replacement parts for all of its products. The parts business margins are higher than our overall margins and accounts for approximately 15% of our revenues in typical year. Part sales as a percentage of revenues tend to increase when there is a down-turn in the industry. Part sales increased as a percentage of revenues to approximately 20% and 28% for the year ended December 31, 2010 and 2009, respectively.

Equipment Distribution Segment

The Company established its Equipment Distribution segment in October of 2008 with the acquisition of substantially all the assets of Crane. The Equipment Distribution segment located in Bridgeview, Illinois is a distributor of Terex rough terrain and truck cranes, Fuchs material handlers, and Manitex boom trucks and sky cranes. The Equipment Distribution segment sells its products predominately to end users, including the rental market. Its products are used primarily for infrastructure development and commercial construction, and its applications include road and bridge construction, general contracting, roofing, scrap handling and sign construction and maintenance. The Equipment Distribution segment supplies repair parts for a wide variety of medium to heavy duty construction equipment and sell both domestically and internationally. The segment also provides repair services in the Chicago area.

In the second quarter of 2010, we expanded our Equipment Distribution segment by creating a new division, North American Equipment Exchange, (NAEE) to market previously-owned construction and heavy equipment, domestically and internationally. This division provides a wide range of used lifting and construction equipment of various ages and condition, and the Company has the capability to refurbish the equipment to the customers' specification.

Revenues attributable to the Company's Equipment Distribution segment were less than 10% of the Company's total revenues for fiscal years 2010, 2009 and 2008.

Total Company Revenues by Sources

The sources of the Company's revenues are summarized below:

	2010	2009	2008
Boom trucks	31%	49%	65%
Sign cranes	1%	2%	3%
Container handling equipment	7%	0%	0%
Rough terrain forklifts	6%	8%	8%
Cushion tire forklift	0%	1%	3%
Military forklifts	18%	6%	2%
Mission oriented vehicles and specialized carriers	0%	0%	1%
Rough terrain & truck cranes	9%	6%	2%
Specialized trailers	5%		
Used Construction Equipment	3%		
Part sales	20%	28%	16%
Total Revenue	100%	100%	100%

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In 2010, one customer, Canadian Commercial Corp., accounted for 11% of the Company's revenue. In 2009, no customers accounted for 10% or greater of the Company's revenue. Three customers, Cropac Equipment, Inc., Craneworks, Inc., and Allied Crane & Machinery accounted for 11%, 10%, and 10%, respectively, of the Company's revenue in 2008.

(2,000) (2,000) (2,000)

Series B, \$56.25 per share

(1,785) (1,785) (1,785)

Distributions payable common stock (\$0.39/share) and distributions payable partnership units (\$0.39/share)

(6,970) (6,970) (2,112) (9,082)

Balance, March 31, 2009

179,328 179 164,686 (119,879) 224,314 2,664 226,978

Issuance of 12,479 shares of common stock:

7,324 shares due to dividend reinvestment plan

229 229 229

5,155 shares due to employee stock options and directors' deferred stock plan and stock option awards

452 452 452

Net income

7,719 7,719 1,195 8,914

Distributions payable preferred stock:

Series A, \$50.00 per share

(2,000) (2,000) (2,000)

Series B, \$56.25 per share

(1,785) (1,785) (1,785)

Distributions payable common stock (\$0.39/share) and distributions payable partnership units (\$0.39/share)

(6,975) (6,975) (2,112) (9,087)

Balance, June 30, 2009

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179,328 179 165,367 (122,920) 221,954 1,747 223,701

Issuance of 11,171 shares of common stock:

6,995 shares due to dividend reinvestment plan

231 231 231

4,176 shares due to employee stock options and directors deferred stock plan and stock option awards

196 196 196

Net income

9,607 9,607 1,742 11,349

Distributions payable preferred stock:

Series A, \$50.00 per share

(2,000) (2,000) (2,000)

Series B, \$56.25 per share

(1,785) (1,785) (1,785)

Distributions payable common stock (\$0.36/share) and distributions payable partnership units (\$0.36/share)

(6,443) (6,443) (1,951) (8,394)

Balance, September 30, 2009

\$179,328 \$179 \$165,794 \$(123,541) \$221,760 \$1,538 \$223,298

The accompanying notes are an integral part of these statements

Table of Contents**Saul Centers, Inc.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

<i>(Dollars in thousands)</i>	For The Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 31,813	\$ 34,717
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on property dispositions		(205)
Depreciation and amortization of deferred leasing costs	21,208	22,419
Amortization of deferred debt costs	1,538	889
Non cash compensation costs from stock grants and options	767	954
Provision for credit losses	748	660
Decrease (increase) in accounts receivable and accrued income	(55)	(2,366)
Increase in deferred leasing costs	(2,655)	(1,625)
Increase in prepaid expenses	(1,879)	(2,071)
(Increase) decrease in other assets	(5,397)	457
Increase in accounts payable, accrued expenses and other liabilities	3,505	2,561
Increase in deferred income	782	919
Net cash provided by operating activities	50,375	57,309
Cash flows from investing activities:		
Acquisitions of real estate investments, net (1)		(63,406)
Additions to real estate investments	(6,185)	(6,998)
Additions to development and redevelopment activities	(52,349)	(31,546)
Proceeds from property dispositions		205
Net cash used in investing activities	(58,534)	(101,745)
Cash flows from financing activities:		
Proceeds from mortgage notes payable	86,882	44,876
Repayments on mortgage notes payable	(65,513)	(12,271)
Proceeds from construction loans payable	29,064	
Proceeds from revolving credit facility	30,000	19,000
Repayments on revolving credit facility	(30,000)	(27,000)
Additions to deferred debt costs	(3,129)	(773)
Proceeds from the issuance of:		
Series B preferred stock, net of issuance costs		76,317
Common stock	749	4,255
Distributions to:		
Series A preferred stockholders	(6,000)	(6,000)
Series B preferred stockholders	(5,355)	(1,883)
Common stockholders	(20,911)	(25,075)
Noncontrolling interest	(6,337)	(7,638)
Net cash provided by financing activities	9,450	63,808
Net increase in cash and cash equivalents	1,291	19,372

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Cash and cash equivalents, beginning of period	13,006	5,765
Cash and cash equivalents, end of period	\$ 14,297	\$ 25,137

Supplemental discussion of non-cash investing and financing activities:

- (1) 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

Table of Contents**Notes to Consolidated Financial Statements (Unaudited)****1. Organization, Formation and Structure**

Saul Centers, Inc. ("Saul Centers") was incorporated under the Maryland General Corporation Law on June 10, 1993. Saul Centers operates as a real estate investment trust (a "REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). A REIT is required to annually distribute at least 90% of its REIT taxable income (excluding net capital gains) to its stockholders and meet certain organizational and other requirements. Saul Centers has made and intends to continue to make regular quarterly distributions to its stockholders. Saul Centers, together with its wholly owned subsidiaries and the limited partnerships of which Saul Centers or one of its subsidiaries is the sole general partner, are referred to collectively as the "Company." B. Francis Saul II serves as Chairman of the Board of Directors and Chief Executive Officer of Saul Centers.

Saul Centers was formed to continue and expand the shopping center business previously owned and conducted by the B.F. Saul Real Estate Investment Trust, the B.F. Saul Company, Chevy Chase Bank, F.S.B. and certain other affiliated entities, each of which, with the exception of Chevy Chase Bank, F.S.B., is currently controlled by B. Francis Saul II and his family members (collectively, "The Saul Organization"). On August 26, 1993, members of The Saul Organization transferred to Saul Holdings Limited Partnership, a newly formed Maryland limited partnership (the "Operating Partnership"), and two newly formed subsidiary limited partnerships (the "Subsidiary Partnerships," and collectively with the Operating Partnership, the "Partnerships"), shopping center and 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, 2006. All of the following properties are operating shopping centers.

Name of Property	Location	Date of Acquisition/Development
<i>Acquisitions</i>		
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>		
Lansdowne Town Center	Leesburg, VA	2006/7
Ashland Square Phase I	Manassas, VA	2007
Northrock	Warrenton, VA	2008/9
Westview Village	Frederick, MD	2007/9

As of September 30, 2009, the Company's properties (the "Current Portfolio Properties") consisted of 47 operating shopping center properties (the "Shopping Centers"), five predominantly office operating properties (the "Office Properties") and four (non-operating) land or development properties.

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

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 September 30, 2009, thirty-one of the Shopping Centers were anchored by a grocery store and offer primarily day-to-day necessities and services. Only three retail tenants, Giant Food (4.5%), a tenant at eight Shopping Centers, Safeway (3.4%), a tenant at eight Shopping Centers and Chevy Chase Bank (2.7%), a tenant at twenty properties, and one office tenant, the United States Government (2.9%), a tenant at six properties, individually accounted for more than 2.5% of the Company's total revenue for the nine months ended September 30, 2009.

Principles of Consolidation

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

Basis of Presentation

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

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

ended December 31, 2008, 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. 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 above and below market leases, the Company considers the remaining contractual lease period and renewal periods, taking into consideration the likelihood of the tenant exercising its renewal options. The fair value of a below market lease component is recorded as deferred income and amortized as additional lease revenue over the remaining contractual lease period and any renewal option periods included in the valuation analysis. The fair value of above market lease intangibles is recorded as a deferred asset and is amortized as a reduction of lease revenue over the remaining contractual lease term. The Company determines the fair value of at-market in-place leases considering the cost of acquiring similar leases, the foregone rents associated with the lease-up period and carrying costs associated with the lease-up period. Intangible assets associated with at-market in-place leases are amortized as additional expense over the remaining contractual lease term. To the extent customer relationship intangibles are present in an acquisition, the fair value of the intangibles are amortized over the life of the customer relationship. The Company has never recorded a customer relationship intangible asset.

If there is an event or change in circumstance that indicates an impairment in the value of a real estate investment property, the Company prepares an impairment analysis to assess that the carrying value of the real estate investment property does not exceed its estimated fair value. The Company considers both quantitative and qualitative factors including recurring operating losses, significant decreases in occupancy, and significant adverse changes in legal factors and business climate. If impairment indicators are present the Company performs a comparison of the projected cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying value of that property. The Company assesses its undiscounted projected cash flows based upon estimated capitalization rates, historic operating results and market conditions that may affect the property. If such carrying value is greater than the undiscounted projected cash

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

flows, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its then estimated fair market value. The value of any property is sensitive to the actual results of any of the aforementioned estimated factors, either individually or taken as a whole. Should the actual results differ from management's projections, the valuation could be negatively or positively affected. The Company did not recognize an impairment loss on any of its real estate during the nine month periods ended September 30, 2009 and 2008.

Interest, real estate taxes, development-related salary costs and other carrying costs are capitalized on projects under development and construction. Once construction is substantially completed and the assets are placed in service, their rental income, real estate tax expense, property operating expenses (consisting of payroll, repairs and maintenance, utilities, insurance and other property related expenses) and depreciation are included in current operations. Property operating expenses are charged to operations as incurred. Interest expense capitalized totaled approximately \$4,350,000 and approximately \$2,876,000, for the nine month periods ended September 30, 2009 and 2008, respectively. A project is considered substantially complete and available for occupancy upon completion of tenant improvements, but no later than one year from the cessation of major construction activity. Substantially completed portions of a project are accounted for as separate projects.

Depreciation is calculated using the straight-line method and estimated useful lives of 35 to 50 years for base buildings and up to 20 years for certain other improvements that extend the useful lives. In addition, we capitalize leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvements. Tenant improvements are amortized, over the shorter of the lives of the related leases or the useful life of the improvements, using the straight-line method. The depreciation component included in depreciation and amortization expense in the consolidated statements of operations, totaled approximately \$17,822,000 and \$18,811,000, for the nine month periods ended September 30, 2009 and 2008, respectively. Repair and maintenance expense, included in property operating expenses for the nine month periods ended September 30, 2009 and 2008, was approximately \$6,736,000 and \$6,835,000, 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. These costs are amortized over the remaining initial term of the leases acquired. Collectively, these deferred leasing costs total approximately \$16,170,000 and \$16,901,000, net of accumulated amortization of approximately \$14,787,000 and \$15,196,000, as of September 30, 2009 and December 31, 2008, respectively. Amortization expense, included in depreciation and amortization in the consolidated statements of operations, totaled approximately \$3,386,000 and \$3,608,000, for the nine months ended September 30, 2009 and 2008, 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

Table of Contents**Notes to Consolidated Financial Statements (Unaudited) (Continued)**

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.

Construction In Progress

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 September 30, 2009 and December 31, 2008 are as follows:

Construction in Progress	September 30,	December 31,
<i>(Dollars in thousands)</i>	2009	2008
Clarendon Center	\$ 94,134	\$ 49,836
Northrock	11,413	21,656
Westview Village	18,892	17,240
Smallwood Village Center		6,290
Boulevard	573	2,925
Other	1,054	973
Total	\$ 126,066	\$ 98,920

As of September 30, 2009, 79% of the Boulevard redevelopment's leasable area had been placed in operation (approximately 6,300 square feet of space). The redevelopment costs related to the area in operation have been reclassified to land and buildings. The costs reported in Construction in Progress above reflect the costs incurred as of September 30, 2009 and December 31, 2008 for the remaining 21% and 100% of the leasable area, respectively. As of September 30, 2009, 64% of the Northrock development's leasable area had been placed in operation (approximately 64,000 square feet of space). The development costs related to the area in operation have been reclassified to land and buildings. The costs reported in Construction in Progress above reflect the costs incurred as of September 30, 2009 and December 31, 2008 for the remaining 36% and 100% of the leasable area, respectively. As of September 30, 2009, 11% of the Westview Village development's leasable area had been placed in operation (approximately 12,000 square feet of space). The development costs related to the area in operation have been reclassified to land and buildings. The costs reported in Construction in Progress above reflect the costs incurred as of September 30, 2009 and December 31, 2008 for the remaining 89% and 100% of the leasable area, respectively.

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

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 approximately \$1,152,000 and \$914,000, at September 30, 2009 and December 31, 2008, respectively.

In addition to amounts due currently, accounts receivable includes accrued income of approximately \$26,538,000 and \$25,766,000, at September 30, 2009 and December 31, 2008, 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 approximately \$33,000 and \$51,000, respectively, for tenants whose rent payment history or financial condition casts doubt upon the tenant's ability to perform under its lease obligations.

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. The Company's September 30, 2009 cash balances are held in non-interest bearing accounts, which are fully insured by the Federal Government.

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 on a straight-line basis 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 approximately \$5,251,000 and \$5,079,000, at September 30, 2009 and December 31, 2008, 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 certain below market leases.

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

Revenue Recognition

Rental and interest income is accrued as earned except when doubt exists as to collectability, in which case the accrual is discontinued. Recognition of rental income commences when control of the space has been given to the tenant. When rental payments due under leases vary from a straight-line basis because of free rent periods or scheduled rent increases, income is recognized on a straight-line basis throughout the initial term of the lease. Expense recoveries represent a portion of property operating expenses billed to tenants, including common area maintenance, real estate taxes and other recoverable costs. Expense recoveries are recognized in the period when the expenses are incurred. Rental income based on a tenant's 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, provided that distributions to its stockholders equal or exceed its REIT taxable income and complies with certain other requirements. Therefore, no provision has been made for federal income taxes in the accompanying consolidated financial statements.

Stock-based Employee Compensation, Deferred Compensation and Stock Plan for Directors

Effective January 2003, the Company adopted the fair value method to value and account for employee stock options using the prospective transition method. 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 options are assumed to be outstanding for a term calculated considering prior exercise history, scheduled vesting and the expiration date; (3) Expected Dividend Yield 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 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

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

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.

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 September 30, 2009, 215,000 shares had been credited 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 2009 Annual Meeting of Shareholders. 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 upon grant date.

Noncontrolling Interest

Saul Centers is the sole general partner of the Operating Partnership, owning a 76.7% common interest as of September 30, 2009. Noncontrolling interest in the Operating Partnership is comprised of limited partnership units owned by The Saul Organization. Noncontrolling interest as reflected on the accompanying consolidated balance sheets is increased for earnings allocated to limited partnership interests and distributions reinvested in additional units, and is decreased for limited partner distributions. Noncontrolling interest as reflected on the consolidated statements of operations represent earnings allocated to limited partnership interests held by the Saul Organization.

Per Share Data

Per share data for net income (basic and diluted) is computed using weighted average shares of common stock. Convertible limited partnership units and employee stock options are the Company's potentially dilutive securities. For all periods presented, the convertible limited partnership units are non-dilutive. Options granted in 2003 and 2004 are dilutive because the average share price of the Company's common stock exceeds the exercise prices. Options

Table of Contents**Notes to Consolidated Financial Statements (Unaudited) (Continued)**

granted 2005-2009 (332,500 options) are excluded because the average price of the Company's common stock was below the exercise prices as of September 30, 2009 and thus are non-dilutive. The treasury stock method was used to measure the effect of the dilution.

Basic and Diluted Shares Outstanding

<i>(In thousands)</i>	Quarter ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Weighted average common shares outstanding-Basic	17,892	17,834	17,881	17,801
Effect of dilutive options	47	157	37	170
Weighted average common shares outstanding-Diluted	17,939	17,991	17,918	17,971

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.

New Accounting Standards

The Company adopted provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Consolidation Topic on January 1, 2009. These provisions of the Consolidation Topic establish new accounting and reporting requirements for a noncontrolling (or minority) interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, these provisions require (i) the reclassification of minority interest in the consolidated balance sheets of the Company to noncontrolling interest, a component of permanent equity, (ii) the reclassification of minority interest expense to net income attributable to noncontrolling interest on the consolidated statements of operations, (iii) the inclusion of noncontrolling interest in the statement of stockholders' equity, and (iv) additional disclosures, including noncontrolling interest activity for the quarter and nine months ended September 30, 2009 and 2008. Adoption of these provisions in the Consolidation Topic did not have a material impact on the Company's reported consolidated financial position, results of operations or cash flows.

The Company adopted provisions of the ASC Business Combinations Topic on January 1, 2009. These provisions require most identifiable assets and liabilities acquired in a business combination be recorded at full fair value. Transaction costs are no longer included in the

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

measurement of the business acquired. Instead, these items are expensed as incurred. These provisions apply prospectively to business combinations.

In the second quarter of 2009, the Company adopted provisions of the ASC Subsequent Events Topic. These provisions establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued.

3. Real Estate Acquired

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 of the building shell was completed in the second quarter of 2009, and the project's initial tenants have opened for business.

Northrock

In January 2008, the Company acquired an undeveloped land parcel in Warrenton, Virginia, located 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 substantially completed construction of a neighborhood shopping center, and the Harris Teeter supermarket and one pad building tenant have commenced operations.

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.

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

The Saul Organization has a 23.3% limited partnership interest, represented by approximately 5,416,000 convertible limited partnership units, in the Operating Partnership, as of September 30, 2009. These convertible limited partnership units are convertible into shares of

Table of Contents**Notes to Consolidated Financial Statements (Unaudited) (Continued)**

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 of September 30, 2009, all 5,416,000 units were convertible into shares of Saul Centers common stock.

The impact of The Saul Organization's approximately 23.3% limited partnership interest in the Operating Partnership is reflected as Noncontrolling Interest in the accompanying consolidated financial statements. Fully converted partnership units and diluted weighted average shares outstanding for the quarter ended September 30, 2009 and 2008, were approximately 23,355,000 and 23,407,000, respectively, and for the nine months ended September 30, 2009 and 2008, were approximately 23,334,000 and 23,387,000, respectively.

Noncontrolling Interest

<i>(In thousands)</i>	Quarter ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Beginning balance	\$ 1,747	\$ 3,747	\$ 2,967	\$ 4,745
Income allocation	1,742	1,743	4,746	5,837
Distributions	(1,951)	(2,546)	(6,175)	(7,638)
Ending balance	\$ 1,538	\$ 2,944	\$ 1,538	\$ 2,944

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

The Company's outstanding debt totaled approximately \$617,928,000 at September 30, 2009, of which approximately \$569,634,000 was fixed-rate debt and approximately \$48,294,000 was variable rate debt.

In addition to the outstanding indebtedness, the Company has a \$150,000,000 unsecured revolving credit facility. The facility provides working capital and funds for acquisitions, certain developments and redevelopments, expires on June 30, 2012 and provides for an additional one-year extension at the Company's option, subject to the Company's satisfaction of certain conditions. Letters of credit may be issued under the revolving credit facility. As of September 30, 2009, of the \$150,000,000 available for borrowing, there were no outstanding borrowings, approximately \$224,000 was committed for letters of credit, and the resulting balance of approximately \$149,776,000 was available to borrow for working capital, operating property acquisitions or development projects. The interest rate under the facility is primarily determined based on operating income generated by the Company's existing unencumbered properties and, to a lesser extent, certain leverage tests. As of September 30, 2009, operating income from the unencumbered properties determined the interest rate for up to \$105,000,000 of the line's available borrowings, with interest expense to be calculated based upon LIBOR plus a spread of 3.65% to 3.90%. The interest rate on the remaining \$45,000,000 of the line's availability is determined based upon the Company's consolidated operating income after debt service. On this

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

portion of the facility, interest accrues at a rate of LIBOR plus a spread of 4.45% to 5.25%, determined by certain leverage tests. The Company may elect to use the 1, 2, 3 or 6 month LIBOR, but in no event shall LIBOR be less than 1.5%.

On April 30, 2009, the Company entered into a Modification Agreement, in effect until August 1, 2009, which reduced the Debt Service Coverage covenant under its revolving credit facility from 1.6x to 1.5x and increased the interest rate from a range of LIBOR plus 1.40% to 1.65%, with no LIBOR floor. The maximum commitment under the revolving credit facility was reduced from \$150,000,000 to \$120,000,000.

On July 9, 2009, the Company entered into a Second Modification Agreement to its then \$120,000,000 unsecured revolving credit facility. The modification extended the maturity date of the facility from December 19, 2010 to June 30, 2012, which term may be further extended by the Company for one additional year subject to the Company's satisfaction of certain conditions. Until December 31, 2010, certain or all of the lenders may, upon request by the Company, increase the revolving credit facility line by \$30,000,000. The modification reduced the interest expense coverage from 2.5x to 2.2x, reduced the existing debt service coverage from 1.5x to 1.4x (and recharacterized such test as fixed charge coverage) and created a new debt service coverage test (exclusive of preferred stock dividends) of 1.6x.

On July 28, 2009, Company entered into a Third Modification Agreement increasing the maximum commitment under the facility from \$120,000,000 to \$150,000,000 with the addition of a fourth lender.

Saul Centers is a guarantor of the revolving credit facility, of which the Operating Partnership is the borrower. Saul Centers is also the guarantor of 50% of the Northrock construction loan (approximately \$9,305,000 of the \$18,609,000 outstanding at September 30, 2009) and the Clarendon Center construction loan (approximately \$29,685,000 outstanding at September 30, 2009). The fixed-rate notes payable are all non-recourse debt except for \$3,882,000 of the Great Falls Center mortgage, which is guaranteed by Saul Centers.

On May 14, 2009, the Company closed on the final portion of its April 2008 forward commitment secured by the Great Falls Center. The additional funding totaled \$1,882,000 which was based upon the achievement of certain leasing requirements. The loan matures February 1, 2024, requires equal monthly principal and interest payments of \$12,518, based upon a 7.00% interest rate and 30-year principal amortization, and requires a final principal payment of approximately \$1,414,000 at maturity.

Also during May and June 2009, the Company refinanced the mortgage debt secured by four properties. The Company replaced mortgage debt, due to mature December 2011, with new 15-year fixed-rate mortgage debt. The amount borrowed on the new loans totaled \$85,000,000 and replaced balances outstanding of \$48,059,000. Because the refinanced properties were included in a cross-collateralized pool of six properties, the Company was required to pay down outstanding debt balances of two remaining properties in the amount of \$4,806,000. Terms of the new mortgage debt are as follows:

On May 28, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$16,000,000, secured by Village Center. The loan matures June 1, 2024, requires

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

equal monthly principal and interest payments of \$119,282, based upon a 7.6% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$10,060,000 at maturity.

On June 2, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$18,500,000, secured by Leesburg Pike. The loan matures June 1, 2024, requires equal monthly principal and interest payments of \$134,913, based upon a 7.35% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$11,506,000 at maturity.

On June 12, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$17,000,000, secured by Van Ness Square. The loan matures July 1, 2024, requires equal monthly principal and interest payments of \$132,450, based upon an 8.11% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$11,453,000 at maturity. A portion of the loan proceeds are held in escrow by the lender to fund up to \$1,500,000 of future tenant improvements and leasing commissions. Additional loan proceeds of \$1,564,000 are also held in a second escrow to be released pending the achievement of certain annualized base rent levels. The escrows are classified as other assets on the Consolidated Balance Sheets.

On June 19, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$33,500,000, secured by Avenel Business Park. The loan matures July 1, 2024, requires equal monthly principal and interest payments of \$246,474, based upon a 7.45% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$20,926,000 at maturity.

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 approximately \$6,495,000 occurred at closing. The loan accrues interest at a variable interest rate of LIBOR plus 3.0% with a LIBOR minimum of 1.5%. The loan matures on May 1, 2011, with one 2-year extension option, exercisable at the Company's election subject to completion of improvements and certain debt service coverage requirements. The loan was 100% guaranteed by the Company until such time as the construction was completed, at which time the guarantee was reduced to 50% of the total principal outstanding. Approximately \$18,609,000 was outstanding as of September 30, 2009, therefore \$9,305,000 was guaranteed by the Company. Concurrent with the execution of the April 30, 2009 revolving credit facility modification agreement, the Company and its lender modified the terms of the construction loan for a 90-day period, to reflect a similar change to the debt service coverage covenant. Additionally, the pricing of the loan was changed to accrue interest at a variable rate of LIBOR plus 1.6%, with no LIBOR minimum.

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 a variable rate of LIBOR plus 2.5% and matures on November 14, 2011, which term may be extended by

Table of Contents**Notes to Consolidated Financial Statements (Unaudited) (Continued)**

the Company for two additional 9-month periods, subject to the satisfaction of certain conditions. Approximately \$29,685,000 was outstanding as of September 30, 2009.

At December 31, 2008, the Company's outstanding debt totaled approximately \$567,495,000, of which approximately \$548,265,000 was fixed rate and \$19,230,000 was variable rate debt. No balances were outstanding on the Company's \$150,000,000 unsecured revolving credit facility as of December 31, 2008.

At September 30, 2009, the scheduled maturities of all debt, including scheduled principal amortization, for years ending December 31, were as follows:

Debt Maturity Schedule

<i>(Dollars in thousands)</i>	Balloon Payments	Scheduled Principal Amortization	Total
October 1 through December 31, 2009	\$	\$ 4,062	\$ 4,062
2010		16,927	16,927
2011	67,553(a)	17,847	85,400
2012	96,300	16,474	112,774
2013	39,440	10,809	50,249
2014	13,176	10,713	23,889
Thereafter	247,753	76,874	324,627
	\$ 464,222	\$ 153,706	\$ 617,928

(a) Includes the Clarendon Center and Northrock construction loan balances as of September 30, 2009, totaling \$48,294. Interest expense and amortization of deferred debt costs for the quarters and nine month periods ended September 30, 2009 and 2008, were as follows:

Interest Expense and Amortization of Deferred Debt Costs

<i>(Dollars in thousands)</i>	Quarter ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Interest incurred	\$ 9,974	\$ 9,454	\$ 28,950	\$ 27,864
Amortization of deferred debt costs	366	304	957	889
Costs related to modification of revolving credit facility	83		363	
Capitalized interest	(1,481)	(1,190)	(4,350)	(2,876)
	\$ 8,942	\$ 8,568	\$ 25,920	\$ 25,877

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

6. Stockholders Equity and Noncontrolling Interest

The consolidated statements of operations include net income attributable to noncontrolling interest of \$4,746,000 and \$5,837,000 for the nine months ended September 30, 2009 and 2008, 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 \$140,000,000 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 \$72,100,000. The underwriters exercised an over-allotment option, purchasing an additional 173,115 depositary shares providing additional net cash proceeds of \$4,200,000.

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

7. Related Party Transactions

Chevy Chase Bank was an affiliate of The Saul Organization until February 28, 2009 and leases space in 20 of the Company's properties. Total rental income from Chevy Chase Bank amounted to approximately \$658,000 for the two months ended February 28, 2009 and \$2,558,000 for the nine months ended September 30, 2008.

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

The Company participates in a multiemployer 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. From January 1, 2002 until December 31, 2008, only employer contributions were made to the plan. Beginning January 1, 2009, all employer contributions were made to individual 401(K) accounts. Each participant who is entitled to be credited with at least one hour of service on or after January 1, 2002, is 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

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

compensation, subject to certain limits, were \$339,000 and \$298,000, for the nine months ended September 30, 2009 and 2008, 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 compensation 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 in excess of a specified amount. The Company is required to contribute three times the amount deferred by employees. The Company's contribution totaled approximately \$188,000 and \$96,000, for the nine months ended September 30, 2009 and 2008, respectively. All amounts deferred by employees and the Company are fully vested. The cumulative unfunded liability under this plan was approximately \$1,287,000 and \$1,082,000 at September 30, 2009 and December 31, 2008, respectively, and is included in accounts payable, accrued expenses and other liabilities in the consolidated balance sheets.

The Company has entered into a shared services agreement (the Agreement) with The Saul Organization that provides for the sharing of certain personnel and ancillary functions such as computer hardware, software, and support services and certain direct and indirect administrative personnel. The Agreement was not impacted by the February 28, 2009 sale of Chevy Chase Bank. 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 nine months ended September 30, 2009 and 2008, which included rental expense for the Company's headquarters lease, totaled approximately \$4,151,000 and \$3,945,000, respectively. The amounts are expensed when billed and are primarily reported as general and administrative expenses in these consolidated financial statements. As of September 30, 2009 and December 31, 2008, accounts payable, accrued expenses and other liabilities included approximately \$362,000 and \$324,000, respectively, representing amounts due to The Saul Organization for the Company's share of these ancillary costs and expenses.

The Company's corporate headquarters 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 Company pays an allocation of total rental payments on a percentage proportionate to the number of employees employed by the Company and The Saul Organization. The Company's rent expense for the nine months ended September 30, 2009 and 2008 was approximately \$682,000 and \$661,000, respectively, and is included in general and administrative expense.

The B. F. Saul Insurance Agency of Maryland, Inc., a subsidiary of the B. F. Saul Company and a member of The Saul Organization, is a general insurance agency that receives commissions and fees in connection with the Company's insurance program. Such commissions and fees amounted to \$182,000 and \$227,000 for the nine months ended September 30, 2009 and 2008, respectively.

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

8. Non-Operating Items

Loss on Early Extinguishment of Debt

In conjunction with the early repayment of four mortgage loans refinanced during May and June 2009 as described in Note 5, the Company incurred prepayment penalties of \$1,442,000 and wrote-off unamortized deferred debt costs of \$218,000 for a combined charge of \$1,660,000.

Gain on Property Dispositions

The gain on property disposition of approximately \$205,000 during the quarter ended September 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 nine months ended September 30, 2009.

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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Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 9. Option detail (Excel schedule)

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 nine months ended September 30, 2009:

	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	04/24/2009			
Grant date														
Initial grant	220,000	122,500	132,500	135,000	610,000	30,000	30,000	30,000	30,000	30,000	32,500	182,500	792,500	
Granted	212,500	115,000	121,250	67,500	516,250	30,000	30,000	30,000	30,000	30,000	32,500	182,500	698,250	
Revised	96,422	30,625	6,250		133,297	6,200	2,500					8,700	141,997	
Terminated	7,500	7,500	11,250		26,250								26,250	
Exercisable at September 30, 2009	116,078	84,375	115,000	67,500	382,953	23,800	27,500	30,000	30,000	30,000	32,500	173,800	556,353	
Remaining exercised	116,078	84,375	115,000	135,000	450,453	23,800	27,500	30,000	30,000	30,000	32,500	173,800	624,353	
Exercise price	\$ 24.91	\$ 25.78	\$ 33.22	\$ 54.17		\$ 25.78	\$ 33.22	\$ 40.35	\$ 54.17	\$ 50.15	\$ 32.68			
Volatility	0.175	0.183	0.207	0.233		0.183	0.198	0.206	0.225	0.237	0.344			
Expected life (years)	7.0	7.0	8.0	6.5		5.0	10.0	9.0	8.0	7.0	6.0			
Assumed yield	7.00%	5.75%	6.37%	4.13%		5.75%	6.91%	5.93%	4.39%	4.09%	4.54%			
Risk-free rate	4.00%	4.05%	4.15%	4.61%		3.57%	4.28%	5.11%	4.65%	3.49%	2.19%			
Initial 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	\$ 222,950	\$ 1,044,050	\$ 3,341,023	
Terminated														
Options	11,325	17,925	35,100		64,350								64,350	
Expensed in previous years	320,875	274,850	347,752	524,529	1,468,006	66,600	71,100	143,400	285,300	254,700		821,100	2,289,923	
Expensed in 2009			30,548	236,038	266,586						222,950	222,950	489,536	
Share expense	\$	\$	\$	\$ 498,281	\$ 498,281	\$	\$	\$	\$	\$	\$	\$	\$ 498,281	
Weighted average term to maturity														
Expense		1.6 years												

Table of Contents**Notes to Consolidated Financial Statements (Unaudited) (Continued)**

The table below summarizes the option activity for the nine months ended September 30, 2009:

	Number of Shares	Wtd Avg Exercise Price/sh	Aggregate Intrinsic Value
Outstanding at January 1	593,628	\$ 37.25	
Granted	32,500	32.68	
Exercised	1,875	25.78	\$ 14,000
Expired/Forfeited			
Outstanding September 30	624,253	37.05	1,518,000
Exercisable at September 30	556,753	34.98	1,518,000

The intrinsic value measures the price difference between the options' exercise price and the closing share price quoted by the New York Stock Exchange as of the date of measurement. The intrinsic value for shares exercised during the period, had there been any, would have been calculated by using the closing share price on the date of exercise. At September 30, 2009, the closing share price of \$32.10 was lower than the exercise price of all options granted subsequent to 2004. Therefore only options granted during 2003 and 2004 had intrinsic value as of September 30, 2009. The weighted average remaining contractual life of the Company's outstanding and exercisable options is 6.0 and 5.8 years, respectively.

10. Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, net, accounts payable and accrued expenses are reasonable estimates of their fair value. Based upon management's estimate of borrowing rates and loan terms currently available to the Company for fixed-rate financing, the aggregate fair value of the fixed-rate notes payable is less than the \$569,634,000 and \$548,265,000 carrying value at September 30, 2009 and December 31, 2008, respectively. Management estimates that the fair value of these fixed rate notes payable, assuming long-term interest rates of approximately 7.30% and 7.15%, would be approximately \$546,640,000 and \$525,285,000, as of September 30, 2009 and December 31, 2008, respectively.

11. Commitments and Contingencies

The Company is not 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.

Table of Contents**Notes to Consolidated Financial Statements (Unaudited) (Continued)****12. Business Segments**

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 (1)	Consolidated Totals
Quarter ended September 30, 2009				
Real estate rental operations:				
Revenue	\$ 30,535	\$ 9,738	\$	\$ 40,273
Expenses	(6,768)	(2,871)		(9,639)
Income from real estate	23,767	6,867		30,634
Interest expense and amortization of deferred debt costs			(8,942)	(8,942)
General and administrative			(3,259)	(3,259)
Subtotal	23,767	6,867	(12,201)	18,433
Depreciation and amortization of deferred leasing costs	(5,096)	(1,988)		(7,084)
Net income attributable to noncontrolling interest			(1,742)	(1,742)
Net income attributable to Saul Centers, Inc	\$ 18,671	\$ 4,879	\$ (13,943)	\$ 9,607
Capital investment	\$ 21,296	934	36,304	\$ 58,534
Total assets	\$ 675,820	119,433	109,462	\$ 904,715
Quarter ended September 30, 2008				
Real estate rental operations:				
Revenue	\$ 31,129	\$ 9,628	\$ 190	\$ 40,947
Expenses	(6,980)	(2,857)		(9,837)
Income from real estate	24,149	6,771	190	31,110
Interest expense and amortization of deferred debt costs			(8,568)	(8,568)
General and administrative			(2,791)	(2,791)
Subtotal	24,149	6,771	(11,169)	19,751
Depreciation and amortization of deferred leasing costs	(6,413)	(2,074)		(8,487)
Net income attributable to noncontrolling interest			(1,743)	(1,743)
Net income attributable to Saul Centers, Inc	\$ 17,736	\$ 4,697	\$ (12,912)	\$ 9,521
Capital investment	\$ 12,675	\$ 33	\$ 5,822	\$ 18,530
Total assets	\$ 663,955	\$ 121,026	\$ 70,659	\$ 855,640

- (1) Includes Clarendon Center development activity.

Table of Contents**Notes to Consolidated Financial Statements (Unaudited) (Continued)**

<i>(Dollars in thousands)</i>	Shopping Centers	Office Properties	Corporate and Other (1)	Consolidated Totals
Nine months ended September 30, 2009				
Real estate rental operations:				
Revenue	\$ 89,958	\$ 29,414	\$ 6	\$ 119,378
Expenses	(21,011)	(8,438)		(29,449)
Income from real estate	68,947	20,976	6	89,929
Interest expense and amortization of deferred debt costs			(25,920)	(25,920)
General and administrative			(9,328)	(9,328)
Subtotal	68,947	20,976	(35,242)	54,681
Depreciation and amortization of deferred leasing costs	(15,227)	(5,981)		(21,208)
Loss on early extinguishment of debt			(1,660)	(1,660)
Net income attributable to noncontrolling interest			(4,746)	(4,746)
Net income attributable to Saul Centers, Inc	\$ 53,720	\$ 14,995	\$ (41,648)	\$ 27,067
Capital investment	\$ 21,296	934	36,304	\$ 58,534
Total assets	\$ 675,820	119,433	109,462	\$ 904,715
Nine months ended September 30, 2008				
Real estate rental operations:				
Revenue	\$ 90,390	\$ 28,883	\$ 501	\$ 119,774
Expenses	(19,935)	(8,127)		(28,062)
Income from real estate	70,455	20,756	501	91,712
Interest expense and amortization of deferred debt costs			(25,877)	(25,877)
General and administrative			(8,904)	(8,904)
Subtotal	70,455	20,756	(34,280)	56,931
Depreciation and amortization of deferred leasing costs	(16,352)	(6,067)		(22,419)
Gain on property dispositions	205			205
Net income attributable to noncontrolling interest			(5,837)	(5,837)
Net income attributable to Saul Centers, Inc	\$ 54,308	\$ 14,689	\$ (40,117)	\$ 28,880
Capital investment	\$ 86,935	\$ 344	\$ 14,671	\$ 101,950
Total assets	\$ 663,955	\$ 121,026	\$ 70,659	\$ 855,640

(1) Includes Clarendon Center development activity.

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

13. Subsequent Events

The Company has reviewed operating activities for the period subsequent to September 30, 2009 and prior to the date the financial statements are issued or are available to be issued, November 9, 2009, and determined there are no subsequent events that are required to be disclosed.

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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, 2008. 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 related to the continuation or worsening of the domestic and global credit markets and their effect on discretionary spending;

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

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

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

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

risks related to the Company's development activities;

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

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

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

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

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such other risks as described in Part I, Item 1A of our Form 10-K for the year ended December 31, 2008.

General

The following discussion is based primarily on the consolidated financial statements of the Company, as of September 30, 2009 and for the three and nine-month periods ended September 30, 2009.

Overview

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

The Company's primary operating strategy is to focus on its community and neighborhood shopping center business and to operate its properties to achieve both cash flow growth and capital appreciation. Management believes there is potential for 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.

In light of the currently constrained capital market, management believes acquisition and development opportunities for investment in existing and new shopping center and office properties are limited. However, management believes that the Company is positioned to take advantage of these opportunities when market conditions change because of its conservative capital structure. It is management's view that several of the sub-markets in which the Company operates have very attractive supply/demand characteristics. The Company will continue to evaluate acquisition, development and redevelopment as an integral part of its overall business plan.

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The current downturn in the national economy has negatively affected both the office and retail markets in the metropolitan Washington, D.C. area, where the majority of the Company's properties are located. Continued stress in the local economies where the Company's properties are located may lead to increased tenant bankruptcies, increased vacancies and decreased rental rates.

With a severe decline in overall consumer spending, retailers continue to struggle with declining sales and limited access to capital. Store closings have increased and retailers are less likely to expand their store count. Vacancies remain high compared to prior periods. Our overall portfolio leasing percentage was 91.8% at September 30, 2009 compared to 94.2% at December 31, 2008, and 94.7% at September 30, 2008.

The Company maintains a ratio of total debt to total assets of under 50%, which allows the Company to obtain additional secured borrowings, if necessary. As of September 30, 2009, fixed-rate debt represented approximately 92% of the Company's notes payable, thus minimizing the effect of increased interest rates on the Company's financial condition. The Company's earliest significant fixed rate debt maturity is not until 2011 (\$19,259,000). As of September 30, 2009, the Company had no borrowings under its \$150,000,000 revolving credit facility.

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.

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.

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Real Estate Investments

Real estate investment properties are stated at historic cost less depreciation. The Company intends to own its real estate investment properties over a long-term. No real estate investment properties have been sold since the Company's formation in 1993. Management believes that these assets have generally appreciated in value since their acquisition and, accordingly, the aggregate current value exceeds their aggregate net book value and also exceeds the value of the Company's liabilities as reported in these financial statements. Because these financial statements are prepared in conformity with U.S. GAAP, they do not report the current value of the Company's real estate investment properties.

The Company purchases real estate investment properties from time to time and allocates the purchase price to various components, such as land, buildings, and intangibles related to in-place leases and customer relationships. 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 above and below market leases, the Company considers the remaining contractual lease period and renewal periods, taking into consideration the likelihood of the tenant exercising its renewal options. The fair value of a below market lease component is recorded as deferred income and amortized as additional lease revenue over the remaining contractual lease period and any renewal option periods included in the valuation analysis. The fair value of above market lease intangibles is recorded as a deferred asset and is amortized as a reduction of lease revenue over the remaining contractual lease term. The Company determines the fair value of at-market in-place leases considering the cost of acquiring similar leases, the foregone rents associated with the lease-up period and carrying costs associated with the lease-up period. Intangible assets associated with at-market in-place leases are amortized as additional expense over the remaining contractual lease term. To the extent customer relationship intangibles are present in an acquisition, the fair value of the intangibles are amortized over the life of the customer relationship.

If there is an event or change in circumstance that indicates an impairment in the value of a real estate investment property, the Company prepares an impairment analysis to assess that the carrying value of the real estate investment property does not exceed its estimated fair value. The Company considers both quantitative and qualitative factors including recurring operating losses, significant decreases in occupancy, and significant adverse changes in legal factors and business climate. If impairment indicators are present, the Company performs a comparison of the projected cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying value of that property. The Company assesses its undiscounted projected cash flows based upon estimated capitalization rates, historic operating results and market conditions that may affect the property. If such carrying value is greater than the undiscounted projected cash flows, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its then estimated fair market value. The value of any property is sensitive to the actual results of any of the aforementioned estimated factors, either individually or taken as a whole. Should the actual results differ from management's projections, the valuation could be negatively or positively affected.

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When incurred, the Company capitalizes the cost of improvements that extend the useful life of property and equipment. All repair and maintenance expenditures are expensed when incurred. In addition, we capitalize leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvement. Tenant improvements we own are depreciated over the life of the respective lease or the estimated useful life of the improvements, whichever is shorter.

Interest, real estate taxes, development-related salary costs and other carrying costs are capitalized on projects under construction. Once construction is substantially complete and the assets are placed in service, rental income, direct operating expenses, and depreciation associated with such properties are included in current operations.

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.

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 successful leasing-related activities. Such activities include evaluating prospective tenants' financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating lease terms, preparing lease documents and closing transactions. In addition, deferred leasing costs include amounts attributed to in-place leases associated with acquisition properties.

Revenue Recognition

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

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

Results of Operations**Quarter ended September 30, 2009 compared to quarter ended September 30, 2008**

Revenue (Dollars in thousands)	Quarters ended September 30,		2009 to 2008 Change	
	2009	2008	\$	%
Base rent	\$ 31,776	\$ 31,466	\$ 310	1.0%
Expense recoveries	7,145	7,652	(507)	-6.6%
Percentage rent	214	253	(39)	-15.4%
Other	1,138	1,576	(438)	-27.8%
Total revenue	\$ 40,273	\$ 40,947	\$ (674)	-1.6%

Note: (Dollars in thousands)

Base rent includes \$446 and \$234 for the quarters ended September 30, 2009 and 2008, respectively, to recognize base rent on a straight-line basis. In addition, base rent includes \$300 and \$437, for the quarters ended September 30, 2009 and 2008, respectively, to recognize income from the amortization of in-place leases acquired in connection with purchased real estate investment properties.

Total revenue decreased 1.6% in the quarter ended September 30, 2009 (2009 Quarter) compared to the corresponding prior year's quarter (2008 Quarter). The revenue decrease for the 2009 Quarter resulted from declining revenues from core properties (properties which were

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in operation for the entirety of both quarters) due to decreased occupancy levels and the resulting loss of base rent. Partially offsetting the core property revenue decline was rental income from the operations of two developed properties initiating operations in March and April 2009. The properties (Northrock and Westview Village) are defined as the Development Properties, and contributed \$624,000 of increased revenue. A discussion of the components of revenue follows.

Base rent. The increase in base rent for the 2009 Quarter versus the 2008 Quarter was attributable to leases in effect at the Development Properties (approximately \$413,000). Partially offsetting the increased base rent from the Development Properties was a decline in base rent throughout the remainder of the portfolio (approximately \$103,000).

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. Approximately 75.6% of total operating expenses and real estate taxes were recovered during the 2009 Quarter versus 79.7% during the 2008 Quarter. The decrease in the amount recovered resulted from an increase in non-recoverable expenses such as advertising, legal and other professional services as well as reduced occupancy in certain of the properties.

Percentage rent. Percentage rent is rental revenue calculated on the portion of a tenant's sales revenue that exceeds a specified breakpoint. The primary reason for the 2009 Quarter decrease was reduced sales reported by an anchor tenant at White Oak shopping center (approximately \$57,000). Partially offsetting the decrease was increased percentage rent earned from several leases throughout the remainder of the portfolio.

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 decrease in other revenue for the 2009 Quarter resulted primarily from a decrease in lease termination fees (approximately \$250,000) and a decrease in interest income on invested cash balances (approximately \$190,000).

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Operating Expenses (Dollars in thousands)	Quarters ended September 30,		2009 to 2008 Change	
	2009	2008	\$	%
Property operating expenses	\$ 4,919	\$ 5,360	\$ (441)	-8.2%
Provision for credit losses	189	236	(47)	-19.9%
Real estate taxes	4,531	4,241	290	6.8%
Interest expense and amortization of deferred debt costs	8,942	8,568	374	4.4%
Depreciation and amortization of leasing costs	7,084	8,487	(1,403)	-16.5%
General and administrative	3,259	2,791	468	16.8%
Total operating expenses	\$ 28,924	\$ 29,683	\$ (759)	-2.6%

The operating expense decrease resulted primarily from a decrease in depreciation expense arising from the prior year's asset retirements in conjunction with the redevelopment of Smallwood Village Center.

Property operating expenses. Property operating expenses consist of repairs and maintenance, utilities, payroll, insurance and other property related expenses. Property operating expenses for the 2009 Quarter remained level with the amount reported during the 2009 second quarter, but decreased compared to the prior year's third quarter due to large repair and maintenance projects completed at several properties during the prior year's quarter (approximately \$424,000).

Provision for credit losses. The provision for credit losses represents the Company's estimation of amounts previously included in income and owed by tenants that may not be collectible. The 2009 Quarter's loss provision decreased compared to the 2008 Quarter's provision. The quarterly provisions for credit losses represent approximately five and six tenths of one percent (0.5% and 0.6%) of total revenue for 2009 and 2008 Quarters, respectively, and reflect the impact of the challenging economic conditions.

Real estate taxes. The increase in real estate taxes for the 2009 Quarter versus the 2008 Quarter was primarily due to a 5.0% increase in core property real estate tax expense over the 2008 Quarter's amount, impacted largely by increased taxes at several of the Company's Northern Virginia shopping centers and 601 Pennsylvania Avenue.

Interest expense and amortization of deferred debt. Interest expense increased in the 2009 Quarter versus the 2008 Quarter due to increased fixed-rate mortgage debt balances outstanding, resulting from the refinancing of four mortgage loans during the 2009 second Quarter. The Company also increased variable rate indebtedness to fund its development and construction expenditures, however the majority of these interest costs were capitalized as project costs and had little impact on interest expense for the 2009 Quarter. Average outstanding borrowings for the 2009 Quarter increased approximately \$45,667,000 from the 2008 Quarter. Increased

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deferred debt cost amortization increased interest expense by approximately \$62,000 (\$366,000 versus \$304,000). Also contributing to the increase in the 2009 Quarter's interest expense were costs incurred to modify the Company's revolving credit facility in the amount of \$83,000.

Depreciation and amortization of deferred leasing costs. The decrease in depreciation and amortization of deferred leasing costs resulted primarily from asset retirements in conjunction with the redevelopment of Smallwood Village Center during the 2008 Quarter (79.3% or approximately \$1,112,000). The balance of the decrease during the 2009 Quarter resulted from a greater volume of assets becoming fully depreciated/amortized than the volume of new assets placed in service.

General and administrative. General and administrative expenses consist of payroll, administrative and other overhead expenses. The majority of the general and administrative expense increase during the 2009 Quarter resulted from increased payroll related expenses arising from one-time employment severance expense (approximately \$270,000), abandoned acquisition and development costs (approximately \$115,000) and a decrease in the capitalization of construction and development personnel payroll (approximately \$101,000).

Table of Contents**Nine months ended September 30, 2009 compared to the nine months ended September 30, 2008**

Revenue (Dollars in thousands)	Nine months ended September 30,		2009 to 2008 Change	
	2009	2008	\$	%
Base rent	\$ 93,572	\$ 93,599	\$ (27)	0.0%
Expense recoveries	21,773	21,730	43	0.2%
Percentage rent	775	799	(24)	-3.0%
Other	3,258	3,646	(388)	-10.6%
Total revenue	\$ 119,378	\$ 119,774	\$ (396)	-0.3%

Note: (Dollars in thousands)

Base rent includes \$686 and \$845 for the nine months ended September 30, 2009 and 2008, respectively, to recognize base rent on a straight-line basis. In addition, base rent includes \$955 and \$1,006, for the nine months ended September 30, 2009 and 2008, respectively, to recognize income from the amortization of in-place leases acquired in connection with purchased real estate investment properties.

Total revenue decreased 0.3% in the nine months ended September 30, 2009 (2009 Period) compared to the corresponding prior year's period (2008 Period). The revenue decrease for the 2009 Period resulted from declining revenues from the core properties (properties which were in operation for the entirety of both periods) due to decreased occupancy levels and the resulting loss of base rent (approximately \$1,760,000) and reduced interest income on invested cash balances (approximately \$500,000) offset in part by rental income from the operations of the Development Properties and three 2008 acquisition properties, (Great Falls Center, BJ's Wholesale Club and Marketplace at Sea Colony) together defined as the Development and Acquisition Properties, (approximately \$1,860,000). A discussion of the components of revenue follows.

Base rent. Base rent declined throughout the core properties for the 2009 Period versus the 2008 Period due to increased vacancy attributable to the challenging market conditions, particularly at two shopping centers; small shop space at Broadlands Village located in Loudoun County, Virginia; and an anchor space at Seven Corners in Falls Church, Virginia (approximately \$946,000). The vacant anchor space at Seven Corners has been re-leased with rents commencing in June 2009. Increased vacancy at several shopping centers throughout the portfolio also contributed to the base rent decrease. Substantially offsetting the core property decline was base rent on leases in effect at the Development and Acquisition Properties (approximately \$1,570,000).

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. While the amount of expense recoveries recognized in the 2009 Period compared to the 2008 Period increased slightly, the core properties experienced a decrease in expense recovery

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income (approximately \$230,000) because approximately 75.9% of total operating expenses and real estate taxes were recovered during the 2009 Period versus 79.3% during the 2008 Period. The decrease in the amount recovered resulted from credits issued to some tenants upon the annual reconciliation of prior year billings, an increase in non-recoverable expenses such as advertising, legal and other professional services as well as reduced occupancy in certain of the properties. The operation of the Development and Acquisition Properties more than offset the core property expense recoveries decline (approximately \$270,000).

Percentage rent. Percentage rent is rental revenue calculated on the portion of a tenant's sales revenue that exceeds a specified breakpoint. The primary reason for the 2009 Period decrease was the absence of percentage rental income for an anchor space released at a higher base rental rate, which in turn increased the sales breakpoint (approximately \$132,000). Partially offsetting the decrease was increased percentage rent earned from several leases throughout the remainder of the portfolio.

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 decrease in other revenue for the 2009 Period resulted primarily from decreased interest income on invested cash balances (approximately \$500,000) offset in part by increased parking revenue (approximately \$165,000) and increased lease termination fees (approximately \$23,000).

Operating Expenses (Dollars in thousands)	Nine months ended September 30,		2009 to 2008 Change	
	2009	2008	\$	%
Property operating expenses	\$ 15,134	\$ 14,872	\$ 262	1.8%
Provision for credit losses	748	660	88	13.3%
Real estate taxes	13,567	12,530	1,037	8.3%
Interest expense and amortization of deferred debt costs	25,920	25,877	43	0.2%
Depreciation and amortization of leasing costs	21,208	22,419	(1,211)	-5.4%
General and administrative	9,328	8,904	424	4.8%
Total operating expenses	\$ 85,905	\$ 85,262	\$ 643	0.8%

Increases in operating expenses resulted primarily from increased property taxes and the operation and financing of the Development and Acquisition Properties as well as increased general and administrative expense and the provision for credit losses throughout the remaining core properties.

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Property operating expenses. Property operating expenses consist of repairs and maintenance, utilities, payroll, insurance and other property related expenses. Expenses required to operate the Development and Acquisition Properties (approximately \$291,000) produced substantially all of the 2009 Period expense increase.

Provision for credit losses. The provision for credit losses represents the Company's estimation of amounts previously included in income and owed by tenants that may not be collectible. The \$88,000 increase, primarily independent small shop retailers, in the 2009 Period's loss provision versus the 2008 Period resulted from tenant vacancies caused by the current economic downturn. The provision for credit losses was approximately six tenths of one percent (0.6%) of total revenue for the 2009 and 2008 Periods, reflecting the impact of the currently unfavorable economic condition.

Real estate taxes. The increase in real estate taxes for the 2009 Period versus the 2008 Period was primarily due to a same property increase of \$882,000 (85.1% of total real estate tax increase), a 7.1% increase over the 2008 Period's amount, impacted largely by increased taxes at several of the Company's Northern Virginia shopping centers. The Development and Acquisition Properties contributed the balance of the real estate tax increase (14.9% or approximately \$155,000).

Interest expense and amortization of deferred debt. Interest expense increased in the 2009 Period versus the 2008 Period due to increased fixed-rate mortgage debt balances outstanding, resulting from the refinancing of four mortgage loans during the 2009 second Quarter offset in part by increased capitalized interest as a result of the Company's development activity. The Company also increased variable rate indebtedness to fund its development and construction expenditures, however the majority of these interest costs were capitalized as project costs and had little impact on interest expense for the 2009 Period. Average outstanding borrowings for the 2009 Period increased approximately \$39,334,000 from the 2008 Period. The impact of the new borrowings resulted in an approximately \$1,067,000 increase in interest expense. Interest capitalized as a cost of construction and development projects increased during the 2009 Period compared to the 2008 Period which reduced interest expense by approximately \$1,474,000 (\$4,350,000 versus \$2,876,000) resulting primarily from construction activity at Clarendon Center, Northrock and Westview Village. Increased deferred debt cost amortization increased interest expense by approximately \$68,000 (\$957,000 versus \$889,000). Also contributing to the increase in interest expense for the 2009 Period were costs incurred to modify the Company's revolving credit facility in the amount of \$363,000.

Depreciation and amortization of deferred leasing costs. The decrease in depreciation and amortization of deferred leasing costs resulted primarily from asset retirements in conjunction with the redevelopment of Smallwood Village Center during the 2008 Period (91.8% or approximately \$1,112,000). The balance of the decrease during the 2009 Quarter resulted from a greater volume of assets becoming fully depreciated/amortized than the volume of new assets placed in service.

General and administrative. General and administrative expenses consist of payroll, administrative and other overhead expenses. The general and administrative expense increase during the 2009 Period resulted from increased payroll related expenses arising from one-time employment severance expense (approximately \$270,000) and increased cost of employment related expenses (approximately \$174,000).

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Loss on Early Extinguishment of Debt. The loss consists primarily of pre-payment penalties for the early retirement of mortgage debt (approximately \$1,442,000). The Company refinanced mortgage debt with outstanding balances totaling \$48,059,000, prior to their December 2011 maturity, in order to obtain new mortgage debt totaling \$85,000,000. Also included are write-offs of unamortized deferred debt costs related to the repaid mortgages (approximately \$218,000). There were no early extinguishment of debt costs in the 2008 Period.

Liquidity and Capital Resources

Cash and cash equivalents were \$14,297,000 and \$25,137,000 at September 30, 2009 and 2008, respectively. The Company's cash flow is affected by its operating, investing and financing activities, as described below.

<i>(Dollars in thousands)</i>	Nine Months Ended	
	September 30,	
	2009	2008
Cash provided by operating activities	\$ 50,377	\$ 57,309
Cash used in investing activities	(58,534)	(101,745)
Cash provided by financing activities	9,448	63,808
Increase in cash and cash equivalents	\$ 1,291	\$ 19,372

Operating Activities

Cash provided by operating activities represents 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.

Investing Activities

Cash used in investing activities includes property acquisitions, developments, redevelopments, tenant improvements and other property capital expenditures. Investing activities for the 2009 Period primarily reflect the development and construction costs of Clarendon Center, Northrock and Westview Village. Investing activities for the 2008 Period primarily reflect the acquisition of three operating properties (Great Falls Center, BJ's Wholesale Club and Marketplace at Sea Colony) and a land parcel (Northrock) and to a lesser extent development costs of Clarendon Center, Northrock and Westview Village. Tenant improvement and property capital expenditures totaled \$6,185,000 and \$6,998,000, for the 2009 and 2008 Periods, respectively.

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Financing Activities

Cash provided by financing activities for the nine months ended September 30, 2009 primarily reflects:

proceeds of \$86,882,000 received from fixed-rate mortgage notes payable originated during the period;

proceeds of \$30,000,000 received from advances provided by the revolving credit facility during the period;

proceeds of \$29,064,000 received from construction loan draws during the period; and

proceeds of \$749,000 from the issuance of common stock from shares issued under the dividend reinvestment program; which was partially offset by:

the repayment of mortgage notes payable borrowings totaling \$65,513,000;

the repayment of \$30,000,000 on the revolving credit facility;

distributions to common stockholders during the period totaling \$20,913,000;

distributions to holders of convertible limited partnership units in the Operating Partnership during the period totaling \$6,337,000; and

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

payments of \$3,129,000 for financing costs of mortgage notes payable and the extension of the revolving credit facility.

Cash provided by financing activities for the nine months ended September 30, 2008 primarily reflects:

proceeds of \$76,317,000 received from the issuance of Series B preferred stock during the period;

proceeds of \$44,876,000 received from fixed-rate mortgage notes payable originated during the period;

proceeds of \$19,000,000 received from advances provided by the revolving credit facility during the period; and

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proceeds of \$4,255,000 received from the issuance of common stock from options exercised and shares issued under the dividend reinvestment program.

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which was partially offset by:

the repayment of mortgage note payable borrowings totaling \$12,271,000;

repayments of \$27,000,000 on the revolving credit facility;

distributions to common stockholders during the period totaling \$25,075,000;

distributions to holders of convertible limited partnership units in the Operating Partnership during the period totaling \$7,638,000;

distributions made to preferred stockholders during the period totaling \$7,883,000; and

payments of \$773,000 for financing costs of mortgage notes payable.

Liquidity Requirements

Short-term liquidity requirements consist primarily of normal recurring operating expenses and capital expenditures, debt service requirements (including debt service relating to additional and replacement debt), distributions to common and preferred stockholders, distributions to unit holders and amounts required for expansion and renovation of the Current Portfolio Properties and selective acquisition and development of additional properties. In order to qualify as a REIT for federal income tax purposes, the Company must distribute to its stockholders at least 90% of its real estate investment trust taxable income, as defined in the Code. The Company expects to meet these short-term liquidity requirements (other than amounts required for additional property acquisitions and developments) through cash provided from operations, available cash and its existing line of credit.

Long-term liquidity requirements consist primarily of obligations under 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. During the remainder of the year the Company will continue to develop its construction in progress properties and will develop certain freestanding outparcels within certain of the Shopping Centers. Although not currently planned, it is possible that the Company may redevelop certain of the Current Portfolio Properties and may develop expansions within certain of the Shopping Centers.

Acquisition and development of properties are undertaken only after careful analysis and review, and management's determination that such properties are expected to provide long-term earnings and cash flow growth. During the coming year, developments, expansions or acquisitions (if any) are expected to be funded with available cash, bank borrowings from the Company's credit line, construction and permanent financing, proceeds from the operation of the Company's dividend reinvestment plan or other external debt or equity capital resources available to the Company. Borrowings may be at the Saul Centers, Operating Partnership or Subsidiary Partnership level, and securities offerings may include (subject to certain limitations) the issuance of additional limited partnership interests in the Operating Partnership which can be converted into shares of Saul Centers common stock. The availability and terms of any such financing will depend upon market and other conditions.

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As of September 30, 2009, the scheduled maturities, including scheduled principal amortization, of all debt for years ended December 31, are as follows:

Debt Maturity Schedule

<i>(Dollars in thousands)</i>	Balloon Payments	Scheduled Principal Amortization	Total
October 1 through December 31, 2009	\$	\$ 4,062	\$ 4,062
2010		16,927	16,927
2011	67,553(a)	17,847	85,400
2012	96,300	16,474	112,774
2013	39,440	10,809	50,249
2014	13,176	10,713	23,889
Thereafter	247,753	76,874	324,627
	\$ 464,222	\$ 153,706	\$ 617,928

(a) Includes the Clarendon Center and Northrock construction loan balances as of September 30, 2009, totaling \$48,294, which amounts will increase substantially through 2011. The commitments of these loans total \$179,300.

Management believes that the Company's capital resources, which at September 30, 2009 included cash balances of approximately \$14,297,000 and borrowing availability of approximately \$149,776,000 on its unsecured revolving credit facility, will be sufficient to meet its liquidity needs for the foreseeable future.

Dividend Reinvestments

In December 1995, the Company established a Dividend Reinvestment and Stock Purchase Plan (the "DRIP") to allow its common stockholders and holders of limited partnership interests an opportunity to buy additional shares of common stock by reinvesting all or a portion of their dividends or distributions. The DRIP provides for investing in newly issued shares of common stock at a 3% discount from market price without payment of any brokerage commissions, service charges or other expenses. All expenses of the DRIP are paid by the Company. The Company issued 13,912 and 68,837 shares under the DRIP at a weighted average discounted price of \$32.25 and \$48.47 per share, during the nine month periods ended September 30, 2009 and 2008, respectively. The Company also credited 7,892 and 6,463 shares to directors pursuant to the reinvestment of dividends specified by the Directors' Deferred Compensation Plan at a weighted average discounted price of \$32.26 and \$48.31 per share, during the nine month periods ended September 30, 2009 and 2008, respectively.

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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 September 30, 2009.

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

The Company maintains an unsecured revolving credit facility. The facility provides working capital and funds for acquisitions, certain developments and redevelopments, expires on June 30, 2012, and provides for an additional one-year extension at the Company's option, subject to the Company's satisfaction of certain conditions. Letters of credit may be issued under the revolving credit facility. As of September 30, 2009, of the \$150,000,000 available for borrowing, there were no outstanding borrowings, approximately \$224,000 was committed for letters of credit, and the resulting balance of approximately \$149,776,000 was available to borrow for working capital, operating property acquisitions or development projects. The interest rate under the facility is primarily determined based on operating income generated by the Company's existing unencumbered properties and, to a lesser extent, certain leverage tests. As of September 30, 2009, operating income from the unencumbered properties determined the interest rate for up to \$105,000,000 of the line's available borrowings, with interest expense to be calculated based upon LIBOR plus a spread of 3.65% to 3.90%. The interest rate on the remaining \$45,000,000 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 4.45% to 5.25%, determined by certain leverage tests. The Company may elect to use the 1, 2, 3 or 6 month LIBOR, but in no event shall LIBOR be less than 1.5%.

The facility requires the Company and its subsidiaries to maintain certain financial covenants. As of September 30, 2009, 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 the Company's future net equity proceeds;

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limit the amount of debt as a percentage of gross asset value, as defined in the loan agreement, to less than 60% (leverage ratio);

limit the amount of debt so that interest coverage will exceed 2.2x on a trailing 12-full calendar month basis (interest expense coverage);

limit the amount of debt so that interest and scheduled principal amortization coverage exceeds 1.6x (debt service coverage);

limit the amount of debt so that interest, scheduled principal amortization and preferred dividend coverage exceeds 1.4x (fixed charge coverage); 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 September 30, 2009, the Company was in compliance with all such covenants.

During 2009, the Company improved its line of credit flexibility and extended maturity dates of both of its revolving credit facility and selected secured debt financings beyond 2011. On April 30, 2009, the Company entered into a Modification Agreement, in effect until August 1, 2009, which reduced the Debt Service Coverage ratio under its Line of Credit from 1.6x to 1.5x. Borrowings under the line of credit, based on the Company's leverage, were increased to LIBOR plus 3.725%, with a LIBOR floor of 1.50%, from the former terms of LIBOR plus 1.475%. The maximum commitment under the Line of Credit was reduced from \$150,000,000 to \$120,000,000. On July 9, 2009, the Company entered into a Second Modification Agreement which extended the maturity date of the facility from December 19, 2010 to June 30, 2012, with an option for the Company to extend for one additional year subject to the Company's satisfaction of certain conditions. The modification reduced the interest expense coverage for the facility from 2.5x to 2.2x, reduced the existing debt service coverage from 1.5x to 1.4x (and recharacterized the test as fixed charge coverage) and created a new debt service coverage (exclusive of preferred stock dividends) of 1.6x. On July 28, 2009, Company entered into a Third Modification Agreement increasing the maximum commitment under the facility from \$120,000,000 to \$150,000,000 with the addition of a fourth lender. Also in July 2009, the Company repaid the full outstanding balance of \$15,000,000 on the unsecured revolving credit facility.

Saul Centers is a guarantor of the revolving credit facility, of which the Operating Partnership is the borrower. Saul Centers is also the guarantor of 50% of the Northrock construction loan (approximately \$9,305,000 of the \$18,609,000 outstanding at September 30, 2009) and the Clarendon Center construction loan (approximately \$29,685,000 outstanding at September 30, 2009). The fixed-rate notes payable are all non-recourse debt except for \$3,882,000 of the Great Falls Center mortgage, which is guaranteed by Saul Centers.

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On May 14, 2009, the Company closed on the final portion of its April 2008 forward commitment secured by the Great Falls Center. The additional funding totaled \$1,882,000 which was based upon the achievement of certain leasing requirements. The loan matures February 1, 2024, requires equal monthly principal and interest payments of \$12,518, based upon a 7.00% interest rate and 30-year principal amortization, and requires a final principal payment of approximately \$1,414,000 at maturity.

Also during May and June 2009, the Company refinanced the mortgage debt secured by four properties. The Company replaced mortgage debt, due to mature December 2011, with new 15-year fixed-rate mortgage debt. The amount borrowed on the new loans totaled \$85,000,000 and replaced balances outstanding of \$48,059,000. In conjunction with the early repayment of the in-place debt, the Company incurred prepayment penalties of \$1,442,000 and wrote-off unamortized deferred debt costs totaling \$218,000. Because the refinanced properties were included in a cross-collateralized pool of six properties, the Company was required to pay down outstanding debt balances of two remaining properties in the amount of \$4,806,000. Terms of the new mortgage debt are as follows:

On May 28, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$16,000,000, secured by Village Center. The loan matures June 1, 2024, requires equal monthly principal and interest payments of \$119,282, based upon a 7.6% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$10,060,000 at maturity.

On June 2, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$18,500,000, secured by Leesburg Pike. The loan matures June 1, 2024, requires equal monthly principal and interest payments of \$134,913, based upon a 7.35% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$11,506,000 at maturity.

On June 12, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$17,000,000, secured by Van Ness Square. The loan matures July 1, 2024, requires equal monthly principal and interest payments of \$132,450, based upon a 8.11% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$11,453,000 at maturity. A portion of the loan proceeds are held in escrow by the lender to fund up to \$1,500,000 of future tenant improvements and leasing commissions. Additional loan proceeds of \$1,564,000 are also held in a second escrow to be released pending the achievement of certain annualized base rent levels. The escrows are classified as other assets on the Consolidated Balance Sheets.

On June 19, 2009, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$33,500,000, secured by Avenel Business Park. The loan matures July 1, 2024, requires equal monthly principal and interest payments of \$246,474, based upon a 7.45% interest rate and 25-year principal amortization, and requires a final principal payment of approximately \$20,926,000 at maturity.

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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 approximately \$6,495,000 occurred at closing. The loan accrues interest, payable at an interest rate of LIBOR plus 3.0% with a LIBOR minimum of 1.5%. The loan matures on May 1, 2011, with one 2-year extension option, exercisable at the Company's election subject to completion of improvements and certain debt service coverage requirements. The loan was 100% guaranteed by the Company until such time as the construction was completed, at which time the guarantee was reduced to 50% of the total principal outstanding. Approximately \$18,609,000 was outstanding as of September 30, 2009, therefore \$9,305,000 was guaranteed by the Company. Concurrent with the execution of the April 30, 2009 revolving credit facility modification agreement, the Company and its lender modified the terms of the construction loan for a 90-day period, to reflect a similar change to the debt service coverage covenant. Additionally, the pricing of the loan was changed to accrue interest payable from an interest rate of LIBOR plus 1.6%, with no LIBOR minimum.

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. Approximately \$29,685,000 was outstanding as of September 30, 2009.

Preferred Stock Issue

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.

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 pay an annual dividend of \$2.25 per share, equivalent to 9% of the \$25.00 liquidation preference. The first dividend was paid on July 15, 2008 and covered the period from March 27, 2008 through September 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.

Net proceeds from the issuance of approximately \$76.3 million were used to fully repay \$22.0 million then outstanding under the Company's revolving credit facility and approximately \$31.5 million was used to acquire three operating shopping center properties on March 28, 2008

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(\$61.1 million acquisition cost less financing proceeds of \$29.6 million from loans secured by the acquisition properties). The remaining \$22.8 million was initially invested in short-term certificates of deposit and subsequently used to fund certain of the Company's development and redevelopment projects.

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

For the quarter ended September 30, 2009, the Company reported Funds From Operations (FFO)⁽¹⁾ available to common shareholders of approximately \$14,648,000, representing an 8.3% decrease over the comparative 2008 quarter's FFO available to common shareholders. For the nine months ended September 30, 2009, the Company reported FFO available to common shareholders of approximately \$41,666,000, representing an 11.8% decrease over the comparative 2008 period's FFO available to common shareholders. The following table presents a reconciliation from net income to FFO available to common stockholders for the periods indicated:

Funds From Operations Reconciliation <i>(Amounts in thousands)</i>	Quarter ended September 30, Nine months ended September 30,			
	2009	2008	2009	2008
Net income attributable to Saul Centers	\$ 9,607	\$ 9,521	\$ 27,067	\$ 28,880
Less: Gain on property dispositions				(205)
Add:				
Depreciation & amortization of real property	7,084	8,487	21,208	22,419
Noncontrolling interest	1,742	1,743	4,746	5,837
FFO	18,433	19,751	53,021	56,931
Subtract:				
Preferred stock dividends	(3,785)	(3,785)	(11,355)	(9,668)
FFO available to common shareholders	\$ 14,648	\$ 15,966	\$ 41,666	\$ 47,263
Average shares & units used to compute FFO per share	23,354	23,407	23,335	23,387

- (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 income attributable to the noncontrolling interest, extraordinary items and real estate depreciation and amortization, excluding gains or losses from property dispositions. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs, which is disclosed in the Company's Consolidated Statements of Cash Flows for the applicable periods. There are no material legal or functional restrictions on the use of FFO. FFO should not be considered as an alternative to net income, its most directly comparable GAAP measure, as an indicator of the Company's operating performance, or as an alternative to cash flows as a measure of liquidity. Management considers FFO a meaningful supplemental measure of operating performance because it primarily excludes the assumption that the value of the real estate assets diminishes predictably over time (i.e. depreciation), which is contrary to what

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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

During the remainder of the year the Company will continue to develop its construction in progress properties and will develop certain freestanding outparcels within certain of the Shopping Centers. Although not currently planned, it is possible that the Company may redevelop certain of the Current Portfolio Properties and may develop expansions within certain of the Shopping Centers. Acquisition and development of properties are undertaken only after careful analysis and review, and management's determination that such properties are expected to provide long-term earnings and cash flow growth. During the balance of the year, any developments, expansions or acquisitions are expected to be funded with bank borrowings from the Company's credit line, construction financing, proceeds from the operation of the Company's dividend reinvestment plan or other external capital resources available to the Company.

The Company has been selectively involved in acquisition, development, redevelopment and renovation activities. It continues to evaluate the acquisition of land parcels for retail and office development and acquisitions of operating properties for opportunities to enhance operating income and cash flow growth. The Company also continues to take advantage of redevelopment, renovation and expansion opportunities within the portfolio, as demonstrated by its recent activities at Smallwood Village Center and Boulevard shopping centers. The following describes the acquisition, development, redevelopment and renovation activities of the Company in 2007, 2008 and the nine months ended September 30, 2009.

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 75.8% leased at September 30, 2009. The Company commenced construction during the first quarter of 2008 on a capital improvement project to improve access to the center, reconfigure portions of the center and upgrade the center's façade and common areas. The redeveloped center totals approximately 173,000 square feet. Substantial completion of construction was achieved during the second quarter of 2009. Project costs totaled approximately \$6.9 million.

Clarendon Center

The Company owns an assemblage of land parcels (including its former operating properties, Clarendon and Clarendon Station) 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 total development costs are expected to be approximately \$195.0 million, a portion of which will be funded with the \$157.5 million construction loan that the Company closed in May 2008. The south block's four-level sub-surface parking garage was structurally completed during the second quarter of 2009 and structural concrete work was completed to the top of the residential building (12th floor) and the top of the office building (9th floor) during the third quarter of 2009. Exterior wall framing is underway in preparation for laying brick and the installation of exterior pre-cast panels is proceeding. Construction of the north block sub-surface parking garage has commenced. The Company estimates substantial completion of the entire project's shell construction in late 2010.

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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. The development totals 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 as of September 30, 2009, has executed leases for 22,293 square feet, or approximately 30% of the total retail space. The Company commenced construction in early 2008 and anticipates total construction and development costs, including land and lease-up costs, to be approximately \$26.5 million. Substantial completion of the building shell was achieved during the second quarter of 2009, and the project's initial tenants have opened for business.

Northrock

In January 2008, the Company acquired approximately 15.4 acres of undeveloped land in Warrenton, Virginia, located at the southwest corner of the U. S. Route 29/211 and Fletcher Drive intersection. The Company constructed Northrock shopping center, a neighborhood shopping center totaling approximately 103,000 square feet of leasable area. Approximately 67% of the project is leased at September 30, 2009. The Harris Teeter supermarket chain leases a 52,700 square foot grocery store which opened in early June 2009. Three tenants have leased and occupy 7,896 square feet of small shop space as of September 30, 2009. Additionally, the Company has executed leases with Chevy Chase Bank and a free-standing restaurant for pad buildings. The Chevy Chase Bank opened February 2009. The free-standing restaurant will be constructed by the tenant, which expects to commence operations during the fourth quarter of 2010. The Company purchased the land for \$12.5 million, with total construction and development costs, including land and lease-up costs, projected to be approximately \$27.9 million. The majority of the development costs were funded with the \$21.8 million construction loan the Company closed in May 2008. Substantial completion of construction was achieved during the first quarter of 2009.

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 92.7% leased at September 30, 2009 and was acquired for a purchase price of \$36.6 million, subject to the assumption of a \$10.3 million mortgage loan.

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 center was 100% leased at September 30, 2009 and 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 100% leased at September 30, 2009 and was acquired for a purchase price of \$3.0 million.

Table of Contents*Boulevard*

During the second quarter of 2008, permits were issued for the redevelopment of a portion of the Boulevard shopping center. A vacant pad building previously occupied by a furniture store was demolished. The center's in-line shop space was expanded by approximately 8,000 square feet for small shop retail and a Chevy Chase Bank pad building was constructed and commenced operations. As of September 30, 2009, all six shop spaces and the bank pad were leased totaling 11,610 square feet of the newly constructed space. Substantial completion of construction was achieved during the first quarter of 2009 and total construction and development costs were approximately \$2.8 million.

Portfolio Leasing Status

The following chart sets forth certain information regarding the operating portfolio for the periods ended September 30, 2009 and 2008, respectively.

As of	Total Properties		Total Square Footage		Percent Leased	
	Shopping Centers	Office	Shopping Centers	Office	Shopping Centers	Office
September 30, 2009	47	5	7,218,000	1,206,000	91.9%	90.8%
2008	45	5	7,001,000	1,206,000	94.6%	95.3%

On a same property basis, 92.9% of the portfolio was leased, compared to the prior year level of 94.7%. The 2009 leasing percentages decreased due to a net decrease of approximately 147,000 square feet of leased space. The major contributors to the leasing decrease in the shopping center portfolio were Southdale in Glen Burnie, Maryland where the Company's only Circuit City store vacated (37,000 square feet) and Broadlands Village and Lansdowne Town Center, two of the Company's four Loudoun County centers (23,000 square feet). Two properties in the office portfolio also contributed to the leasing decrease, Avenel Business Park in Gaithersburg, Maryland (26,000 square feet) and Crosstown Business Center in Tulsa, Oklahoma (24,000 square feet).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to certain financial market risks, the most predominant being fluctuations in interest rates. Interest rate fluctuations are monitored by management as an integral part of the Company's overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effect on the Company's results of operations. The Company does not enter into financial instruments for trading purposes.

The Company is exposed to interest rate fluctuations primarily as a result of any variable-rate debt used to finance the Company's development and acquisition activities and for general corporate purposes. As of September 30, 2009, the Company had variable-rate indebtedness totaling \$48,294,000. Interest rate fluctuations will affect the Company's annual interest expense accrued on its variable-rate debt. If the interest rate on the Company's variable-rate debt

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instruments outstanding at September 30, 2009 had been one percent higher, our annual interest expense accrued relating to these debt instruments would have increased by \$482,940, based on those balances. Interest rate fluctuations will also affect the fair value of the Company's fixed-rate debt instruments. As of September 30, 2009, the Company had fixed-rate indebtedness totaling \$569,634,000. If interest rates on the Company's fixed-rate debt instruments at September 30, 2009 had been one percent higher, the fair value of those debt instruments on that date would have decreased by approximately \$29,548,000.

Item 4. Controls and Procedures

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

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including its Chairman and Chief Executive Officer, its Senior Vice President-Chief Financial Officer, Secretary and Treasurer, and its Senior Vice President-Chief Accounting Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2009. Based on the foregoing, the Company's Chairman and Chief Executive Officer, its Senior Vice President-Chief Financial Officer, Secretary and Treasurer and its Senior Vice President-Chief Accounting Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2009.

During the quarter ended September 30, 2009, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

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Item 1A. Risk Factors

The Company has no material updates to the risk factors presented in Item 1A. Risk Factors in the 2008 Annual Report of the Company on Form 10-K.

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

928 shares were acquired at a price of \$33.08 per share, by B. Francis Saul II, the Company's Chairman of the Board and Chief Executive Officer, and his spouse, through participation in the Company's Dividend Reinvestment and Stock Purchase Plan for the July 31, 2009 dividend distribution.

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits

3. (a) First Amended and Restated Articles of Incorporation of Saul Centers, Inc. filed with the Maryland Department of Assessments and Taxation on August 23, 1994 and filed as Exhibit 3.(a) of the 1993 Annual Report of the Company on 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 Restate

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Bylaws of Saul Centers, Inc. adopted November 29, 2007 and filed as Exhibit 3(b) of the Company's Current Report on Form 8-K filed December 3, 2007 is hereby incorporated by reference.

- (c) Articles Supplementary to First Amended and Restated Articles of Incorporation of the Company, dated October 30, 2003, filed as Exhibit 2 to the Company's Current Report on Form 8-A dated October 31, 2003, is hereby incorporated by reference.
 - (d) Articles Supplementary to First Amended and Restated Articles of Incorporation of the Company, as amended, dated March 26, 2008, filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed March 27, 2008, is hereby incorporated by reference.
4. (a) Deposit Agreement, dated November 5, 2003, among the Company, Continental Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock of Saul Centers, Inc. and filed as Exhibit 4 to the Registration Statement on Form 8-A on October 31, 2003 is hereby incorporated by reference.
- (b) Deposit Agreement, dated March 27, 2008, among the Company, Continental Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts, each representing 1/100th of a share of 9% Series B Cumulative Redeemable Preferred Stock of Saul Centers, Inc. and filed as Exhibit 4.1 to the Registration Statement on Form 8-A on March 27, 2008 is hereby incorporated by reference.
- (c) Form specimen of receipt representing the depositary shares, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock of Saul Centers, Inc. and included as part of Exhibit 4 to the Registration Statement on Form 8-A on October 31, 2003 is hereby incorporated by reference.
- (d) Form specimen of receipt representing the depositary shares, each representing 1/100th of a share of 9% Series B Cumulative Redeemable Preferred Stock of Saul Centers, Inc. and included as part of Exhibit 4.2 to the Registration Statement on Form 8-A on March 27, 2008 is hereby incorporated by reference.
10. (a) First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit No. 10.1 to Registration Statement No. 33-64562 is hereby incorporated by reference. The First Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership, the Second Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership, and the Third Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul

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

- (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

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Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary II Limited Partnership as filed as exhibit 10.(c) of the 2006 Annual Report of the Company on Form 10-K are hereby incorporated by reference.

- (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) 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.
- (l) Revolving Credit Agreement, dated as of December 19, 2007, by and among Saul Holdings Limited Partnership as Borrower; U.S. Bank National Association, as Administrative Agent and Sole Lead Arranger; Wells Fargo Bank National Association, as Syndication Agent; and U.S. Bank National Association, Wells Fargo Bank National Association, Compass Bank, and Sovereign Bank, as Lenders, as filed as Exhibit 10.(n) of the December 31, 2007 Annual Report of the Company on Form 10-K, is hereby incorporated by reference. Modification to Revolving Credit Agreement, dated April 30, 2009, as filed as Exhibit 10.(l) of the June 30, 2009 Quarterly Report of the Company, is hereby incorporated by reference. Second Modification to Revolving Credit Agreement, dated

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July 9, 2009, as filed as Exhibit 10.(l) of the June 30, 2009 Quarterly Report of the Company, is hereby incorporated by reference. Third Modification to Revolving Credit Agreement, dated July 28, 2009, as filed as Exhibit 10.(l) of the June 30, 2009 Quarterly Report of the Company, is hereby incorporated by reference.

- (m) Guaranty, dated as of December 19, 2007, by and between Saul Centers, Inc., as Guarantor, and U.S. Bank National Association, as Administrative Agent and Sole Lead Arranger for itself and other financial institutions as Lenders, as filed as Exhibit 10.(o) of the December 31, 2007 Annual Report of the Company on Form 10-K, is hereby incorporated by reference.
 - (n) The Saul Centers, Inc. 2004 Stock Plan, as filed as Annex A to the Proxy Statement of the Company for its 2004 Annual Meeting of Stockholders, is hereby incorporated by reference. The Amendment to Saul Centers, Inc. 2004 Stock Plan, as filed as Annex A to the Proxy Statement of the Company for its 2008 Annual Meeting of Stockholders, is hereby incorporated by reference.
 - (o) Form of Director Stock Option Agreements, as filed as Exhibit 10.(j) of the September 30, 2004 Quarterly Report of the Company, is hereby incorporated by reference.
 - (p) Form of Officer Stock Option Grant Agreements, as filed as Exhibit 10.(k) of the September 30, 2004 Quarterly Report of the Company, is hereby incorporated by reference.
 - (q) Construction Loan Agreement, dated as of May 14, 2008, by and among Saul Holdings Limited Partnership, U.S. Bank National Association, as agent, and the lenders party to or who become party to such agreement, as filed as Exhibit 10. (a) of the Company's Current Report on Form 8-K dated May 20, 2008, is hereby incorporated by reference.
 - (r) Shared Services Agreement, dated as of July 1, 2004, between B. F. Saul Company and Saul Centers, Inc., as filed as Exhibit 10. (a) of the Company's Current Report on Form 8-K dated October 3, 2008, is hereby incorporated by reference.
31. Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer and Chief Financial Officer (filed herewith).
32. Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer (filed herewith).
99. Schedule of Portfolio Properties (filed herewith).

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SIGNATURES

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

SAUL CENTERS, INC.
(Registrant)

Date: November 9, 2009

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

Date: November 9, 2009

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

Date: November 9, 2009

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