SAUL CENTERS INC
Form 10-K/A
September 26, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K/A
Amendment No. 1

(Mark One)
X ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

___ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ________________

Commission File number 1-12254

SAUL CENTERS, INC.
(Exact name of registrant as specified in its charter)

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

7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814-6522
(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, Par Value $0.01 Per Share	New York Stock Exchange

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the

best of registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

The number of shares of Common Stock, $0.01 par value, outstanding as of September 24, 2003 was 15,726,645.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
Yes X No ___

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price of the registrant's Common Stock on the New York Stock Exchange on September 24, 2003 was $424,777,000.

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EXPLANATORY NOTE: This Form 10-K/A is being filed for the purpose of amending and restating Items 1, 7, 8 and 14 and to update Item 15 of our Form 10-K for the year ended December 31, 2002 (the "2002 Form 10-K") to incorporate our responses to comments received from the Division of Corporation Finance of the Securities and Exchange Commission (the "Staff") in connection with the Staff's review of our Registration Statement on Form S-3 (File No. 333-107083) and certain documents incorporated by reference therein, including the 2002 Form 10-K. Unless otherwise indicated, all information in this Form 10-K/A is as of December 31, 2002 and does not reflect any subsequent information or events

other than the restatement.

PART I

Item 1. Business

General

Saul Centers, Inc. ("Saul Centers") was incorporated under the Maryland General Corporation Law on June 10, 1993. Saul Centers operates as a real estate investment trust (a "REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Saul Centers generally will not be subject to federal income tax, provided it annually distributes at least 90% of its REIT taxable income to its stockholders and meets certain organizational and other requirements. Saul Centers has made and intends to continue to make regular quarterly distributions to its stockholders. Saul Centers, together with its wholly owned subsidiaries and the limited partnerships of which Saul Centers or one of its subsidiaries is the sole general partner, are referred to collectively as the "Company". B. Francis Saul II serves as Chairman of the Board of Directors and Chief Executive Officer of Saul Centers.

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

Saul Centers was formed to continue and expand the shopping center business previously owned and conducted by the B.F. Saul Real Estate Investment Trust, the B.F. Saul Company, Chevy Chase Bank, F.S.B. and certain other affiliated entities, each of which is controlled by B. Francis Saul II and his family members (collectively, "The Saul Organization"). On August 26, 1993, members of The Saul Organization transferred to Saul Holdings Limited Partnership, a newly formed Maryland limited partnership (the "Operating Partnership"), and two newly formed subsidiary limited partnerships (the "Subsidiary Partnerships", and collectively with the Operating Partnership, the "Partnerships"), shopping center and office properties, and the management functions related to the transferred properties. Since its formation, the Company has purchased and developed additional properties. The Company is currently developing Broadlands Village, a grocery anchored shopping center in Loudoun County. The Company recently completed development of Ashburn Village III and IV, in-line retail and retail pad expansions to the Ashburn Village shopping center; Washington Square at Old Town, a Class A mixed-use office/retail complex in Alexandria, Virginia; and Crosstown Business Center, an office/warehouse redevelopment located in Tulsa, Oklahoma. In June 2002, the Company purchased 3030 Clarendon Center for future redevelopment. In September 2002, the Company purchased 109,642 square feet of retail space known as Kentlands Square. In November 2002, the Company purchased a 19 acre parcel of land in the Lansdowne community in Loudoun County, Virginia. The Company plans to develop the Lansdowne parcel into a grocery anchored neighborhood and community shopping center. As of December 31, 2002, the Company's properties (the "Current Portfolio Properties") consisted of 29 operating shopping center properties (the "Shopping Centers"), five predominantly office operating properties (the "Office Properties") and three development and/or redevelopment properties.

To facilitate the placement of collateralized mortgage debt, the Company established Saul QRS, Inc. a wholly owned subsidiary of Saul Centers. 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.

The following diagram depicts the Company's organizational structure as of December 31, 2002.

[Organizational chart describing ownership of the Saul Centers and its subsidiaries as of December 31, 2002. As of such date, Saul Centers was owned 72.6% by public stockholders and 27.4% by members of The Saul Organization. Saul Centers also owned a 74.6% general partner interest in the Operating Partnership, with the remaining 25.4% limited partner interest held by members of The Saul Organization. Saul Centers also owned 100% of Saul QRS, Inc., which was the 1% general partner of Saul Subsidiary I Limited Partnership. The Operating Partnership owned a 99% limited partner interest in each of Saul Subsidiary I Limited Partnership and Saul Subsidiary II Limited Partnership. The remaining 1% of general partnership interest in Saul Subsidiary II Limited Partnership was owned by Saul Centers.]

Management of the Current Portfolio Properties

The Partnerships manage the Current Portfolio Properties and will manage any subsequently acquired properties. The management of the properties includes performing property management, leasing, design, renovation, development and accounting duties for each property. The Partnerships provide each property with a fully integrated property management capability, with approximately 50 employees and with an extensive and mature network of relationships with tenants and potential tenants as well as with members of the brokerage and property owners' communities. The Company currently does not, and does not intend to, retain third party managers or provide management services to third parties.

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

The Company's corporate headquarters lease commenced in March 2002 and is a sublease of office space from The Saul Organization at its cost. A discussion of the lease terms are provided in Note 6, Long Term Lease Obligations, of the Notes to Consolidated Financial Statements.

Principal Offices

The principal offices of the Company are located at 7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814-6522, and the Company's telephone number is (301) 986-6200. The Company's internet web address is www.saulcenters.com.

Policies with Respect to Certain Activities

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

Operating Strategy

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

Management believes there is significant 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 aggressively 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 to increase cash flow. In those circumstances in which leases are not otherwise expiring, management intends to attempt to increase cash flow through a variety of means, including renegotiating rents in exchange for additional renewal options 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 Shopping Centers contain numerous undeveloped parcels within the centers which are suitable for development as free-standing retail facilities, such as restaurants, banks or auto centers. Management will continue to seek desirable tenants for facilities to be developed on these sites and to develop and lease these sites in a manner that complements the Shopping Centers in which they are located.

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

It is management's intention to hold properties for long-term investment and to place strong emphasis on regular maintenance, periodic renovation and capital improvement. Management believes that such characteristics as cleanliness, lighting and security are particularly important in community and neighborhood shopping centers, which are frequently visited by shoppers during hours outside of the normal work-day. Management believes that

the Shopping Centers and Office Properties generally are attractive and well maintained. The Shopping Centers and Office Properties will undergo expansion, renovation, reconfiguration and modernization from time to time when management believes that such action is warranted by opportunities or changes in the competitive environment of a property. Several of the Shopping Centers have been renovated recently. During 2002 and 2001, the Company was involved in predevelopment and/or development of nine of its properties. The Company will continue its practice of expanding existing properties by undertaking new construction on outparcels suitable for development as free standing retail or office facilities.

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Investment in Real Estate or Interests in Real Estate

The Company's investment objective is to selectively and opportunistically redevelop and renovate its properties, by replacing leases with below market rents with strong, traffic-generating anchor stores such as supermarkets and drug stores, as well as other desirable local, regional and national tenants. The Company's strategy remains focused on continuing the operating performance and internal growth of its existing Shopping Centers, while enhancing this growth with selective retail redevelopments and renovations.

Management believes that attractive opportunities for investment in existing and new shopping center properties will continue to be available. Management believes that the Company will be well situated to take advantage of these opportunities because of its access to capital markets, ability to acquire properties either for cash or securities (including Operating Partnership interests in tax advantaged transactions) and because of management's experience in seeking out, identifying and evaluating potential acquisitions. In addition, management believes its shopping center expertise should permit it to optimize the performance of shopping centers once they have been acquired.

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

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

Although it is management's present intention to concentrate future acquisition and development activities on community and neighborhood shopping

centers and office properties in the metropolitan Washington, DC/Baltimore area and Mid-Atlantic and Southeast regions of the United States, the Company may also selectively acquire shopping centers, office properties or other types of real estate in other areas of the country.

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

Investments in Real Estate Mortgages

While the Company's current portfolio consists of, and its business objectives emphasize, equity investments in commercial and neighborhood shopping centers and office properties, the Company may, at the discretion of the Board of Directors, invest in mortgages, participating or convertible mortgages, deeds of trust and other types of real estate interests consistent with its qualification as a REIT. However, the Company does not presently intend to invest in real estate mortgages.

Investments in Securities of or Interests in Persons Primarily Engaged in Real Estate Activities and Other Issuers.

Subject to the tests necessary for REIT qualification, the Company may invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities.

Dispositions

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

Capital Policies

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 as of December 31, 2002 remains less than 50%.

The organizational documents of the Company do not limit the absolute amount or percentage of indebtedness that it may incur. The Board of Directors may, from time to time, reevaluate the Company's debt capitalization policy in

light of current economic conditions, relative costs of capital, market values of the Company property portfolio, opportunities for acquisition, development or expansion, and such other factors as the Board of Directors then deems relevant. The Board of Directors may modify the Company's debt capitalization policy based on such a reevaluation and consequently, may increase or decrease the Company's debt to total asset ratio above or below 50%. The Company selectively continues to refinance or renegotiate the terms of its outstanding debt in order to achieve longer maturities, and obtain generally more favorable loan terms, whenever management determines the financing environment is favorable. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources --Borrowing Capacity."

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

Other Policies

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

Competition

As an owner of, or investor in, community and neighborhood shopping centers and office properties, the Company is subject to competition from an indeterminate number of companies in connection with the acquisition,

development, ownership and leasing of similar properties. These investors include investors with access to significant capital, such as domestic and foreign corporations and financial institutions, publicly traded and privately held REITs, private institutional investment funds, investment banking firms, life insurance companies and pension funds.

With respect to acquisitions and developments, this competition may reduce properties available for acquisition or development or increase prices for raw land or developed properties of the type in which the Company invests. The Company faces competition in providing leases to prospective tenants and in re-letting space to current tenants upon expiration of their respective leases. If the Company's tenants decide not to renew or extend their leases upon expiration, the Company may not be able to re-let the space. Even if the tenants do renew or the Company can re-let the space, the terms of renewal or re-letting, including the cost of required renovations, may be less favorable than current lease terms or than expectations for the space. This risk may be

magnified if the properties owned by our competitors have lower occupancy rates than the Company's properties. As a result, these competitors may be willing to make space available at lower prices than the space in the Current Portfolio Properties.

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

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

Environmental Matters

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

Employees

As of February 21, 2003, the Company employed approximately 50 persons, including six full-time leasing officers. None of the Company's employees are covered by collective bargaining agreements. Management believes that its relationship with employees is good.

Recent Developments

Property Acquisitions, Developments and Redevelopments.

A significant contributor to the Company's sustained historical internal growth in shopping centers has been its continuing program of renovation, redevelopment and expansion activities. These development activities reposition the Company's centers to be competitive in the current retailing environment. The redevelopments typically include and update of the facade, site improvements and reconfiguring tenant spaces to accommodate tenant size requirements and merchandising evolution. During 2002, the Company acquired an operating shopping center and three development parcels. The three development parcels, all in Northern Virginia suburbs of Washington, DC total 44 acres of land and have existing zoning to develop over 600,000 square feet of retail and mixed-use commercial space.

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In April 2002, the Company purchased 24 acres of undeveloped land in the Broadlands section of the Dulles Technology Corridor. The site is located

adjacent to the Claiborne Parkway exit (Exit 5) of the Dulles Greenway, in Loudoun County, Virginia. The Dulles Greenway is the "gateway to Loudoun County," a 14-mile extension of the Dulles Toll Road, connecting Washington Dulles International Airport with historic Leesburg, Virginia. Broadlands is a 1,500 acre planned community consisting of 3,500 residences, approximately half of which are constructed and currently occupied. The land is zoned to accommodate approximately 225,000 square feet of neighborhood and community retail development. The Company has commenced the initial phase of construction totaling 112,000 square feet of retail space. Additionally, the Company has recently executed a grocery anchor lease with Safeway for a 59,000 square foot supermarket, and the first phase is 65% pre-leased.

In June 2002, the Company purchased Clarendon Center, located in Arlington, Virginia. Clarendon Center is a 1.25 acre site with an existing and primarily vacant 70,000 square foot office building with surface parking for 104 cars. It is located directly across the street from the Company's Clarendon and Clarendon Station properties. The Company is analyzing its options for a proposed redevelopment of the site.

In September 2002, the Company acquired a 109,625 square foot neighborhood retail center located within the Kentlands development in Gaithersburg, Maryland. The property, constructed in 1993, is anchored by a 102,250 square foot Lowe's home improvement store and is part of Kentlands Square, a shopping center exceeding 350,000 square feet of retail space. The Kentlands Square property is fully leased and includes an additional 6,000 square feet of retail development potential. The property was acquired for $14.3 million, subject to the assumption of a $7.8 million mortgage. The Kentlands Square shopping center is contained within the 352 acre Kentlands development, home to approximately 5,000 residents living in 1,500 units. The Kentlands community features a mix of upscale and colonial design townhouses, apartments, cottages and larger single family residences set along pedestrian friendly tree lined streets. Kentlands' neighborhoods include amenities such as green spaces, lakes and recreational, community and civic buildings.

In November 2002, the Company purchased approximately 19 acres of undeveloped land located within the Lansdowne community in Loudoun County, Virginia. The land is zoned to accommodate approximately 150,000 square feet of neighborhood and community retail development.

During 2002, the Company continued the development of Washington Square at Old Town, a new Class A mixed-use office/retail complex along North Washington Street in historic Old Town Alexandria in Northern Virginia. The project totals 235,000 square feet of leasable area and is well located on a two-acre site along Alexandria's main street. The project consists of two identical buildings separated by a landscaped brick courtyard. Base building construction was completed in 2001 while the lease-up and build-out of the remaining office tenant areas occurred throughout 2002. As of February 21, 2003, 90% of the 235,000 square feet of tenant space was leased: the 46,000 square feet of street level retail space was 100% leased and the 189,000 square feet of office space was 85% leased.

During 2002, the Company completed construction of the final phase of its Ashburn Village shopping center. In 1994, Saul Centers purchased the original 12.7 acre parcel of vacant land located within the 1,580 acre community of Ashburn Village in Loudoun County, Virginia. The Company subsequently acquired an adjacent 6.6 acres in 1999 and 7.1 acres in 2000. The Company has successfully developed the site into an attractive 211,000 square foot neighborhood shopping center anchored by a 67,000 square foot Giant Food store. The first phase of the development comprised of 108,000 square feet commenced operations in the fall of 1994. Ashburn Village phase II was a 49,000 square foot in-line and pad expansion which commenced operations during the third quarter of 2000. During the summer of 2001, the Company completed the

development of Ashburn Village III, consisting of a an additional 29,000 square feet of in-line and pad retail space. Ashburn Village phases I, II and III are 100% leased. The Company commenced construction on Ashburn Village IV, during the fourth quarter of 2001. This final phase consisting of 25,000 square feet of retail space was completed during the summer of 2002 and is 84% leased.

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

This section should be read in conjunction with the selected financial data in "Item 6. Selected Financial Data"as filed in the 2002 Annual Report of the Company on Form 10-K and the Consolidated Financial Statements of the Company and The Saul Organization and the accompanying notes in "Item 8. Financial Statements and Supplementary Data." Historical results and percentage relationships set forth in these Items 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 Items 1 - 6 of this Form 10-K. This Form 10-K 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: general economic and business conditions, which will, among other things, affect demand for retail and office space; demand for retail goods; availability and credit worthiness of the prospective tenants; lease rents and the terms and availability of financing; adverse changes in the real estate markets including, among other things, competition with other companies and technology, risks of real estate development and acquisition, governmental actions and initiatives, debt refinancing risk, conflicts of interests, maintenance of REIT status and environmental/safety requirements.

General

The following discussion is based on the consolidated financial statements of the Company as of December 31, 2002 and for the year ended December 31, 2002. Prior year data is based on the Company's consolidated financial statements as of December 31, 2001 and 2000 and for the years ended December 31, 2001 and 2000.

Critical Accounting Policies

The Company's accounting policies are in conformity with accounting principles generally accepted in the United States ("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.

Valuation of Real Estate Investments

Real estate investment properties are stated at historic cost basis less depreciation. Management believes that these assets have generally appreciated in value and, accordingly, the aggregate current value exceeds their aggregate net book value and also exceeds the value of the Company's liabilities as reported in these financial statements. Because these financial statements are prepared in conformity with GAAP, they do not report the current value of the Company's real estate assets.

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

Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair market value.

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

In the initial rental operations of development projects, a project is considered substantially complete and available for occupancy upon completion of tenant improvements, but no later than one year from the cessation of major construction activity. Substantially completed portions of a project are accounted for as separate projects. Depreciation is calculated using the straight-line method and estimated useful lives of 33 to 50 years for buildings and up to 20 years for certain other improvements. Leasehold improvements are amortized over the lives of the related leases using the straight-line method.

Lease Acquisition Costs

Certain initial direct costs incurred by the Company in negotiating and consummating a successful lease are capitalized and amortized over the initial base term of the lease. Capitalized leasing costs consists of commissions paid to third party leasing agents as well as internal direct costs such as employee compensation and payroll related fringe benefits directly related to time spent performing leasing related activities. Such activities include evaluating the prospective tenant's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating lease terms, preparing lease documents and closing the transaction.

Revenue Recognition

Rental and interest income is accrued as earned except when doubt exists as to collectibility, in which case the accrual is discontinued. 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 the 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.

Legal Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, the Company believes the final outcome of such matters will not have a material adverse effect on the financial position or the results of operations. Once it has been determined that a loss is probable to occur, the estimated amount of the loss is recorded in the financial statements. Both the amount of the loss and the point at which its occurrence is considered probable can be difficult to determine.

Liquidity and Capital Resources

Cash and cash equivalents were $1,309,000 and $1,805,000 at December 31, 2002 and 2001, respectively. The Company's principal demands for liquidity are expected to be distributions to its stockholders and unit holders, debt service and loan repayments, 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% (95% for the tax years prior to January 1, 2001) of its "real estate investment trust taxable income," as defined in the Code. The Company anticipates that operating revenues will provide the funds necessary for operations, debt service, distributions, and required recurring capital expenditures. Balloon principal repayments are expected to be funded by refinancings. The Company's cash flow is affected by its operating, investing and financing activities, as described below.

Operating Activities

Cash provided by operating activities for the years ended December 31, 2002 and 2001 was $37,499,000 and $31,834,000, respectively, and represents, in each year, cash received primarily from rental income, plus other income, less property operating expenses, normal recurring general and administrative expenses and interest payments on debt outstanding.

Investing Activities

Cash used in investing activities for the years ended December 31, 2002 and 2001 was $49,105,000 and $21,800,000, respectively, and primarily reflects the acquisition of properties (Broadlands Village and Lansdowne land parcels, Clarendon Center and Kentlands Square), tenant improvement activity and constructions in progress during those years.

Management anticipates that during the coming year the Company may: i) redevelop certain of the Current Portfolio Properties, ii) develop additional freestanding outparcels or expansions within certain of the Shopping Centers, iii) acquire existing neighborhood and community shopping centers and/or office properties, and iv) develop new shopping center or office sites. Acquisition and development of properties are undertaken only after careful analysis and review, and management's determination that such properties are expected to provide long-term earnings and cash flow growth. During the coming year, any

developments, expansions or acquisitions are expected to be funded with bank borrowings from the Company's credit line, construction financing, proceeds from the operation of the Company's dividend reinvestment plan or other external capital resources available to the Company.

Financing Activities

Cash provided by financing activities for the year ended December 31, 2002 was $11,110,000 and cash used in financing activities for the year ended December 31, 2001 was $10,001,000. Cash provided by financing activities for the year ended December 31, 2002 primarily reflects:

- $53,547,000 of proceeds received from notes payable incurred during the year; and

- $14,574,000 of proceeds received from the issuance of common stock under the dividend reinvestment program and from the exercise of stock options, and from the issuance of convertible limited partnership interests in the Operating Partnership;

which was partially offset by:

- the repayment of borrowings on our notes payable totaling $24,624,000;

- distributions made to common stockholders and holders of convertible limited partnership units in the Operating Partnership during the year totaling $31,100,000; and

- payments of $1,287,000 for refinancing the Company's line of credit and extending the Washington Square construction loan.

Cash used in financing activities for the year ended December 31, 2001 primarily reflects:

- $51,218,000 of proceeds received from notes payable incurred during the year; and

- $11,976,000 of proceeds received from the issuance of common stock issued under the dividend reinvestment program;

which was partially offset by:

- the repayment of borrowings on our notes payable totaling $42,851,000; and

- distributions made to common stockholders and holders of convertible limited partnership units in the Operating Partnership during the year totaling $30,327,000.

The Company expects to fulfill its long range requirements for capital resources in a variety of ways, including undistributed cash flow from operations, secured or unsecured bank and institutional borrowings, private or public offerings of debt or equity securities and proceeds from the sales of properties. Borrowings may be at the Saul Centers, Operating Partnership or Subsidiary Partnership level, and securities offerings may include (subject to certain limitations) the issuance of additional limited partnership interests in the Operating Partnership which can be converted into shares of Saul Centers common stock.

As of December 31, 2002, the scheduled maturities of all debt for years ended December 31, are as follows:

Debt Maturity Schedule

(In thousands)

2003*	$ 46,940
2004	23,988
2005	54,720
2006	8,635
2007	9,357
Thereafter	237,103
Total	$ 380,743

* A total of $39,374 of the 2003 maturities was refinanced in January 2003.

Management believes that the Company's capital resources, including approximately $30,250,000 for general corporate use and $45,000,000 for qualified future acquisitions provided by the Company's revolving line of credit, which was available for borrowing as of December 31, 2002, 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 "Plan"), to allow its stockholders and holders of limited partnership interests an opportunity to buy additional shares of common stock by reinvesting all or a portion of their dividends or distributions. The Plan provides for investing in newly issued shares of common stock at a 3% discount from market price without payment of any brokerage commissions, service charges or other expenses. All expenses of the Plan are paid by the Company. The Company issued 556,872 and 645,423 shares under the Plan at a weighted average discounted price of $22.24 and $17.99 per share during the years ended December 31, 2002 and 2001, respectively.

Additionally, the Operating Partnership issued 3,110 limited partnership units under a dividend reinvestment plan mirroring the Plan at a weighted average discounted price of $23.18 per unit during the year ended December 31, 2002.

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Capital Strategy and Financing Activity

The Company's capital strategy is to maintain a ratio of total debt to total fair market 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. Management believes that current total debt remains less than 50% of total fair market asset value.

The following is a summary of notes payable as of December 31, 2002 and 2001:

Notes Payable
(Dollars in thousands)

	Principal Outstanding December 31, 2002		2001	Interest Rate *
Fixed Rate Mortgages:	$135,641	(a)	$138,215	7.67 %
	93,044	(b)	95,716	8.23 %
	34,830	(c)	35,583	7.88 %
	13,667	(d)	13,936	8.33 %
	9,797	(e)	10,028	6.88 %
	7,640	(f)	--	8.18 %
Total Fixed Rate	294,619		293,478	7.89 %
Variable Rate Loans:				
Construction Loan	39,374	(g)	38,342	2.89 %
Line of Credit	46,750	(h)	20,000	3.09 %
Total Variable Rate	86,124		58,342	3.00 %
Total Notes Payable	$380,743		$351,820	6.78 %

*Interest rate and scheduled maturity data presented for December 31, 2002. Totals computed using weighted averages.

(a) The loan is collateralized by nine shopping centers (Seven Corners, Thruway, White Oak, Hampshire Langley, Great Eastern, Southside Plaza, Belvedere, Giant and Ravenwood) and requires equal monthly principal and interest payments of $1,103,000 based upon a 25 year amortization schedule and a balloon payment of $96,300,000 at loan maturity. Principal of $2,574,000 was amortized during 2002.

(b) The loan is collateralized by Avenel Business Park, Van Ness Square, Ashburn Village, Leesburg Pike, Lumberton Plaza and Village Center. The loan has been increased on three occasions since its inception in 1997. The 8.23% blended interest rate is the weighted average of the initial loan rate and additional borrowings rates. The loan requires equal monthly principal and interest payments of $871,000 based upon a weighted average 23 year amortization schedule and a balloon payment of $55,788,000 at loan maturity. Principal of $2,672,000 was amortized during 2002.

(c) The loan is collateralized by 601 Pennsylvania Avenue and requires equal monthly principal and interest payments of $294,000 based upon a 25 year amortization schedule and a balloon payment of $22,808,000 at loan maturity. Principal of $753,000 was amortized during 2002.

(d) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires monthly principal and interest payments based upon a 22 year amortization schedule. Principal of $269,000 was amortized during 2002.

(e) The loan is collateralized by The Glen shopping center and a corporate guarantee. The loan requires monthly principal and interest payments

based upon a 23 year amortization schedule. Principal of $231,000 was amortized during 2002.

(f) The loan is collateralized by Kentlands Square shopping center and requires monthly principal and interest payments based upon a 15 year amortization schedule. Principal of $166,000 was amortized during 2002.

(g) The loan is a construction loan totaling $42,000,000 and is collateralized by Washington Square. Interest expense is calculated based upon the 1, 2, 3 or 6 month LIBOR rate plus a spread of 1.45% to 1.9% (determined by certain leasing and/or construction benchmarks) or upon the bank's prime rate at the Company's option. The loan was repaid on January 9, 2003. The interest rate in effect on December 31, 2002 was based on a weighted average LIBOR of 1.44% and spread of 1.45%. The effective annual average interest rate, which considers debt cost amortization, was 3.69% for 2002.

(h) The loan is an unsecured revolving credit facility totaling $125,000,000. Loan availability is determined by operating income from the Company's unencumbered properties. An additional amount is available for funding qualified operating property acquisitions. Interest expense is calculated based upon the 1,2,3 or 6 month LIBOR rate plus a spread of 1.625% to 1.875% (determined by certain debt service coverage and leverage tests) or upon the bank's reference rate at the Company's option. The line may be extended one year with payment of a fee of 1/4% at the Company's option. The interest rate in effect on December 31, 2002 was based on a weighted average LIBOR of 1.391% and spread of 1.625% and a prime rate of 4.25%. The effective annual average interest rate, which considers debt cost amortization and unused line fees, was 4.84% for 2002. Monthly payments are interest only and will vary depending upon the amount outstanding and the applicable interest rate for any given month.

The December 31, 2002 and 2001, depreciation adjusted cost of properties collateralizing the mortgage notes payable totaled $280,051,000 and $264,831,000, respectively. All of the Company's variable rate debt, including its line of credit, require the Company and its subsidiaries to maintain financial covenants. The Company's material covenants require the Company, on a consolidated basis, to:

- limit the amount of debt so as to maintain a gross asset value in excess of liabilities of at least $250 million;
- limit the amount of debt as a percentage of gross asset value (leverage ratio) to less than 60%;
- limit the amount of debt so that interest coverage will exceed 1.9 to 1 on a trailing four quarter basis; and
- limit the amount of debt so that interest and scheduled principal amortization coverage exceeds 1.6 to 1.

As of December 31, 2002, the Company was in compliance with all such covenants.

Notes payable at December 31, 2002 and 2001, totaling $266,392,000 and $242,168,000, respectively, are guaranteed by members of The Saul Organization. The Company's interest expense coverage ratio (calculated as operating income before interest expense, amortization of deferred debt expense and depreciations and amortization, divided by interest expense), increased to 2.78 during the past year, from 2.63 in 2001.

During 2002 the Company closed a new $125 million unsecured revolving credit facility to provide working capital and funds for redevelopments and acquisitions. The line has a three-year term and provides for an additional one-year extension at the Company's option. The new line is a $55 million expansion of a prior revolver. The additional availability under the new facility will enable the Company to access capital for future purchases of operating properties as opportunities arise. As of December 31, 2002, $46,750,000 was outstanding under the line, with interest calculated using LIBOR plus 1.625%. Loan availability is determined by operating income from the Company's unencumbered properties, which, as of December 31, 2002 allowed the Company to borrow an additional $30,250,000 for general corporate use. An additional $48 million is available for funding working capital and operating property acquisitions supported by the unencumbered properties' internal cash flow growth and operating income of future acquisitions. Also during 2002, the Company committed to replace its $42,000,000 construction loan used to finance the building of Washington Square at Old Town with a $42,500,000 permanent mortgage. The new permanent financing closed in January 2003, matures in 15 years and requires monthly principal and interest payments based upon a 27.5 year amortization period and 6.01% interest rate. In September 2002, the Company assumed a $7,806,000 mortgage in conjunction with its acquisition of Kentlands Square shopping center.

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Funds From Operations

In 2002, the Company reported Funds From Operations (FFO) of $44,031,000, representing a 9.7% increase over 2001 FFO of $40,141,000. The following table presents a reconciliation from net income to FFO:

(In thousands)	For the Years Ended Dece			
	2002	2001	2000	
Net Income	$ 19,566	$ 17,314	$ 14,045	$
Subtract:				
Gain on sale of property	-1,426	--	--	
Add:				
Minority Interests	8,070	8,069	8,069	
Cumulative effect of change in accounting method	--	--	--	
Depreciation and amortization of real property	17,821	14,758	13,534	
FFO/1/	$ 44,031	$ 40,141	$ 35,648	$
Average shares and units used to compute FFO per share	20,059	19,383	18,796	

Acquisitions, Redevelopments and Renovations

The Company has been selectively involved in acquisition, redevelopment and renovation activities. It continues to evaluate the acquisition of land parcels for retail and office development and acquisitions of operating properties for opportunities to enhance operating income and cash flow growth. The Company also continues to take advantage of redevelopment, renovation and expansion opportunities within the portfolio, as demonstrated by its recent activities at Washington Square and Ashburn Village.

In April 2002, the Company purchased 24 acres of undeveloped land in the Broadlands section of the Dulles Technology Corridor. The site is located adjacent to the Claiborne Parkway exit (Exit 5) of the Dulles Greenway, in Loudoun County, Virginia. The Dulles Greenway is the "gateway to Loudoun County," a 14-mile extension of the Dulles Toll Road, connecting Washington Dulles International Airport with historic Leesburg, Virginia. Broadlands is a 1,500 acre planned community consisting of 3,500 residences, approximately half of which are constructed and currently occupied. The land is zoned to accommodate approximately 225,000 square feet of neighborhood and community retail development. The Company has commenced the initial phase of construction totaling 112,000 square feet of retail space. Additionally, the Company has recently executed a grocery anchor lease with Safeway for a 59,000 square foot supermarket, and the first phase is 65% pre-leased.

/1/ FFO is a widely accepted non-GAAP financial measure of operating performance for REITs. FFO is defined by the National Association of Real Estate Investment Trusts as net income, computed in accordance with GAAP, plus minority interest, extraordinary items and depreciation and amortization, excluding gains or losses from property sales. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs, which is disclosed in the 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, 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 supplemental measure of operating performance and along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. FFO may not be comparable to similarly titled measures employed by other REITs.

In June 2002, the Company purchased Clarendon Center, located in Arlington, Virginia. Clarendon Center is a 1.25 acre site with an existing and primarily vacant 70,000 square foot office building with surface parking for 104 cars. It is located directly across the street from the Company's Clarendon and Clarendon Station properties. The Company is analyzing its options for a proposed redevelopment of the site.

In September 2002, the Company acquired a 109,625 square foot neighborhood retail center located within the Kentlands development in Gaithersburg, Maryland. The property, constructed in 1993, is anchored by a 102,250 square foot Lowe's home improvement store and is part of Kentlands Square, a shopping center exceeding 350,000 square feet of retail space. The Kentlands Square property is fully leased and includes an additional 6,000 square feet of retail development potential. The property was acquired for $14.3 million, subject to the assumption of a $7.8 million mortgage. The Kentlands Square shopping center is contained within the 352 acre Kentlands development, home to approximately 5,000 residents living in 1,500 units. The Kentlands community features a mix of upscale and colonial design townhouses, apartments, cottages and larger single family residences set along pedestrian friendly tree lined streets. Kentlands' neighborhoods include amenities such as green spaces, lakes and recreational, community and civic buildings.

In November 2002, The Company purchased approximately 19 acres of undeveloped land located within the Lansdowne community in Loudoun County, Virginia. The land is zoned to accommodate approximately 150,000 square feet of

neighborhood and community retail development.

During 2002, the Company continued the development of Washington Square at Old Town, a new Class A mixed-use office/retail complex along North Washington Street in historic Old Town Alexandria in Northern Virginia. The project totals 235,000 square feet of leasable area and is well located on a two-acre site along Alexandria's main street. The project consists of two identical buildings separated by a landscaped brick courtyard. Base building construction was completed in 2001 while the lease-up and build-out of the remaining office tenant areas occurred throughout 2002. As of February 21, 2003, 90% of the 235,000 square feet of tenant space was leased: the 46,000 square feet of street level retail space was 100% leased and the 189,000 square feet of office space was 85% leased.

During 2002, the Company completed construction of the final phase of its Ashburn Village shopping center. In 1994, Saul Centers purchased the original 12.7 acre parcel of vacant land located within the 1,580 acre community of Ashburn Village in Loudoun County, Virginia. The Company subsequently acquired an adjacent 6.6 acres in 1999 and 7.1 acres in 2000. The Company has successfully developed the site into an attractive 211,000 square foot neighborhood shopping center anchored by a 67,000 square foot Giant Food store. The first phase of the development comprised of 108,000 square feet commenced operations in the fall of 1994. Ashburn Village phase II was a 49,000 square foot in-line and pad expansion which commenced operations during the third quarter of 2000. During the summer of 2001, the Company completed the development of Ashburn Village III, consisting of a an additional 29,000 square feet of in-line and pad retail space. Ashburn Village phases I, II and III are 100% leased. The Company commenced construction on Ashburn Village IV, during the fourth quarter of 2001. This final phase consisting of 25,000 square feet of retail space was completed during the summer of 2002 and is 84% leased.

Portfolio Leasing Status

At December 31, 2002, the operating portfolio consisted of 29 Shopping Centers and five predominantly Office Properties, all of which are located in seven states and the District of Columbia.

As of December 31, 2002, 93.7% of the Company's approximately 6,300,000 square feet of space was leased compared to 93.5% at December 31, 2001. The shopping center portfolio was 93.9% leased at December 31, 2002 compared to 94.3% at December 31, 2001. The Office Properties were 92.9% leased at December 31, 2002 compared to 90.4% as of December 31, 2001. The slight improvement in the portfolio's leasing percentage resulted from increased leasing at the Ashburn Village and Washington Square developments, offset in part by decreased leasing at Lexington Mall and 601 Pennsylvania Avenue. The Company is intentionally not renewing leases at Lexington Mall in order to redevelop the shopping center and a major lease with a US Government tenant expired at 601 Pennsylvania Avenue.

Results of Operations

The following discussion compares the results of the Company for the year ended December 31, 2002 with the year ended December 31, 2001, and compares the year ended December 31, 2001 with the year ended December 31, 2000. This information should be read in conjunction with the accompanying consolidated financial statements and the notes related thereto.

Years Ended December 31, 2002 and 2001

Revenues for the year ended December 31, 2002 ("2002") totaled $93,963,000 compared to $86,308,000 for the comparable year in 2001 ("2001"), an increase of $7,655,000 (8.9%).

Base rent income was $75,699,000 for 2002 compared to $69,662,000 for 2001, representing an increase of $6,037,000 (8.7%). Approximately 40% of the increase in base rent resulted from new leases in effect at recently developed and redeveloped properties: Washington Square, Ashburn Village III & IV, Crosstown Business Center and French Market. Approximately 30% of the increase resulted from a major tenant paying higher rent under the terms of a short-term lease extension at 601 Pennsylvania Avenue. The balance of the base rent increase resulted from releasing property space in the remaining Current Portfolio Properties at rental rates higher than expiring rents.

Expense recoveries were $12,680,000 for 2002 compared to $11,456,000 for the comparable 2001 period, representing an increase of $1,224,000 (10.7%). The commencement of operations at the newly developed and redeveloped properties accounted for 45% of the increase in expense recoveries, while the balance of the increase in expense recoveries resulted from improved occupancy and increases in recoverable property tax expense. Expense recoveries represent a portion of property operating expenses billed to tenants, including common area maintenance, real estate taxes and other recoverable costs.

Percentage rent was $1,850,000 in 2002, compared to $2,113,000 in 2001, a decrease of $263,000 (12.4%). Approximately 40% of the percentage rent decrease occurred at Lexington Mall where the Company is positioning the mall for redevelopment and approximately 20% of the decrease occurred at French Market where a restaurant tenant reported lower sales revenue compared to the previous year. Percentage rent is rental income calculated on the portion of a tenant's revenues that exceed a specified breakpoint.

Other income, which consists primarily of parking income at three of the Office Properties, kiosk leasing, temporary leases and payments associated with early termination of leases, was $3,734,000 in 2002, compared to $3,077,000 in 2001, representing an increase of $657,000 (21.4%). The increase in other income resulted primarily from a $500,000 increase in lease termination payments compared to the prior year, approximately half of which was recognized at Washington Square, and a $300,000 increase in parking income due to the lease-up of office space at Washington Square.

Operating expenses, consisting primarily of repairs and maintenance, utilities, payroll, insurance and other property related expenses, increased $1,612,000 (19.0%) to $10,115,000 in 2002 from $8,503,000 in 2001. Approximately 40% of the property operating expense increase resulted from the commencement of operations at Washington Square and 25% of the increase resulted from snow removal expenses sustained as a result of two snow storms impacting many of the Company's properties in December 2002.

The provision for credit losses decreased $196,000 (31.8%) to $421,000 in 2002 from $617,000 in the 2001 year. The credit loss provision in 2002 represented a return to historic levels, comparable to $467,000 recorded in 2000. The credit loss provision in 2001 was elevated due primarily to three retail tenants and an office tenant in bankruptcy. In 2002, no significant tenants declared bankruptcy impairing the collectibility of rents receivable.

Real estate taxes increased $795,000 (11.0%) to $8,021,000 in 2002 from $7,226,000 in 2001. Thirty-four percent of the increase in real estate tax expense in 2002 resulted from the commencement of operations at Washington Square, while approximately 36% resulted from increased taxes at the Company's two Washington, DC office properties.

Interest expense increased $193,000 (0.8%) to $25,113,000 for 2002 from $24,920,000 reported for 2001. The minor variance resulted from the net of increased interest paid on permanent fixed rate financing for recently developed and redeveloped properties, offset by interest expense savings from lower interest rates on the Company's variable rate debt.

Amortization of deferred debt expense increased $159,000 (28.1%) to $725,000 for 2002 compared to $566,000 for 2001. The increase resulted from the amortization of additional loan costs associated with extending the maturity of the Washington Square construction loan to January 2003 and costs associated with refinancing the Company's unsecured line of credit during the third quarter of 2002.

Depreciation and amortization expense increased $3,063,000 (20.8%) from $14,758,000 in 2001 to $17,821,000 in 2002. Nearly half of the change or $1,311,000, resulted from assets retired based upon a comprehensive review of real estate asset records and the Company's revision of the assets' estimated useful lives. The balance of the change reflects increased depreciation expense on developments and acquisitions placed in service during the past twelve months.

General and administrative expense, which consists of payroll, administrative and other overhead expenses, was $5,537,000 for 2002, an increase of $1,202,000 (27.7%) over 2001. Forty percent of the expense increase in 2002 compared to 2001 resulted from increased corporate office rent, 15% resulted from the write-off of abandoned property acquisition costs, 15% resulted from increased payroll and 10% resulted from increased legal expense.

The Company recognized a gain on the sale of real estate of $1,426,000 in 2002. There were no property sale gains reported in 2001. In 1999, the District of Columbia condemned and purchased the Company's Park Road property as part of an assemblage of parcels for a neighborhood revitalization project. The Company disputed the original purchase price awarded by the District. The gain represents additional net proceeds the Company was awarded upon settlement of the dispute.

Years Ended December 31, 2001 and 2000

Revenues for the year ended December 31, 2001 ("2001"), totaled $86,308,000 compared to $79,029,000 for the comparable period in 2000 ("2000"), an increase of $7,279,000 (9.2%).

Base rent increased to $69,662,000 in 2001 from $63,837,000 in 2000, representing a $5,825,000 (9.1%) increase. The increase in base rent resulted primarily from new leases in effect at recently developed and acquired properties: Ashburn Village II and III and a portion of Washington Square (approximately 100,000 square feet) during the 2001.

Expense recoveries increased to $11,456,000 in 2001 from $10,129,000 in 2000, representing an increase of $327,000 (2.9%). Expense recoveries represent a portion of property operating expenses billed to tenants, including common area maintenance, real estate taxes and other recoverable costs.

Percentage rent was $2,113,000 in 2001, compared to $2,097,000 in 2000, representing an increase of $16,000 (0.8%). Percentage rent is rental income calculated on the portion of a tenant's revenues that exceed a specified breakpoint.

Other income, which consists primarily of parking income at three of the Office Properties, kiosk leasing, temporary leases and payments associated with early termination of leases, was $3,077,000 in 2001, compared to $1,966,000 in 2000, representing an increase of $1,111,000 (56.5%). The increase in other income resulted from a $442,000 increase in lease termination payments compared to the prior year, collection of $363,000 from the estate of a former tenant in bankruptcy and a $304,000 increase in parking rents primarily due to the commencement of operations at Washington Square.

Operating expenses, which consist mainly of repairs and maintenance, utilities, payroll and insurance expense, increased $232,000 (2.8%) to $8,503,000 in 2001 from $8,271,000 in 2000.

The provision for credit losses was $617,000 in 2001 compared to $467,000 in 2000, representing an increase of $150,000 (32.1%). The comparative credit loss increase resulted primarily from additions to credit loss reserves for three retail tenants and an office tenant in bankruptcy and unpaid rents in dispute with two shopping center tenants and an office tenant.

Real estate taxes were $7,226,000 in 2001 compared to $6,451,000 in 2000, representing an increase of $775,000 (12.0%). Approximately half of the increase was attributable to development properties placed in service during the latter half of 2000 and during 2001. Approximately a quarter of the increase resulted from an assessment increase for the Company's Thruway shopping center.

Interest expense was $24,920,000 in 2001 compared to $23,843,000 in 2000, representing an increase of $1,077,000 (4.5%). The increase in interest expense resulted from increased borrowings related to the development and acquisition of properties placed in service during 2001 and 2000.

Amortization of deferred debt expense was $566,000 in 2001 compared to $458,000 in 2000, an increase of $108,000 (23.6%). The increase resulted from a full year of amortizing the costs of renewing and amending the Company's revolving line of credit in July 2000 and $38 million of new long term debt put in place during 2000 and 2001.

Depreciation and amortization expense was $14,758,000 in 2001 compared to $13,534,000 in 2000, representing an increase of $1,224,000 (9.0%). The increase resulted from increased amortization of leasing costs and depreciation of construction costs related to newly developed and acquired properties placed in service during 2001 and 2000.

General and administrative expense, which consists primarily of administrative payroll and other overhead expenses, was $4,335,000 in 2001 compared to $3,891,000 in 2000, representing an increase of $444,000 (11.4%). Approximately half of the year over year increase resulted from additional payroll expenses and a quarter of the increase resulted from the write-off of abandoned acquisition costs.

Item 8. Financial Statements and Supplementary Data

NOTICE REGARDING ARTHUR ANDERSEN LLP

Section 11(a) of the Securities Act of 1933, as amended, provides that if any part of a registration statement at the time it becomes effective contains an untrue statement of a material fact or an omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to the

registration statement (unless it is proved that at the time of the acquisition the person knew of the untruth or omission) may sue, among others, every accountant who has consented to be named as having prepared or certified any part of the registration statement or as having prepared or certified any report or valuation which is used in connection with the registration statement with respect to the statement in the registration statement, report or valuation which purports to have been prepared or certified by the accountant.

Prior to the date of the filing of this Form 10-K, the Arthur Andersen LLP partners who reviewed our audited financial statements contained herein resigned from Arthur Andersen LLP and Arthur Andersen LLP was convicted for obstruction of justice and elected to cease practicing before the SEC in August 2002. As a result, after reasonable efforts, we have been unable to obtain Arthur Andersen LLP's written consent to the incorporation by reference into our previously filed Registration Statements File No. 333-85254, 333-41436, 333-54232, 333-71323, 333-88127, File No. 333-60064, File No. 333-59962, and File No. 33-77890 and in their related prospectuses (the "Prior Registration Statements") of its audit report with respect to our financial statements for the fiscal year ended December 31, 2001.

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Under these circumstances, Rule 437a under the Securities Act permits us to file this Form 10-K without a written consent from Arthur Andersen LLP. Accordingly, Arthur Andersen LLP will not be liable to persons acquiring our securities registered pursuant to the Prior Registration Statements under Section 11(a) of the Securities Act because it has not consented to being named as an expert in the Prior Registration Statements.

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

Page		
F-1	(a)	Report of Independent Auditors - Ernst & Young LLP
F-2	(a)	Report of Independent Public Accountants - Arthur Andersen LLP
F-3	(b)	Consolidated Balance Sheets - December 31, 2002 and 2001
F-4	(c)	Consolidated Statements of Operations - Years ended December 31, 2002, 2001 and 2000.
F-5	(d)	Consolidated Statements of Stockholders' Equity (Deficit)- Years ended December 31, 2002, 2001 and 2000.
F-6	(e)	Consolidated Statements of Cash Flows - Years ended December 31, 2002, 2001 and 2000.
F-7	(f)	Notes to Consolidated Financial Statements

The selected quarterly financial data included in Note 14 of the Notes to Consolidated Financial Statements referred to above are incorporated herein by reference.

PART III

Item 14. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure 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 and its Senior Vice President, Chief Financial Officer, Secretary and Treasurer, 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 and its Senior Vice President, Chief Financial Officer, Secretary and Treasurer, and its Vice President and Controller (acting Chief Accounting Officer) of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31,2002. Based on the foregoing, the Company's Chairman and Chief Executive Officer, its Senior Vice President, Chief Financial Officer, Secretary and Treasurer and its Vice President and Controller (acting Chief Accounting Officer) concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2002.

During the three months ended December 31, 2002, there were no significant changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

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

1. Financial Statements

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

   (a) Report of Independent Auditors - Ernst & Young LLP

   (a) Report of Independent Public Accountants - Arthur Andersen LLP

   (b) Consolidated Balance Sheets - December 31, 2002 and 2001

   (c) Consolidated Statements of Operations - Years ended December 31, 2002, 2001 and 2000

   (d) Consolidated Statements of Stockholders' Equity (Deficit) - Years ended December 31, 2002, 2001 and 2000

   (e) Consolidated Statements of Cash Flows - Years ended December 31, 2002, 2001 and 2000

   (f) Notes to Consolidated Financial Statements

2. Financial Statement Schedule and Supplementary Data

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

(b) Schedule of the Company:

Schedule III - Real Estate and Accumulated Depreciation

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

3. Exhibits

(a) First Amended and Restated Articles of Incorporation of Saul Centers, Inc. filed with the Maryland Department of Assessments and Taxation on August 23, 1993 and filed as Exhibit 3.(a) of the 1993 Annual Report of the Company on Form 10-K 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 is hereby incorporated by reference. The First Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership, the Second Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership, the Third Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership and the Fourth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership as filed as Exhibit 3.(b) of the 1997 Annual Report of the Company on Form 10-K is hereby incorporated by reference.

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10. (a) First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit No. 10.1 to Registration Statement No. 33-64562 is hereby incorporated by reference. The First Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership, the Second Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership, and the Third Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the 1995 Annual Report of the Company on Form 10-K is hereby incorporated by reference. The Fourth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the March 31, 1997 Quarterly Report of the Company is hereby incorporated by reference. The Fifth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed

as Exhibit 4.(c) to Registration Statement No. 333-41436, is hereby incorporated by reference.

(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 is hereby incorporated by reference.

(c) First Amended and Restated Agreement of Limited Partnership of Saul II Subsidiary 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.

(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) Saul Centers, Inc. 1993 Stock Option Plan filed as Exhibit 10.8 to Registration Statement No. 33-64562 is hereby incorporated by reference.

(i) 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.

(j) Deferred Compensation and Stock Plan for Directors, dated as of March 18, 1999, filed as Exhibit 10.(k) of the March 31, 1999 Quarterly Report of the Company, is hereby incorporated by reference.

(k) 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.

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

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

(n) Revolving Credit Agreement dated as of August 30, 2002 by and between 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, Comerica Bank, Southtrust Bank, KeyBank National Association as Lenders, as filed as Exhibit 10.(n) of the September 30, 2002 Quarterly Report of the Company, is hereby incorporated by reference.

(o) Guaranty dated as of August 30, 2002 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, the Lenders, as filed as Exhibit 10.(p) of the September 30, 2002 Quarterly Report of the Company, is hereby incorporated by reference.

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

23. Consent of Ernst & Young LLP, Independent Public Accountants is filed herewith.

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).

Reports on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: September 26, 2003	/s/ B. Francis Saul II B. Francis Saul II Chairman of the Board of Directors & Chief Executive Officer (Principal Executive Officer)
Date: September 26, 2003	/s/ B. Francis Saul III B. Francis Saul III, President and Director
Date: September 26, 2003	/s/ Scott V. Schneider Scott V. Schneider, Senior Vice President, Treasurer and Secretary (Principal Financial Officer)
Date: September 26, 2003	/s/ Richard R. Meiburger Richard R. Meiburger, Vice President and Controller (acting Principal Accounting Officer)
Date: September 26, 2003	/s/ Philip D. Caraci Philip D. Caraci, Vice Chairman and Director
Date: September 26, 2003	/s/ John E. Chapoton John E. Chapoton, Director
Date: September 26, 2003	/s/ Gilbert M. Grosvenor Gilbert M. Grosvenor, Director
Date: September 26, 2003	/s/ Philip C. Jackson Jr. Philip C. Jackson Jr., Director
Date: September 26, 2003	/s/ David B. Kay David B. Kay, Director
Date: September 26, 2003	/s/ General Paul X. Kelley General Paul X. Kelley, Director

Date: September 26, 2003	/s/ Charles R. Longsworth Charles R. Longsworth, Director
Date: September 26, 2003	/s/ Patrick F. Noonan Patrick F. Noonan, Director
Date: September 26, 2003	/s/ James W. Symington James W. Symington, Director
Date: September 26, 2003	/s/ John R. Whitmore John R. Whitmore, Director

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
Saul Centers, Inc.

We have audited the accompanying consolidated balance sheet of Saul Centers, Inc. as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the year then ended. Our audits also included the financial statement schedule listed in Item 15 of Form 10-K. These financial statements and the schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit. The financial statements of Saul Centers, Inc. as of December 31, 2001, and for the years ended December 31, 2001 and 2000, were audited by other auditors who have ceased operations and whose report dated February 13, 2002, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saul Centers, Inc. at December 31, 2002, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Ernst & Young LLP
McLean, Virginia

February 7, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Saul Centers, Inc.:

We have audited the accompanying consolidated balance sheets of Saul Centers, Inc. (a Maryland corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saul Centers, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP
Vienna, Virginia
February 13, 2002

Note: As permitted by Rule 2-02 (e) of Regulation S-X promulgated under the Securities Act of 1933, this is a copy of the audit report previously issued by Arthur Andersen LLP in connection with the filing of our Form 10-K for the fiscal year ended December 31, 2001. After reasonable efforts, we have been unable to have Arthur Anderson LLP reissue this audit report in connection with the filing of our Form 10-K for the fiscal year ended December 31, 2002.

Saul Centers, Inc.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	December 2002

Assets	
Real estate investments	
Land	$ 90
Buildings and equipment	405
Construction in progress	8
	503
Accumulated depreciation	(150
	353
Cash and cash equivalents	1
Accounts receivable and accrued income, net	12
Prepaid expenses	15
Deferred debt costs, net	4
Other assets	1
Total assets	$ 388
Liabilities	
Notes payable	$ 380
Accounts payable, accrued expenses and other liabilities	16
Deferred income	4
Total liabilities	401
Minority interests	
Stockholders' equity (deficit)	
Common stock, $0.01 par value, 30,000,000 shares authorized, 15,196,582 and 14,535,803 shares issued and outstanding, respectively	
Additional paid-in capital	79
Accumulated deficit	(92
Total stockholders' equity (deficit)	(13
Total liabilities and stockholders' equity (deficit)	$ 388

The accompanying notes are an integral part of these statements.

Saul Centers, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)	For the Year Ended Decemb	
	2002	2001

Revenue		
Base rent	$ 75,699	$ 69,662
Expense recoveries	12,680	11,456
Percentage rent	1,850	2,113
Other	3,734	3,077
Total revenue	93,963	86,308
Operating expenses		
Property operating expenses	10,115	8,503
Provision for credit losses	421	617
Real estate taxes	8,021	7,226
Interest expense	25,113	24,920
Amortization of deferred debt expense	725	566
Depreciation and amortization	17,821	14,758
General and administrative	5,537	4,335
Total operating expenses	67,753	60,925
Operating income	26,210	25,383
Non-operating item		
Gain on sale of property	1,426	--
Income before minority interests	27,636	25,383
Minority interests		
Minority share of income	(7,130)	(6,777)
Distributions in excess of earnings	(940)	(1,292)
Total minority interests	(8,070)	(8,069)
Net income	$ 19,566	$ 17,314
Per Share Amounts:		
Net income (basic)	$ 1.32	$ 1.22
Net income (diluted)	$ 1.31	$ 1.22

The accompanying notes are an integral part of these statements.

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Saul Centers, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(Dollars in thousands,	Common	Additional Paid-in	Accumulate

except per share amounts)	Stock	Capital	Deficit
Stockholders' equity (deficit):			
Balance, December 31, 1999	$ 133	$ 44,616	$ (76,608
Issuance of 535,390 shares of common stock	6	7,978	--
Net income	--	--	14,045
Distributions ($1.17 per share)	--	--	(15,915
Distributions payable ($.39 per share)	--	--	(5,410
Balance, December 31, 2000	139	52,594	(83,888
Issuance of 666,268 shares of common stock	6	11,970	--
Net income	--	--	17,314
Distributions ($1.17 per share)	--	--	(16,588
Distributions payable ($.39 per share)	--	--	(5,670
Balance, December 31, 2001	145	64,564	(88,832
Issuance of 660,779 shares of common stock	7	14,567	--
Net income	--	--	19,566
Distributions ($1.17 per share)	--	--	(17,360
Distributions payable ($.39 per share)	--	--	(5,924
Balance, December 31, 2002	$ 152	$ 79,131	$ (92,550

The accompanying notes are an integral part of these statements.

Saul Centers, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	For the 2002
Cash flows from operating activities:	
Net income	$ 19,566
Adjustments to reconcile net income to net cash provided by operating activities:	
Minority interests	8,070
Gain on sale of property	(1,426)
Depreciation and amortization	18,546
Provision for credit losses	421
Decrease (increase) in accounts receivable	(2,283)
Increase in prepaid expenses	(7,661)
Decrease (increase) in other assets	15

Increase (decrease) in accounts payable, accrued expenses and other liabilities	1,776
Increase (decrease) in deferred income	475
Net cash provided by operating activities	37,499
Cash flows from investing activities:	
Acquisitions of real estate investments	(28,871)
Additions to real estate investments	(14,466)
Additions to construction in progress	(5,768)
Net cash used in investing activities	(49,105)
Cash flows from financing activities:	
Proceeds from notes payable	53,547
Repayments on notes payable	(24,624)
Additions to deferred debt expense	(1,287)
Proceeds from the issuance of common stock and convertible limited partnership units in the Operating Partnership	14,574
Distributions to common stockholders and holders of convertible limited partnership units in the Operating Partnership	(31,100)
Net cash provided by (used in) financing activities	11,110
Net (decrease) increase in cash and cash equivalents	(496)
Cash and cash equivalents, beginning of year	1,805
Cash and cash equivalents, end of year	$ 1,309
Supplemental disclosures of cash flow information:	
Cash paid for interest, net of amount capitalized	$ 25,089

The accompanying notes are an integral part of these statements.

SAUL CENTERS, INC.
Notes to Consolidated Financial Statements

1. ORGANIZATION, FORMATION, AND BASIS OF PRESENTATION

Organization

Saul Centers, Inc. ("Saul Centers") was incorporated under the Maryland General Corporation Law on June 10, 1993. Saul Centers operates as a real estate investment trust (a "REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Saul Centers generally will not be subject to federal income tax, provided it annually distributes at least 90% of its REIT taxable income to its stockholders and meets certain organizational and other requirements. Saul

Centers has made and intends to continue to make regular quarterly distributions to its stockholders. Saul Centers, together with its wholly owned subsidiaries and the limited partnerships of which Saul Centers or one of its subsidiaries is the sole general partner, are referred to collectively as the "Company". B. Francis Saul II serves as Chairman of the Board of Directors and Chief Executive Officer of Saul Centers.

Formation and Structure of Company

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 (collectively, "The Saul Organization"). On August 26, 1993, 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 purchased and developed additional properties. The Company is currently developing Broadlands Village, a grocery anchored shopping center in Loudoun County. The Company recently completed development of Ashburn Village III and IV, in-line retail and retail pad expansions to the Ashburn Village shopping center; Washington Square at Old Town, a Class A mixed-use office/retail complex in Alexandria, Virginia; and Crosstown Business Center, an office/warehouse redevelopment located in Tulsa, Oklahoma. In June 2002 the Company purchased Clarendon Center for future redevelopment. In September 2002, the Company purchased 109,642 square feet of retail space known as Kentlands Square. In November 2002 the Company purchased a 19 acre parcel of land in the Lansdowne community in Loudoun County, Virginia. The Company plans to develop the Lansdowne parcel into a grocery anchored neighborhood and community shopping center. As of December 31, 2002, the Company's properties (the "Current Portfolio Properties") consisted of 29 operating shopping center properties (the "Shopping Centers"), five predominantly office operating properties (the "Office Properties") and three development and/or redevelopment properties.

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.

Basis of Presentation

The accompanying financial statements of the Company have been presented on the historical cost basis of The Saul Organization because of affiliated ownership and common management and because the assets and liabilities were the subject of a business combination with the Operating Partnership, the Subsidiary Partnerships and Saul Centers, all newly formed entities with no prior operations.

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. Seventeen of the Shopping Centers are anchored by a grocery store and offer primarily day-to-day necessities and services. As of December 31, 2002, no single property accounted for more than 8.9% of the total gross leasable area. Only one retail tenant, Giant Food, at 5.7%, accounted for more than 1.9% of the Company's 2002 total revenues. No office tenant other than the United States Government, at 8.4%, accounted for more than 1.4% of 2002 total revenues.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Real Estate Investment Properties

Real estate investment properties are stated at historic cost basis less accumulated depreciation. Management believes that these assets have generally appreciated in value and, accordingly, the aggregate current value exceeds their aggregate net book value and also exceeds the value of the Company's liabilities as reported in these financial statements. These financial statements are prepared in conformity with accounting principles generally accepted in the United States, and accordingly, do not report the current value of the Company's real estate assets.

The Company purchases real estate investment properties from time to time and allocates the purchase price to various components, such as land, buildings, and intangibles related to in-place leases and customer relationships in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") 141, "Business Combinations." The purchase price is allocated based on the relative fair value of each component. The fair value of buildings is determined as if the buildings were vacant upon acquisition and subsequently leased at market rental rates. As such, the determination of fair value considers the present value of all cash flows expected to be generated from the property including an initial lease up period. The Company determines the fair value of above and below market intangibles associated with in-place leases by assessing the net effective rent and remaining term of the lease relative to market terms for similar leases at acquisition. In the case of below market leases, the Company considers the remaining contractual lease period and renewal periods, taking into

consideration the likelihood of the tenant exercising its renewal options. The fair value of a below market lease component is recorded as deferred income and amortized as additional lease revenue over the remaining contractual lease period and any renewal option periods included in the valuation analysis. The fair value of above market lease intangibles is recorded as a deferred asset and is amortized as a reduction of lease revenue over the remaining contractual lease term. The Company determines the fair value of at-market in-place leases considering the cost of acquiring similar leases, the foregone rents associated with the lease-up period and carrying costs associated with the lease-up period. Intangible assets associated with at-market in-place leases are amortized as additional lease expense over the remaining contractual lease term. To the extent customer relationship intangibles are present in an acquisition, the fair value of the intangibles are amortized over the life of the customer relationship.

If there is an event or change in circumstance that indicates an impairment in the value of a real estate investment property, the Company's policy is to assess any impairment in value by making a comparison of the current and projected operating cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying amount of that property. If such carrying amount is in excess of the estimated projected operating cash flows of the property, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair market value. Saul Centers adopted SFAS 144, "Accounting for Impairment or Disposal of Long-Lived Assets," effective January 1, 2002. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company has not recognized an impairment loss in 2002, 2001 or 2000 on any of its real estate.

Interest, real estate taxes and other carrying costs are capitalized on projects under construction. Once construction is substantially complete and the assets are placed in service, rental income, direct operating expenses, and depreciation associated with such properties are included in current operations. Expenditures for repairs and maintenance, which includes contract services such as grounds maintenance, lot sweeping and snow removal, are charged to operations as incurred. Repairs and maintenance expense totaled $3,852,000, $2,913,000 and $3,144,000, for 2002, 2001 and 2000, respectively, and is included in operating expenses in the accompanying consolidated financial statements. Interest expense capitalized totaled $548,000, $1,640,000 and $2,681,000, for 2002, 2001 and 2000, respectively.

In the initial rental operations of development projects, a project is considered substantially complete and available for occupancy upon completion of tenant improvements, but no later than one year from the cessation of major construction activity. Substantially completed portions of a project are accounted for as separate projects. Depreciation is calculated using the straight-line method and estimated useful lives of 33 to 50 years for buildings and up to 20 years for certain other improvements. Leasehold improvements are amortized over the lives of the related leases using the straight-line method.

Lease Acquisition Costs

Certain initial direct costs incurred by the Company in negotiating and consummating a successful lease are capitalized and amortized over the initial base term of the lease. These costs are included in prepaid expenses and total

$12,140,000 and $10,419,000, net of accumulated amortization of $5,259,000 and $4,465,000, as of December 31, 2002 and 2001, respectively. Capitalized leasing costs consist of commissions paid to third party leasing agents as well as internal direct costs such as employee compensation and payroll related fringe benefits directly related to time spent performing leasing related activities. Such activities include evaluating the prospective tenant's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating lease terms, preparing lease documents and closing the transaction.

Construction in Progress

Construction in progress includes the land acquisition costs, predevelopment costs, and development costs of active projects. Predevelopment costs associated with these active projects include closing costs, 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 December 31, 2002 and 2001 are as follows:

Construction in Progress
(In thousands)

	December 31, 2002	December 31, 2001
Broadlands Village	$ 6,192	$ --
Ashburn Village IV	--	1,163
Other	2,100	1,361
Balance	$ 8,292	$ 2,524

Accounts Receivable and Accrued Income

Accounts receivable primarily represent amounts currently due from tenants in accordance with the terms of the respective leases. 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. Accounts receivable in the accompanying consolidated financial statements are shown net of an allowance for doubtful accounts of $681,000 and $559,000, at December 31, 2002 and 2001, respectively.

Allowance for Doubtful Accounts
(In thousands)

	For the Years Ended December 31, 2002	2001
Beginning Balance	$ 559	$ 563
Provision for Credit Losses	421	617
Charge-offs	-299	-621
Ending Balance	$ 681	$ 559

===== =====

In addition to rents due currently, accounts receivable include $6,262,000 and $4,675,000, at December 31, 2002 and 2001, respectively, representing minimum rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases. These amounts are presented after netting allowances of $693,000 and $676,000, respectively, for tenants whose rent payment history or financial condition cast doubt upon the tenant's ability to perform under its lease obligations.

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 being amortized over the terms of the respective loans or agreements. Deferred debt costs totaled $4,125,000 and $3,563,000, and are presented net of accumulated amortization of $2,693,000 and $1,968,000, at December 31, 2002 and 2001, 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.

Revenue Recognition

Rental and interest income is accrued as earned except when doubt exists as to collectibility, in which case the accrual is discontinued. When rental payments due under leases vary from a straight-line basis because of free rent periods or stepped increases, income is recognized on a straight-line basis in accordance with accounting principles generally accepted in the United States. Expense recoveries represent a portion of property operating expenses billed to the 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 ("percentage rent") is accrued when a tenant reports sales that exceed a specified breakpoint.

Income Taxes

The Company made an election to be treated, and intends to continue operating so as to qualify as a REIT under sections 856 through 860 of the Internal Revenue Code of 1986, as amended, commencing with its taxable year ending December 31, 1993. A REIT generally will not be subject to federal income taxation on that portion of its income that qualifies as REIT taxable income to the extent that it distributes at least 90% of its REIT taxable income to stockholders and complies with certain other requirements. Therefore, no provision has been made for federal income taxes in the accompanying consolidated financial statements. As of December 31, 2002 and 2001, the total tax basis of the Company's assets was $410,497,000 and $377,704,000, and the tax basis of the liabilities was $392,157,000 and $362,464,000, respectively.

Deferred Compensation and Stock Plan for Directors

Saul Centers has established a Deferred Compensation and Stock Plan for Directors (the "Plan") for the benefit of its directors and their beneficiaries. 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 of Directors. If the director elects to have fees paid in stock, the number of shares allocated to the director is determined by the market price of the common stock on the day the fee is earned. As of December 31, 2002, 170,000 shares were authorized and registered for use under the Plan, and 130,000 shares had been credited to the directors' deferred fee accounts.

Beginning in 1999, pursuant to the Plan, 100 shares of the Company's common stock are awarded annually 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 issued on the date of the Annual Meeting, their issuance may not be deferred and transfer of the shares is restricted for a period of twelve months following the date of issue.

Recent Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Direct Guarantees of Indebtedness of Others." FIN 45 outlines the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees. It states that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of its obligation. Saul Centers has guaranteed portions of its Partnership debt obligations, all of which are presented on the consolidated financial statements as mortgage notes payable. Saul Centers has guaranteed $95,921,000 of the notes payable which are recourse loans made by the Operating Partnership as of December 31, 2002. The balance of the mortgage notes payable totaling $284,822,000 are non-recourse, however, as is customary when obtaining long term non-course financing, Saul Centers has agreed to assume certain obligations should they arise specific to individual mortgages. No additional liabilities must be recognized as a result of the adoption of FIN 45 and the Company does not expect the adoption of FIN 45 to have a material impact on its financial condition or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," which amended SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 outlines alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The Company has not made a voluntary change to the fair value based method. As a result, the adoption of SFAS No. 148 will not have a impact upon the consolidated financial statements.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities," which changes the guidelines for consolidation of and disclosure related to unconsolidated entities, if those unconsolidated entities qualify as variable interest entities, as defined in FIN 46. The Company does not have any unconsolidated entities or variable interest entities and therefore the adoption of FIN 46 will not have an impact upon the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents includes cash and short-term investments with maturities of three months or less measured from the acquisition date.

Per Share Data

Per share data is calculated in accordance with SFAS No. 128, "Earnings Per Share." Per share data for net income (basic and diluted) is computed using weighted average shares of common stock. Convertible limited partnership units and employee stock options are the Company's potentially dilutive securities. For all periods

presented, the convertible limited partnership units are anti-dilutive. The options are currently dilutive because the average share price of the Company's common stock exceeds the $20.00 exercise price. The options were not dilutive during years previous to 2002. Five executive officers have been granted 180,000 stock options, 93,210 shares which remain unexercised as of December 31, 2002. The treasury share method was used to measure the effect of the dilution.

Basic and Diluted Shares Outstanding

(In thousands)	December 31		
	2002	2001	2000
Weighted average common shares outstanding - Basic	14,865	14,210	13,623
Effect of dilutive options ...	22	--	--
Weighted average common shares outstanding - Diluted	14,887	14,210	13,623
Average Share Price	$ 22.90	*	*

* The option exercise price exceeded the average share price for these periods.

3. MINORITY INTERESTS - HOLDERS OF CONVERTIBLE LIMITED PARTNERSHIP UNITS IN THE OPERATING PARTNERSHIP

The Saul Organization has a 25.4% limited partnership interest, represented by 5,175,000 convertible limited partnership units, in the Operating Partnership, as of December 31, 2002. These convertible limited partnership units are convertible into shares of Saul Centers' common stock on a one-for-one basis, provided the rights may not be exercised at any time that The Saul Organization beneficially owns, directly or indirectly, in the aggregate more than 24.9% of the outstanding equity securities of Saul Centers. The limited partnership units were not convertible as of December 31, 2002 because the Saul Organization owned in excess of 24.9% of the Company's equity securities. The impact of The Saul Organization's 25.4% limited partnership interest in the Operating Partnership is reflected as minority interests in the accompanying consolidated financial statements. Fully converted partnership units and diluted weighted average shares outstanding for the years ended December 31, 2002, 2001

and 2000, were 20,059,000, 19,383,000 and 18,796,000, respectively.

4. NOTES PAYABLE

During 2002 the Company closed a new $125 million unsecured revolving credit facility to provide working capital and funds for redevelopments and acquisitions. The line has a three-year term and provides for an additional one-year extension at the Company's option. The new line is a $55 million expansion of a prior revolver. The additional availability under the new facility will enable the Company to access capital for future purchases of operating properties as opportunities arise. At December 31, 2002, $46,750,000 was outstanding under the line, with interest calculated using LIBOR plus 1.625%. Loan availability is determined by operating income from the Company's unencumbered properties, which, as of December 31, 2002 allowed the Company to borrow an additional $30,250,000 for general corporate use. An additional $48 million is available for funding working capital and operating property acquisitions supported by the unencumbered properties' internal cash flow growth and operating income of future acquisitions. Also during 2002, the Company committed to replace its $42,000,000 construction loan used to finance the building of Washington Square at Old Town with a $42,500,000 permanent mortgage. The new permanent financing, closed in January 2003, matures in 15 years and requires monthly principal and interest payments based upon a 27.5 year amortization period and 6.01% interest rate. In September 2002, the Company assumed a $7,806,000 mortgage in conjunction with its acquisition of Kentlands Square shopping center.

The following is a summary of notes payable as of December 31, 2002 and 2001:

Notes Payable (Dollars in thousands)	Principal Outstanding December 31, 2002		2001	Interest Rate *
Fixed Rate Mortgages:	$135,641	(a)	$ 138,215	7.67 %
	93,044	(b)	95,716	8.23 %
	34,830	(c)	35,583	7.88 %
	13,667	(d)	13,936	8.33 %
	9,797	(e)	10,028	6.88 %
	7,640	(f)	--	8.18 %
Total Fixed Rate	294,619		293,478	7.89 %
Variable Rate Loans:				
Construction Loan	39,374	(g)	38,342	2.89 %
Line of Credit	46,750	(h)	20,000	3.09 %
Total Variable Rate	86,124		58,342	3.00 %
Total Notes Payable	$380,743		$ 351,820	6.78 %

*Interest rate and scheduled maturity data presented for December 31, 2002.
Totals computed using weighted averages.

(a) The loan is collateralized by nine shopping centers (Seven Corners, Thruway, White Oak, Hampshire Langley, Great Eastern, Southside Plaza, Belvedere, Giant and Ravenwood) and requires equal monthly principal and interest payments of $1,103,000 based upon a 25 year amortization schedule and a balloon payment of $96,3000,000 at loan maturity. Principal of $2,574,000 was amortized during 2002.

(b) The loan is collateralized by Avenel Business Park, Van Ness Square, Ashburn Village, Leesburg Pike, Lumberton Plaza and Village Center. The loan has been increased on three occasions since its inception in 1997. The 8.23% blended interest rate is the weighted average of the initial loan rate and additional borrowings rates. The loan requires equal monthly principal and interest payments of $871,000 are based upon a weighted average 23 year amortization schedule and a balloon payment of $55,788,000 at loan maturity. Principal of $2,672,000 was amortized during 2002.

(c) The loan is collateralized by 601 Pennsylvania Avenue and requires equal monthly principal and interest payments of $294,000 based upon a 25 year amortization schedule and a balloon payment of $22,808,000 at loan maturity. Principal of $753,000 was amortized during 2002.

(d) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires monthly principal and interest payments based upon a 22 year amortization schedule. Principal of $269,000 was amortized during 2002.

(e) The loan is collateralized by The Glen shopping center and a corporate guarantee. The loan requires monthly principal and interest payments based upon a 23 year amortization schedule. Principal of $231,000 was amortized during 2002.

(f) The loan is collateralized by Kentlands Square shopping center and requires monthly principal and interest payments based upon a 15 year amortization schedule. Principal of $166,000 was amortized during 2002.

(g) The loan is a construction loan totaling $42,000,000 and is collateralized by Washington Square. Interest expense is calculated based upon the 1, 2, 3 or 6 month LIBOR rate plus a spread of 1.45% to 1.9% (determined by certain leasing and/or construction benchmarks) or upon the bank's prime rate at the Company's option. The loan was repaid on January 9, 2003. The interest rate in effect on December 31, 2002 was based on a weighted average LIBOR of 1.44% and spread of 1.45%. The effective annual average interest rate, which considers debt cost amortization, was 3.69% for 2002.

(h) The loan is an unsecured revolving credit facility totaling $125,000,000. Loan availability is determined by operating income from the Company's unencumbered properties. An additional amount is available for funding qualified operating property acquisitions. Interest expense is calculated based upon the 1,2,3 or 6 month LIBOR rate plus a spread of 1.625% to 1.875% (determined by certain debt service coverage and leverage tests) or upon the bank's reference rate at the Company's option. The line may be extended one

SAUL CENTERS, INC.
Notes to Consolidated Financial Statements

year with payment of a fee of 1/4% at the Company's option. The interest rate in effect on December 31, 2002 was based on a weighted average LIBOR of 1.391% and spread of 1.625% and a prime rate of 4.25%. The effective annual average interest rate, which considers debt cost amortization and unused line fees, was 4.84% for 2002. Monthly payments are interest only and will vary depending upon the amount outstanding and the applicable interest rate for any given month.

The December 31, 2002 and 2001, depreciation adjusted cost of properties collateralizing the mortgage notes payable totaled $280,051,000 and $264,831,000, respectively. All of the Company's variable rate debt, including its line of credit, require the Company and its subsidiaries to maintain financial covenants. The Company's material covenants require the Company, on a consolidated basis, to:

- limit the amount of debt so as to maintain a gross asset value in excess of liabilities of at least $250 million;
- limit the amount of debt as a percentage of gross asset value (leverage ratio) to less than 60%;
- limit the amount of debt so that interest coverage will exceed 1.9 to 1 on a trailing four quarter basis; and
- limit the amount of debt so that interest and scheduled principal amortization coverage exceeds 1.6 to 1.

As of December 31, 2002, the Company was in compliance with all such covenants. Notes payable at December 31, 2002 and 2001, totaling $266,392,000 and $242,168,000, respectively, are guaranteed by members of The Saul Organization.

As of December 31, 2002, the scheduled maturities of all debt including scheduled principal amortization for years ended December 31, are as follows:

Debt Maturity Schedule

(In thousands)	
2003 *	$ 46,940
2004	23,988
2005	54,720
2006	8,635
2007	9,357
Thereafter	237,103
Total	$ 380,743

* A total of $39,374 of the 2003 maturities was refinanced in January 2003.

5. LEASE AGREEMENTS

Lease income includes primarily base rent arising from noncancelable commercial leases. Base rent for the years ended December 31, 2002, 2001 and 2000, amounted to $75,699,000, $69,662,000 and $63,837,000, respectively. Future contractual

payments under noncancelable leases for years ended December 31, are as follows:

Future Contractual Payments (In thousands)	
2003	$ 70,701
2004	64,776
2005	58,094
2006	51,148
2007	44,966
Thereafter	244,364
Total	$ 534,049

The majority of the leases also provide for rental increases and expense recoveries based on increases in the Consumer Price Index or increases in operating expenses, or both. These increases generally are payable in equal installments throughout the year based on estimates, with adjustments made in the succeeding year. Expense recoveries for the years ended December 31, 2002, 2001 and 2000 amounted to $12,680,000, $11,456,000 and $11,129,000, respectively. In addition, certain retail leases provide for percentage rent based on sales in excess of

the minimum specified in the tenant's lease. Percentage rent amounted to $1,850,000, $2,113,000 and $2,097,000, for the years ended December 31, 2002, 2001 and 2000, respectively.

6. LONG-TERM LEASE OBLIGATIONS

Certain properties are subject to noncancelable long-term leases which apply to land underlying the Shopping Centers. Certain of the leases provide for periodic adjustments of the base annual rent and require the payment of real estate taxes on the underlying land. The leases will expire between 2058 and 2068. Reflected in the accompanying consolidated financial statements is minimum ground rent expense of $164,000, $167,000 and $157,000, for each of the years ended December 31, 2002, 2001 and 2000, respectively. The future minimum rental commitments under these ground leases are as follows:

Ground Lease Rental Commitments
(In thousands)

	Annually 2003-2007	Total Thereafter
Beacon Center	$ 53	$ 3,236
Olney	51	4,423
Southdale	60	3,605
Total	$ 164	$ 11,264

In addition to the above, Flagship Center consists of two developed outparcels that are part of a larger adjacent community shopping center formerly owned by The Saul Organization and sold to an affiliate of a tenant in 1991. The Company has a 90-year ground leasehold interest which commenced in September 1991 with a minimum rent of one dollar per year.

The Company's corporate headquarters lease commenced in March 2002. The 10-year lease provides for an initial annual rental payment of $513,000, escalated at 3% per year, with payment of a pro-rata share of operating expenses over a base year amount. Reflected in the accompanying financial statements is straight-lined rental expense of $549,000 for the year ended December 31, 2002. The future minimum rental commitments under this lease are $653,000 annually for the five years from 2003 through 2007, and $2,722,000 thereafter. This lease expense is included in the shared services portion of general and administrative expense (see Note 8 - Related Party Transactions).

7. STOCKHOLDERS' EQUITY AND MINORITY INTERESTS

The consolidated statement of operations for the year ended December 31, 2002 includes a charge for minority interests of $8,070,000, consisting of $7,130,000 related to The Saul Organization's share of the net income for the year and $940,000 related to distributions to minority interests in excess of allocated net income for the year. The charge for the year ended December 31, 2001 of $8,069,000, consisting of $6,777,000 related to The Saul Organization's share of the net income for the year and $1,292,000 related to distributions to minority interests in excess of allocated net income for the year. The charge for the year ended December 31, 2000 of $8,069,000 consists of $6,081,000 related to The Saul Organization's share of the net income for the year and $1,988,000 related to distributions to minority interests in excess of allocated net income for the year.

8. RELATED PARTY TRANSACTIONS

In October 2000, the Company purchased, through its Operating Partnership, Avenel VI, a 30,000 square foot office/flex property for $4,200,000 based on an independent third party appraisal. The seller was a member of The Saul Organization.

In August 2000, the Company purchased a land parcel of 7.11 acres, located within the 1,580 acre community of Ashburn Village in Loudoun County, Virginia, adjacent to its Ashburn Village neighborhood shopping center at a price of $1,580,000, based on an independent third party appraisal. The land was developed to expand the existing shopping center. The seller was a member of The Saul Organization.

Chevy Chase Bank, an affiliate of The Saul Organization, leases space in 13 of the Company's properties. Total rental income from Chevy Chase Bank amounted to $1,368,000, $1,330,000 and $1,223,000, for the years ended December 31, 2002, 2001 and 2000, respectively.

An entity controlled by the son of Philip D. Caraci, the Company's President and director until March 2003 and current Vice Chairman, leased space in four of the Company's Shopping Centers during 2002. The total rental income

was $143,000 during the year ended December 31, 2002. The leases were assigned to unaffiliated third parties during the year and no further rental income will be received under these leases from the affiliated party during 2003. Additionally, a $37,000 leasing commission payment was made to this affiliated party for procurement of a third party tenant lease at one of the Company's Shopping Centers.

The Chairman and Chief Executive Officer, the President, and the 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.

The Company shares with The Saul Organization on a pro-rata basis certain ancillary functions such as computer hardware, software and support services and certain direct and indirect administrative payroll based on management's estimate of usage or time incurred, as applicable. Also, The Saul Organization subleases office space to the Company for its corporate headquarters (see Note 6-Long-Term Lease Obligations for the terms of this lease). The terms of all such arrangements with The Saul Organization, including payments related thereto, are reviewed by the Audit Committee of the Board of Directors. Included in general and administrative expense for the years ended December 31, 2002, 2001 and 2000, are charges totaling $2,574,000, $1,971,000 and $2,091,000, related to shared services, of which $2,542,000, $2,010,000 and $2,056,000, were paid during the years ended December 31, 2002, 2001 and 2000, respectively.

9. STOCK OPTION PLAN

The Company has established a stock option plan for the purpose of attracting and retaining executive officers and other key personnel. The plan provides for grants of options to purchase a specified number of shares of common stock. A total of 400,000 shares are available under the plan. The 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.

The Compensation Committee has granted options to purchase a total of 180,000 shares (90,000 shares from incentive stock options and 90,000 shares from nonqualified stock options) to five Company officers, all of which were granted in 1993 and 1994. The options vested 25% per year over four years, have an exercise price of $20 per share and a term of ten years, subject to earlier expiration upon termination of employment. During the year ended December 31, 2002, 86,790 option shares were exercised (49,900 incentive stock options and 36,890 nonqualified stock options). The remaining 93,210 unexercised option shares are fully vested and expire September 23, 2003. No compensation expense has been recognized as a result of these grants.

10. NON-OPERATING ITEMS

Gain on Sale of Property

Gain on sale of property of $1,426,000 in 2002 represents the final

proceeds received upon appeal of the District of Columbia's purchase of the Company's Park Road property as part of an assemblage of parcels for a neighborhood revitalization project. There were no property sales in 2001 or 2000.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments," requires disclosure about the fair value of financial instruments. The carrying values of cash, accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair value. Based on interest rates currently available to the Company, the carrying value of the variable rate credit line payable is a reasonable estimation of its fair value, because the debt bears interest based on short-term interest rates. Based upon management's estimate of borrowing rates and loan terms currently available to the Company for fixed rate financing, the fair value of the fixed rate notes payable is in excess of the $294,619,000 carrying value. Management estimates that the fair value of these fixed rate notes payable, assuming current long term interest rates of approximately 6%, would be approximately $329,000,000.

12. COMMITMENTS AND CONTINGENCIES

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

13. DISTRIBUTIONS

In December 1995, the Company established a Dividend Reinvestment and Stock Purchase Plan (the "Plan"), to allow its stockholders and holders of limited partnership interests an opportunity to buy additional shares of common stock by reinvesting all or a portion of their dividends or distributions. The Plan provides for investing in newly issued shares of common stock at a 3% discount from market price without payment of any brokerage commissions, service charges or other expenses. All expenses of the Plan are paid by the Company. The Operating Partnership also maintains a similar dividend reinvestment plan that mirrors the Plan, which allows limited partnership interests the opportunity to buy additional limited partnership units.

During 2002, $1.46 per share of the distributions paid represented ordinary dividend income and $0.10 per share represented return of capital to the shareholders. The following summarizes distributions paid during the years ended December 31, 2002, 2001 and 2000, and includes activity in the Plan as well as limited partnership units issued from the reinvestment of unit distributions:

Total Distributions to	Dividend Reinvestm

	Common Stockholders (in thousands)	Limited Partnership Unitholders (in thousands)	Common Stock Issued	Uni Issu
Distributions during 2002				
October 31	$ 5,839	$ 2,019	136,107	3,1
July 31	5,785	2,017	135,603	
April 30	5,736	2,017	119,772	
January 31	5,670	2,017	165,390	
	$ 23,030	$ 8,070	556,872	3,1
Distributions during 2001				
October 31	$ 5,599	$ 2,018	176,319	
July 31	5,529	2,017	175,790	
April 30	5,460	2,017	169,753	
January 31	5,410	2,017	123,561	
	$ 21,998	$ 8,069	645,423	
Distributions during 2000				
October 31	$ 5,356	$ 2,018	133,435	
July 31	5,305	2,017	125,705	
April 28	5,254	2,017	125,558	
January 31	5,202	2,017	129,789	
	$ 21,117	$ 8,069	514,487	

In December 2002, 2001 and 2000, the Board of Directors of the Company authorized a distribution of $0.39 per share payable in January 2003, 2002 and 2001, to holders of record on January 17, 2003, January 17, 2002 and January 15, 2001, respectively. As a result, $5,924,000, $5,670,000 and $5,410,000, were paid to common shareholders on January 31, 2003, January 31, 2002 and January 31, 2001, respectively. Also, $2,018,000, $2,017,000 and $2,017,000, were paid to limited partnership unitholders on January 31, 2003, January 31, 2002 and January 31, 2001 ($0.39 per Operating Partnership unit), respectively. These amounts are reflected as a reduction of stockholders' equity in the case of common stock dividends and minority interests deductions in the case of limited partner distributions and are included in accounts payable in the accompanying consolidated financial statements.

SAUL CENTERS, INC.
Notes to Consolidated Financial Statements

14. INTERIM RESULTS (UNAUDITED)

The following summary presents the results of operations of the Company for the quarterly periods of years 2002, 2001 and 2000.

(In thousands, except per share amounts)

	2002 Calenda		
	1st Quarter	2nd Quarter	
Revenues	$ 23,191	$ 22,793	$
Income before minority interests	8,352 (a)	6,499	
Minority interests	(2,017)	(2,017)	
Net income	$ 6,335	$ 4,482	$
Net income per share (basic & diluted)	$ 0.43	$ 0.30	$

(a) Includes $1,426 gain on sale of Park

	2001 Calenda		
	1st Quarter	2nd Quarter	
Revenues	$ 21,236	$ 20,919	$
Income before minority interests	6,051	5,924	
Minority interests	(2,017)	(2,017)	
Net income	$ 4,034	$ 3,907	$
Net income per share (basic & diluted)	$ 0.29	$ 0.28	$

	2000 Calenda		
	1st Quarter	2nd Quarter	
Revenues	$ 19,407	$ 18,988	$
Income before minority interests	5,533	5,183	
Minority interests	(2,017)	(2,017)	
Net income	$ 3,516	$ 3,166	$

Net income per share (basic & diluted)	$ 0.26	$ 0.24	$

SAUL CENTERS, INC.
Notes to Consolidated Financial Statements

15. BUSINESS SEGMENTS

The company has two reportable business segments: Shopping Centers and Office Properties. The accounting policies of the segments presented below are the same as those described in the summary of significant accounting policies (see Note 1). The Company evaluates performance based upon income from real estate for the combined properties in each segment.

(In thousands)	Shopping Centers	Office Properties	Corporate and Other	Consolida Totals
2002				
Real estate rental operations:				
Revenues	$ 61,597	$ 32,261	$ 105	$ 93,9
Expenses	(10,675)	(7,882)	--	(18,5
Income for real estate	50,922	24,379	105	75,4
Interest expense & amortization of debt costs	--	--	(25,838)	(25,8
General and administrative	--	--	(5,537)	(5,5
Subtotal	50,922	24,379	(31,270)	44,0
Depreciation and amortization	(11,295)	(6,526)	--	(17,8
Gain on property sale	1,426			1,4
Minority interests	--	--	(8,070)	(8,0
Net income	$ 41,053	$ 17,853	$ (39,340)	$ 19,5
Capital investment	$ 31,769	$ 17,336	$ --	$ 49,1
Total assets	$ 215,692	$ 135,836	$ 37,159	$ 388,6
2001				
Real estate rental operations:				
Revenues	$ 58,714	$ 27,427	$ 167	$ 86,3
Expenses	(10,324)	(6,022)	--	(16,3
Income from real estate	48,390	21,405	167	69,9
Interest expense & amortization of debt costs	--	--	(25,486)	(25,4
General and administrative	--	--	(4,335)	(4,3
Subtotal	48,390	21,405	(29,654)	40,1
Depreciation and amortization	(9,751)	(5,007)	--	(14,7

Minority interest	--	--	(8,069)	(8,0
Net income	$ 38,639	$ 16,398	$ (37,723)	$ 17,3
Capital investment	$ 8,220	$ 13,580	$ --	$ 21,8
Total assets	$ 192,762	$ 124,529	$ 29,112	$ 346,4

2000				
Real estate rental operations:				
Revenues	$ 59,969	$ 21,837	$ 223	$ 79,0
Expenses	(10,252)	(4,937)	--	(15,1
Income from real estate	46,717	16,900	223	63,8
Interest expense & amortization of debt costs	--	--	(24,301)	(24,3
General and adminstrative	--	--	(3,891)	(3,8
Subtotal	46,717	16,900	(27,969)	35,6
Depreciation and amortization	(9,453)	(4,079)	(2)	(13,5
Minority interests	--	--	(8,069)	(8,0
Net income	$ 37,264	$ 12,821	$ (36,040)	$ 14,0
Capital investment	$ 14,886	$ 28,540	$ --	$ 43,4
Total assets	$ 185,518	$ 117,497	$ 31,435	$ 334,4

Schedule III

SAUL CENTERS, INC.
Real Estate and Accumulated Depreciation
December 31, 2002
(Dollars in Thousands)

		Costs Capitalized	Basis a	
	Initial Basis	Subsequent to Acquisition	Land	Buildin and Improvem
Shopping Centers				
Ashburn Village, Ashburn, VA	$ 11,431	$ 15,969	$ 6,764	$ 20,
Beacon Center, Alexandria, VA	1,493	14,856	--	15,
Belvedere, Baltimore, MD	932	845	263	1,
Boulevard, Fairfax, VA	4,883	1,512	3,687	2,
Broadlands, Loudoun County, VA	5,317	1,003	5,317	1,
Clarendon, Arlington, VA	385	405	636	
Clarendon Station, Arlington, VA	834	37	425	
Flagship Center, Rockville, MD	160	9	169	
French Market, Oklahoma City, OK	5,781	9,739	1,118	14,
Germantown, Germantown, MD	3,576	297	2,034	1,

Giant, Baltimore, MD	998	364	422	
The Glen, Lake Ridge, VA	12,918	799	5,300	8,
Great Eastern, District Heights., MD	3,472	9,381	2,263	10,
Hampshire Langley, Langley Park, MD	3,159	2,768	1,856	4,
Kentlands, Gaithersburg, MD	14,534	123	5,006	9,
Lansdowne, Loudoun County, VA	5,526	158	5,526	
Leesburg Pike, Baileys Crossroads, VA	2,418	5,082	1,132	6,
Lexington Mall, Lexington, KY	4,868	5,991	2,111	8,
Lumberton Plaza, Lumberton, NJ	4,400	9,016	950	12,
Olney, Olney, MD	1,884	1,404	--	3,
Ravenwood, Baltimore, MD	1,245	1,745	703	2,
Seven Corners, Falls Church, VA	4,848	39,541	4,913	39,
Shops at Fairfax, Fairfax, VA	2,708	9,193	992	10,
Southdale, Glen Burnie, MD	3,650	15,541	--	18,
Southside Plaza, Richmond, VA	6,728	4,586	1,878	9,
South Dekalb Plaza, Atlanta, GA	2,474	2,635	703	4,
Thruway, Winston-Salem, NC	4,778	14,060	5,464	13,
Village Center, Centreville, VA	16,502	731	7,851	9,
West Park, Oklahoma City, OK	1,883	596	485	1,
White Oak, Silver Spring, MD	6,277	3,742	4,787	5,
Total Shopping Centers	140,062	172,128	72,755	237,
Office Properties				
Avenel Business Park, Gaithersburg, MD	21,459	19,021	3,851	36,
Clarendon Center, Arlington, VA	11,534	512	11,534	
Crosstown Business Center, Tulsa, OK	3,454	5,513	604	8,
601 Pennsylvania Ave., Washington DC	5,479	48,336	5,667	48,
Van Ness Square, Washington, DC	812	27,131	831	27,
Washington Square, Alexandria VA	2,034	46,240	544	47,
Total Office Properties	44,772	146,753	23,031	168,
Preacquistion Costs				
Total	$ 184,834	$ 318,881	$ 95,786	$ 406,

	Accumulated Depreciation	Book Value	Related Debt	Date o Construct
Shopping Centers				
Ashburn Village, Ashburn, VA	$ 2,686	$ 24,714	$ 18,847	1994 & 20
Beacon Center, Alexandria, VA	6,725	9,624	10,924	1960 & 1
Belvedere, Baltimore, MD	966	811	2,547	1958
Boulevard, Fairfax, VA	469	5,926	5,483	1969
Broadlands, Loudoun County, VA	--	6,320	--	2002
Clarendon, Arlington, VA	43	747	470	1949
Clarendon Station, Arlington, VA	87	784	207	1949
Flagship Center, Rockville, MD	--	169	775	1972
French Market, Oklahoma City, OK	4,692	10,828	5,489	1972 & 2
Germantown, Germantown, MD	636	3,237	1,757	1990

Giant, Baltimore, MD	654	708	2,584	1959
The Glen, Lake Ridge, VA	1,871	11,846	9,797	1993
Great Eastern, District Heights., MD	3,682	9,171	11,073	1958 & 1
Hampshire Langley, Langley Park, MD	2,333	3,594	10,141	1960
Kentlands, Gaithersburg, MD	60	14,597	7,640	2002
Lansdowne, Loudoun County, VA	--	5,684	--	2002
Leesburg Pike, Baileys Crossroads, VA	3,836	3,664	11,001	1965
Lexington Mall, Lexington, KY	4,944	5,915	7,407	1971 & 1
Lumberton Plaza, Lumberton, NJ	7,053	6,363	7,761	1975
Olney, Olney, MD	1,969	1,319	3,690	1972
Ravenwood, Baltimore, MD	850	2,140	6,537	1959
Seven Corners, Falls Church, VA	14,143	30,246	44,259	1956
Shops at Fairfax, Fairfax, VA	2,782	9,119	8,184	1975 & 2
Southdale, Glen Burnie, MD	12,385	6,806	11,627	1962 & 1
Southside Plaza, Richmond, VA	6,211	5,103	9,800	1958
South Dekalb Plaza, Atlanta, GA	2,864	2,245	3,798	1970
Thruway, Winston-Salem, NC	5,994	12,844	25,316	1955 & 1
Village Center, Centreville, VA	2,615	14,618	8,656	1990
West Park, Oklahoma City, OK	1,105	1,374	175	1974
White Oak, Silver Spring, MD	3,484	6,535	23,385	1958 & 1
Total Shopping Centers	95,139	217,051	259,330	
Office Properties				
Avenel Business Park, Gaithersburg, MD	15,428	25,052	31,838	1984, 19
		--		1990, 19
				& 2000
Clarendon Center, Arlington, VA	--	12,046	--	2002
Crosstown Business Center, Tulsa, OK	2,687	6,280	431	1974
601 Pennsylvania Ave., Washington DC	21,745	32,070	34,830	1986
Van Ness Square, Washington, DC	13,456	14,487	14,940	1990
Washington Square, Alexandria VA	1,831	46,443	39,374	1952 & 2
Total Office Properties	55,147	136,378	121,413	
Preacquistion Costs		199		
Total	$ 150,286	$ 353,628	$ 380,743	

Schedule III

SAUL CENTERS, INC.
Real Estate and Accumulated Depreciation
December 31, 2002

Depreciation and amortization related to the real estate investments reflected in the statements of operations is calculated over the estimated useful lives of the assets as follows:

Base building	33 - 50 years
Building components	20 years
Tenant improvements	The greater of the term of the lease or the useful life of the improvements

The aggregate remaining net basis of the real estate investments for federal income tax purposes was approximately $362,604,000 at December 31, 2002. Depreciation and amortization are provided on the declining balance and straight-line methods over the estimated useful lives of the assets.

The changes in total real estate investments and related accumulated depreciation for each of the years in the three year period ended December 31, 2002 are summarized as follows.

(In thousands)	2002	2001	
Total real estate investments:			
Balance, beginning of year	$ 454,809	$ 433,009	$
Acquisitions	28,871		
Improvements	20,234	21,800	
Sales	--	--	
Retirements	--	--	
Balance, end of year	$ 503,914	$ 454,809	$
Total accumulated depreciation:			
Balance, beginning of year	$ 136,928	$ 124,180	$
Depreciation expense	15,526	12,748	
Sales	--	--	
Retirements	2,168	--	
Balance, end of year	$ 150,286	$ 136,928	$