

SAUL CENTERS INC
Form 10-K/A
March 19, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A
Amendment No. 1

(Mark One)

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

For the fiscal year ended December 31, 2012

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)

Edgar Filing: SAUL CENTERS INC - Form 10-K/A

Maryland **52-1833074**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification No.)**
7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814-6522

(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, Par Value \$0.01 Per Share	New York Stock Exchange
Depository Shares each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock, Par Value \$0.01 Per Share	New York Stock Exchange
Depository Shares each representing 1/100th of a share of 9% Series B Cumulative Redeemable Preferred Stock, Par Value \$0.01 Per Share	New York Stock Exchange
Depository Shares each representing 1/100th of a share of 6.875% Series C Cumulative Redeemable Preferred Stock, Par Value \$0.01 Per Share	New York Stock Exchange

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

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

Edgar Filing: SAUL CENTERS INC - Form 10-K/A

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO .

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The number of shares of Common Stock, \$0.01 par value, outstanding as of March 1, 2013 was 19,973,600.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price of the registrant's Common Stock on the New York Stock Exchange on June 29, 2012 was \$478.8 million.

DOCUMENTS INCORPORATED BY REFERENCE:

Registrant incorporates by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K portions of registrant's definitive Proxy Statement for the 2013 Annual Meeting of Stockholders to be filed with the Securities Exchange Commission pursuant to Regulation 14A. The definitive Proxy Statement will be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

EXPLANATORY NOTE

Saul Centers, Inc. (the Company) is filing this Amendment No. 1 on Form 10-K/A to amend Item 2 and Item 7 in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which was originally filed with the Securities and Exchange Commission on March 13, 2013 (the Annual Report).

Item 2 is amended and being filed in its entirety (i) to correct the list of Anchor/Significant Tenants reported for the Company's Great Eastern Shopping Center in the Company's Schedule of Current Portfolio Properties by deleting the reference to Fresh World, and (ii) to update the amounts reported in the Company's Schedule of Current Portfolio Properties as Percentage Leased for (A) the Company's Clarendon Center-South Block Mixed-Use Property from 44% for Dec-12 and 68% for Dec-11 to 100% and 99%, respectively, and (B) the Company's Clarendon Center Residential-South Block Mixed-Use Property from 83% for Dec-12 and 86% for Dec-11 to 100% in each case.

Item 7 is amended and being filed in its entirety (i) to indicate, under the heading Results of Operations that the increase of \$1.5 million in same property revenue represents a percentage increase of 1.0% (rather than 0.9%) and that the increase in same property operating income was \$2.1 million (rather than \$1.9 million), representing an increase of 1.8% (rather than 1.6%), (ii) to amend the date with respect to which the accrued

Edgar Filing: SAUL CENTERS INC - Form 10-K/A

but unpaid dividends are calculated when determining the redemption price of the Company's Series C Cumulative Redeemable Preferred Stock from March 15, 2018 to February 12, 2018, and (iii) to update from 91.7% to 82.8% the amount reported as Percentage Leased with respect to Mixed-Use Properties as of December 31, 2012 under the heading Portfolio Leasing Status.

In addition, we are filing as exhibits certain currently dated certifications.

This amendment is limited in scope to matters set forth above and does not amend, update or change any other items or disclosures contained in the Annual Report. Accordingly, all other items that remain unaffected are omitted in this filing. Except as described in the preceding paragraphs, we do not purport by this Form 10-K/A to update any of the information contained in the Annual Report.

Item 2. Properties

Overview

As of December 31, 2012, the Company is the owner, developer and operator of a real estate portfolio composed of 58 operating properties, totaling approximately 9.5 million square feet of gross leasable area (GLA), and two development parcels. The properties are located primarily in the Washington, D.C./Baltimore, Maryland metropolitan area. The portfolio is composed of 50 neighborhood and community Shopping Centers, and seven predominantly Mixed-Use Properties totaling approximately 7.9 million and 1.6 million square feet of GLA, respectively. No single property accounted for more than 6.5% of the total gross leasable area. A majority of the Shopping Centers are anchored by several major tenants. Thirty-three of the Shopping Centers were anchored by a grocery store and offer primarily day-to-day necessities and services. Two retail tenants, Giant Food (5.0%), a tenant at ten Shopping Centers and Safeway (2.7%), a tenant at eight Shopping Centers, individually accounted for more than 2.5% of the Company's total revenue for the year ended December 31, 2012. The average rent, calculated using annualized base rent for leased space as of December 31, 2012 and 2011, excluding residential, was \$17.96 per square foot and \$17.31 per square foot, respectively, for the Company's Current Portfolio Properties.

The Company expects to hold its properties as long-term investments, and it has no maximum period for retention of any investment. It plans to selectively acquire additional income-producing properties and to expand, renovate, and improve its properties when circumstances warrant. See Item 1. Business Operating Strategies and Business Capital Policies.

The Shopping Centers

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

In general, the Shopping Centers are seasoned community and neighborhood shopping centers located in well established, highly developed, densely populated, middle and upper income areas. The 2012 average estimated population within a one- and three-mile radius of the Shopping Centers is approximately 15,300 and 93,600, respectively. The 2012 average household income within the one- and three-mile radius of the Shopping Centers is approximately \$112,400 and \$114,000, respectively, compared to a national average of \$68,200. Because the Shopping Centers generally are located in highly developed areas, management believes that there is little likelihood that significant numbers of competing centers will be developed in the future.

The Shopping Center properties range in size from approximately 20,000 to 575,000 square feet of GLA, with six in excess of 300,000 square feet, and average approximately 154,000 square feet. A majority of the Shopping Centers are anchored by several major tenants and other tenants offering primarily day-to-day necessities and services. Thirty-three of the Shopping Centers are anchored by a grocery store.

Lease Expirations of Shopping Center Properties

The following table sets forth, by year of expiration, the aggregate amount of base rent and leasable area for leases in place at the Shopping Centers that the Company owned as of December 31, 2012, for each of the next ten years beginning with 2013, assuming that none of the tenants exercise renewal options and excluding an aggregate of 522,500 square feet of unleased space, which represented 6.6% of the GLA of the Shopping Centers as of December 31, 2012.

Lease Expirations of Shopping Center Properties

Year of Lease Expiration	Leasable Area Represented by Expiring Leases	Percentage of Leasable Area Represented by Expiring Leases	Annual Base Rent Under Expiring Leases (1)	Percentage of Annual Base Rent Under Expiring Leases
2013	801,450 sf	10.2%	\$ 12,847,135	11.3%
2014	902,750	11.5%	16,930,769	14.9%
2015	804,644	10.2%	13,243,763	11.7%
2016	1,243,980	15.8%	14,096,323	12.4%
2017	861,598	10.9%	16,505,576	14.5%
2018	408,794	5.2%	6,412,468	5.6%
2019	424,532	5.4%	5,183,222	4.6%
2020	143,256	1.8%	2,895,798	2.5%
2021	158,754	2.0%	2,321,444	2.0%
2022	603,210	7.7%	6,831,873	6.0%
Thereafter	1,001,666	12.7%	16,352,247	14.4%
Total	7,354,634 sf	93.4%	\$ 113,620,618	100.0%

(1) Calculated using annualized contractual base rent payable as of December 31, 2012 for the gross leasable area expiring, and excluding expenses payable by or reimbursable from tenants.

The Mixed-Use Properties

Six of the seven Mixed-Use Properties are located in the Washington, D.C. metropolitan area and contain an aggregate GLA of approximately 1.2 million square feet, comprised of 1.1 million and 131,000 square feet of office and retail space, respectively, and 244 apartments. The seventh Mixed-Use Property is located in Tulsa, Oklahoma and contains GLA of 197,000 square feet. The Mixed-Use Properties represent three distinct styles of facilities, are located in differing commercial environments with distinctive demographic characteristics, and are geographically removed from one another. Accordingly, management believes that the Washington, D.C. area mixed-use properties compete for tenants in different commercial and geographic sub-markets of the metropolitan Washington, D.C. market and do not compete with one another.

601 Pennsylvania Avenue is a nine-story, 227,000 square foot Class A office building (with a small amount of street level retail space) built in 1986 and located in a prime location in downtown Washington, D.C. Washington Square at Old Town is a 235,000 square foot Class A mixed-use office/retail complex completed in 2000 and located on a two-acre site along Alexandria's main street, North Washington Street, in historic Old Town Alexandria, Virginia. Avenel Business Park is a 391,000 square foot research park located in the suburban Maryland, I-270 biotech corridor. The business park consists of twelve one-story buildings built in six phases, completed between 1981 and 2000. Clarendon Center is a recently constructed mixed-use Class A commercial and residential project located at the Clarendon Metro station in Arlington County, Virginia. This development contains 171,500 square feet of office, 42,000 square feet of retail and 244 apartment units.

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

The economic downturn of the last five years has negatively affected retail and office property operating performance. While the impact in the Washington, D.C. metropolitan area, where the majority of the Company's properties are located, has generally been less severe, issues facing the Federal government relating to spending cuts and budget policies cloud our current economic recovery with uncertainty. Overall operating trends have been encouraging, but both retail and office real estate fundamentals continue to be vulnerable to adverse developments in the housing and public and private sector job markets.

The Company recently completed negotiation of lease termination agreements with the tenants of Van Ness Square and expects the building will be vacant on or about April 30, 2013. Costs incurred related to those termination arrangements are being amortized to expense using the straight-line method over the remaining terms of the leases, are included in Predevelopment Expenses in the Consolidated Statements of Operations, totaled \$2.7 million in 2012 and are expected to total approximately \$3.3 million over the first two quarters of 2013. The Company intends to develop a primarily residential project with street-level retail and will recognize additional predevelopment expenses in future periods when the existing improvements of Van Ness Square and the adjacent 4469 Connecticut Avenue are demolished, the timing of which is uncertain and dependent on the issuance of various governmental approvals and permits.

Lease Expirations of Mixed-Use Properties

The following table sets forth, by year of expiration, the aggregate amount of base rent and leasable area for commercial leases in place at the Mixed-Use Properties that the Company owned as of December 31, 2012, for each of the next ten years beginning with 2013, assuming that none of the tenants exercise renewal options and excluding an aggregate of 245,100 square feet of unleased office and retail space, which represented 17.2% of the GLA of the commercial space within the Mixed-Use Properties as of December 31, 2012.

Commercial Lease Expirations of Mixed-Use Properties

Year of Lease Expiration	Leasable Area Represented by Expiring Leases	Percentage of Leasable Area Represented by Expiring Leases	Annual Base Rent Under Expiring Leases (1)	Percentage of Annual Base Rent Under Expiring Leases
2013	176,835 sf	12.4%	\$ 3,909,384	10.9%
2014	234,604	16.5%	9,680,872	27.1%
2015	63,056	4.4%	1,659,700	4.6%
2016	141,045	9.9%	3,293,279	9.2%
2017	115,077	8.1%	1,983,124	5.6%
2018	44,491	3.1%	1,470,047	4.1%
2019	38,842	2.7%	1,747,461	4.9%
2020	98,829	6.9%	1,463,617	4.1%
2021	75,417	5.3%	3,888,164	10.9%
2022	75,559	5.3%	2,484,204	7.0%
Thereafter	114,615	8.1%	4,134,620	11.6%
Total	1,178,370 sf	82.8%	\$ 35,714,472	100.0%

(1) Calculated using annualized contractual base rent payable as of December 31, 2012 for the gross leasable area expiring, and excluding expenses payable by or reimbursable from tenants.

As of December 31, 2012, the Company had 244 apartment leases, 233 of which will expire in 2013, nine of which will expire in 2014, and two of which will expire in 2015. Annual base rent due under these leases is \$7.1 million, \$241,000, and \$72,000 for the years ending December 31, 2013, 2014 and 2015, respectively.

Current Portfolio Properties

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

Saul Centers, Inc.**Schedule of Current Portfolio Properties****December 31, 2012**

Property	Location	Leasable Area (Square Feet)	Year Acquired or Developed (Renovated)	Land Area (Acres)	Percentage Leased ⁽¹⁾		Anchor / Significant Tenants
					Dec-12	Dec-11	
Shopping Centers							
Ashburn Village	Ashburn, VA	221,273	1994/00/01/02/06	26.4	92%	88%	Giant Food, Hallmark Cards, McDonalds, Burger King, Dunkin Donuts, Kinder Care
Ashland Square Phase I	Dumfries, VA	23,120	2007	2.0	100%	100%	Capital One Bank, CVS Pharmacy, All American Steakhouse
Beacon Center	Alexandria, VA	358,015	1972 (1993/99/07)	32.3	100%	100%	Lowe's Home Improvement Center, Giant Food, Office Depot, Outback Steakhouse, Marshalls, Hancock Fabrics, Party Depot, Panera Bread, TGI Fridays, Starbucks, Famous Dave's, Chipotle
BJ's Wholesale Club	Alexandria, VA	115,660	2008	9.6	100%	100%	BJ's Wholesale Club
Boca Valley Plaza	Boca Raton, FL	121,269	2004	12.7	87%	80%	Publix, Wachovia Bank, Jaco Hybrid Training, Subway
Boulevard	Fairfax, VA	49,140	1994 (1999/09)	5.0	100%	100%	Panera Bread, Party City, Petco
Briggs Chaney MarketPlace	Silver Spring, MD	194,347	2004	18.2	99%	99%	Safeway, Ross Dress For Less, Family Dollar, Advance Auto. McDonalds, Wendy's, Chuck E Cheese's
Broadlands Village	Ashburn, VA	159,734	2003/4/6	24.0	85%	91%	Safeway, The All American Steakhouse, Bonefish Grill, Starbucks, LA Boxing
Countryside Marketplace	Sterling, VA	141,696	2004	16.0	92%	90%	Safeway, CVS Pharmacy, Starbucks, McDonalds
Cranberry Square	Westminster, MD	141,569	2011	18.9	92%	91%	Giant Food, Staples, Party City, Pier 1 Imports, Jos A Banks, Wendy's, Giant Gas
Cruse MarketPlace	Cumming, GA	78,686	2004	10.6	84%	88%	Publix, Subway
Flagship Center	Rockville, MD	21,500	1972, 1989	0.5	100%	100%	Capital One Bank
French Market	Oklahoma City, OK	244,724	1974 (1984/98)	13.8	87%	94%	Burlington Coat Factory, Bed Bath & Beyond, Staples, Lakeshore Learning Center, Alfred Angelo, Dollar Tree
Germantown	Germantown, MD	27,241	1992	2.7	81%	82%	Jiffy Lube
Giant	Milford Mill, MD	70,040	1972 (1990)	5.0	94%	94%	Giant Food
The Glen	Woodbridge, VA	136,440	1994 (2005)	14.7	96%	96%	Safeway Marketplace, The All American Steakhouse, Panera Bread, Five Guys, Chipotle
Great Eastern	District Heights, MD	255,398	1972 (1995)	31.9	75%	98%	Pep Boys, Big Lots, No Excuse Workout
Great Falls Center	Great Falls, VA	91,666	2008	11.0	98%	95%	Safeway, CVS Pharmacy, Capital One Bank, Starbucks, Subway, Walpole Woodworkers
Hampshire Langley	Takoma Park, MD	131,700	1972 (1979)	9.9	100%	98%	Expo E Mart, Radio Shack, Starbucks, Footlocker, Chuck E. Cheese's
Hunt Club Corners	Apopka, FL	101,522	2006	13.1	94%	94%	Publix, Walgreens, Radio Shack, Hallmark
Jamestown Place	Altamonte Springs, FL	96,372	2005	10.9	93%	90%	Publix, Carrabas Italian Grill
Kentlands Square I	Gaithersburg, MD	114,381	2002	11.5	100%	100%	Lowe's Home Improvement Center, Chipotle
Kentlands Square II	Gaithersburg, MD	240,683	2011	22.3	96%	100%	Giant Food, Kmart, Party City, Panera Bread, Not Your Average Joe's, Payless Shoes, Hallmark, Chick-Fil-A, Coal Fire Pizza
Kentlands Place	Gaithersburg, MD	40,648	2005	3.4	100%	97%	Elizabeth Arden's Red Door Salon, Bonefish Grill, Subway

Saul Centers, Inc.

Schedule of Current Portfolio Properties

December 31, 2012

Property	Location	Leasable Area (Square Feet)	Year Acquired or Developed (Renovated)	Percentage Leased ⁽¹⁾			Anchor / Significant Tenants
				Land Area (Acres)	Dec-12	Dec-11	
Shopping Centers (continued)							
Lansdowne Town Center	Leesburg, VA	189,352	2006	23.4	93%	96%	Harris Teeter, CVS Pharmacy, Panera Bread, Not Your Average Joes, Starbucks, Velocity 5, Capital One Bank
Leesburg Pike Plaza	Baileys Crossroads, VA	97,752	1966 (1982/95)	9.4	100%	95%	CVS Pharmacy, Party Depot, FedEx Kinko's, Radio Shack, Verizon Wireless
Lumberton Plaza	Lumberton, NJ	193,044	1975 (1992/96)	23.3	93%	76%	Bottom Dollar Food, Rite Aid, Virtua Health Center, Radio Shack, Family Dollar, Retro Fitness, Big Lots
Metro Pike Center	Rockville, MD	67,488	2010	4.6	84%	76%	McDonalds, Jennifer Convertibles, Fed ExKinko's, Dunkin Donuts, Seven Eleven
Shops at Monocacy	Frederick, MD	109,144	2004	13.0	92%	91%	Giant Food, Giant Gas Station, Panera Bread, Starbucks, Five Guys, California Tortilla
Northrock	Warrenton, VA	99,789	2009	15.4	81%	81%	Harris Teeter, Longhorn Steakhouse, Ledo's Pizza, Capital One Bank
Olde Forte Village	Ft. Washington, MD	143,577	2003	16.0	96%	94%	Safeway, Advance Auto, Dollar Tree, Radio Shack, McDonalds, Wendy's, Ledo's Pizza
Olney	Olney, MD	53,765	1975 (1990)	3.7	94%	96%	Rite Aid, Olney Grill, Ledo's Pizza, Popeye
Orchard Park	Dunwoody, GA	87,885	2007	10.5	92%	90%	Kroger, GNC, Subway
Palm Springs Center	Altamonte Springs, FL	126,446	2005	12.0	98%	94%	Albertson's, Office Depot, Mimi's Cafe, Toojay's Deli
Ravenwood	Baltimore, MD	93,328	1972 (2006)	8.0	91%	93%	Giant Food, Starbucks
11503 Rockville Pike/5541 Nicholson Lane	Rockville, MD	40,249	2010/2012	3.6	70%	100%	Staples, Casual Male
1500 Rockville Pike	Rockville, MD	52,681	2012	6.7	91%	na	Party City
Seabreeze Plaza	Palm Harbor, FL	146,673	2005	18.4	97%	95%	Publix, Earth Origins Health Food, Petco, Planet Fitness, Vision Works
Marketplace at Sea Colony	Bethany Beach, DE	21,677	2008	5.1	90%	95%	Seacoast Realty, Armand's Pizza, Candy Kitchen, Turquoise Restaurant
Seven Corners	Falls Church, VA	574,831	1973 (1994-7/07)	31.6	100%	91%	The Home Depot, Shoppers Food & Pharmacy, Michaels Arts & Crafts, Barnes & Noble, Ross Dress For Less, Ski Chalet, G Street Fabrics, Off-Broadway Shoes, JoAnn Fabrics, Dress Barn, Starbucks, Dogfishhead Ale House, Red Robin Gourmet Burgers, Chipotle, Wendy's, Burlington Coat Factory
Severna Park Marketplace	Severna Park, MD	254,174	2011	20.6	100%	100%	Giant Food, Kohl's, Office Depot, A.C. Moore, Goodyear, Chipotle, McDonalds, Jos. A Banks, Radio Shack, Atlanta Bread Company, Five Guys, Unleashed
Shops at Fairfax	Fairfax, VA	68,762	1975 (1993/99)	6.7	100%	95%	Super H Mart
Smallwood Village Center	Waldorf, MD	173,281	2006	25.1	70%	68%	Safeway, CVS Pharmacy, Family Dollar
Southdale	Glen Burnie, MD	484,115	1972 (1986)	39.6	93%	83%	The Home Depot, Food Valu, Michaels Arts & Crafts, Marshalls, PetSmart, Value City Furniture, Athletic Warehouse, Starbucks, Gallo Clothing, Office Depot
Southside Plaza	Richmond, VA	371,761	1972	32.8	92%	92%	Community Supermarket, Maxway, Citi Trends, City of Richmond, McDonalds, Burger King, Kool Smiles, Anna's Linens
South Dekalb Plaza	Atlanta, GA	163,418	1976	14.6	88%	88%	Maxway, Big Lots, Emory Clinic, Deal\$(Dollar Tree)
Thruway	Winston-Salem, NC	362,547	1972 (1997)	30.5	93%	87%	Harris Teeter, Trader Joe's, Stein Mart, Talbots, Hanes Brands, Jos. A Banks,

Edgar Filing: SAUL CENTERS INC - Form 10-K/A

							Bonefish Grill, Chico's, Ann Taylor Loft, Coldwater Creek, Rite Aid, FedEx/Kinkos, Plow & Hearth, New Balance, Aveda Salon, Christies Hallmark, Carter's Kids, McDonalds, Chick-Fil-A, Wells Fargo Bank, Francesca's Collections, Great Outdoor Provision Company, White House / Black Market
Village Center	Centreville, VA	146,309	1990	17.2	99%	90%	Giant Food, Tuesday Morning, Starbucks, McDonalds, Pet Supplies Plus
Westview Village	Frederick, MD	97,611	2009	10.4	85%	57%	Mimi's Cafe, Sleepy's, Music & Arts, Firehouse Subs, CiCi's Pizza, Café Rio, Regus
White Oak	Silver Spring, MD	480,676	1972 (1993)	28.5	100%	99%	Giant Food, Sears, Walgreens, Radio Shack, Boston Market, Sarku
	Total Shopping Centers	7,877,159		757.1	93.4%	91.6%	

Saul Centers, Inc.

Schedule of Current Portfolio Properties

December 31, 2012

Property	Location	Leasable Area (Square Feet)	Year Acquired or Developed (Renovated)	Land Area (Acres)	Percentage Leased ⁽¹⁾		Anchor / Significant Tenants
					Dec-12	Dec-11	
Mixed-Use Properties							
Del Business Park	Gaithersburg, MD	390,683	1981-2000	37.1	83%	80%	General Services Administration, SeraCare Life Sciences, Bio-Reference Laboratories, Inc, Direct Buy
London Center-North Block	Arlington, VA	108,387	2010	0.6	96%	86%	Pete's New Haven Pizza, AT&T, Airline Reporting Corporation, Personnel Decisions
London Center-South Block	Arlington, VA	104,894	2010	1.3	100%	99%	Trader Joe's, Circa, Burke Herbert Cannon Design, Winston Partners, Keppler Speakers Bureau, ECG Management Co., Leadership Institute, Capital One
London Center Residential-South Block (244 units)		188,671	2010		100%	100%	
Town Business Center	Tulsa, OK	197,127	1975 (2000)	22.4	77%	87%	Compass Group, Roxtec, Keystone Automotive, Freedom Express, Direct TV, Auto Panels Plus
Pennsylvania Ave.	Washington, DC	226,604	1973 (1986)	1.0	95%	95%	National Gallery of Art, American of Health Plans, Credit Union National Assn., Southern Company, HQ Global Freedom Forum, Pharmaceutical Council Management Assn., Capital Grille
Ness Square	Washington, DC	159,411	1973 (1990)	1.4	44%	67%	Office Depot, Pier One
Kingston Square	Alexandria, VA	236,376	1975 (2000)	2.0	89%	92%	Vanderweil Engineering, AECOM, Freeman Decorating Services, Taurus Group, Cooper Carry, Bank of America Marketing General, Alexandria Economic Development, Trader Joe's, Fed Ex/Kinko's, Talbots, Teasm Restaurant, Starbucks, The Business Bank
	Total Mixed-Use Properties	1,612,153		65.8	82.8% ⁽²⁾	85.8%	
	Total Portfolio	9,489,312		822.9	91.7%⁽²⁾	90.7%	
Land and Development Parcels							
Kingston Square Phase II	Manassas, VA		2004	17.3	Marketing to grocers and other retail businesses, with a development timetable yet to be finalized.		
New Market	New Market, MD		2005	35.5	Parcel will accommodate retail development in excess of 120,000 SF near I-70, east of Frederick, Maryland. A development timetable has not been determined.		
	Total Development Properties			52.8			

(1) Percentage leased is a percentage of rentable square feet leased for commercial space and a percentage of units leased for apartments.

(2) Total percentage leased is for commercial space only.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) begins with the Company's primary business strategy to give the reader an overview of the goals of the Company's business. This is followed by a discussion of the critical accounting policies that the Company believes are important to understanding the assumptions and judgments incorporated in the Company's reported financial results. The next section, beginning on page 40, discusses the Company's results of operations for the past two years. Beginning on page 44, the Company provides an analysis of its liquidity and capital resources, including discussions of its cash flows, debt arrangements, sources of capital and financial commitments. Finally, on page 55, the Company discusses funds from operations, or FFO, which is a non-GAAP financial measure of performance of an equity REIT used by the REIT industry.

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

Overview

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

The Company's primary operating strategy is to focus on its community and neighborhood shopping center business and to operate its properties to achieve both cash flow growth and capital appreciation. Management believes there is potential for long term growth in cash flow as existing leases for space in the Shopping Centers and Mixed-Use properties expire and are renewed, or newly available or vacant space is leased. The Company intends to renegotiate leases where possible and seek new tenants for available space in order to optimize the mix of uses to improve foot traffic through the Shopping Centers. As leases expire, management expects to revise rental rates, lease terms and conditions, relocate existing tenants, reconfigure tenant spaces and introduce new tenants with the goals of increasing occupancy, improving overall retail sales, and ultimately increasing cash flow as economic conditions improve. In those circumstances in which leases are not otherwise expiring, management selectively attempts to increase cash flow through a variety of means, or in connection with renovations or relocations, recapturing leases with below market rents and re-leasing at market rates, as well as replacing financially troubled tenants. When possible, management also will seek to include scheduled increases in base rent, as well as percentage rental provisions, in its leases.

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

During the fourth quarter of 2012, the Company acquired two properties along the Rockville Pike corridor of Rockville, Maryland, one of which is adjacent to one of the Company's existing properties. In December 2012, the Company purchased for \$23.0 million, including acquisition costs, approximately 52,700 square feet of retail space located on the east side of Rockville Pike near the Twinbrook Metro Station. The property, which was 90.5% leased to multiple tenants at December 31, 2012, is zoned for up to 745,000 square feet of rentable mixed-use space. The Company intends to redevelop the site but has not committed to any redevelopment plan or time table.

In December 2012, the Company purchased for \$12.2 million, including acquisition costs, approximately 20,100 square feet of mixed-use space, which was 40.5% leased to multiple tenants, located on the east side of Rockville Pike and adjacent to 11503 Rockville Pike, which was purchased in 2010. The property, when combined with 11503 Rockville Pike, will provide zoning for up to 331,000 square feet of rentable mixed-use space for a total development potential of up to 622,000 square feet. The Company intends to redevelop the site but has not committed to any redevelopment plan or time table.

In 2011, the Company acquired three Giant Food-anchored shopping centers located in the Maryland suburbs of the Washington, D.C. and Baltimore metropolitan area. The three centers, Kentlands Square II, Severna Park MarketPlace and Cranberry Square, total 636,000 square feet of leasable area, of which 98% is leased. The \$170.9 million purchase price, including acquisition costs, was financed with (1) \$60.0 million from two bridge loans secured by Kentlands Square II and Cranberry Square, each with an initial term of six months and accruing interest, payable monthly, at a rate equal to LIBOR plus 175 basis points; (2) a \$38.0 million non-recourse permanent loan secured by Severna Park MarketPlace; (3) approximately \$17.1 million in cash and borrowings from the Company's revolving credit facility; and (4) \$55.8 million from the issuance of equity to a related party.

In light of the limited amount of quality properties for sale and the escalated pricing of properties that the Company has been presented with or has inquired about over the past year, management believes acquisition opportunities for investment in existing and new Shopping Center and Mixed-Use Properties in the near future is uncertain. Because of its conservative capital structure, including its cash and capacity under its revolving credit facility, management believes that the Company is positioned to take advantage of additional investment opportunities as attractive properties are located and market conditions improve. (See Item 1. Business - Capital Policies). It is management's view that several of the sub-markets in which the Company operates have, or are expected to have in the future, attractive supply/demand characteristics. The Company will continue to evaluate acquisition, development and redevelopment as integral parts of its overall business plan.

Although there has been a downturn in the national real estate market, to date, the effects on the office and retail markets in the metropolitan Washington, D.C. area, where the majority of the Company's properties are located, have generally been less severe. However, continued economic stress in the local economies where the Company's properties are located may lead to increased tenant bankruptcies, increased vacancies and decreased rental rates.

While overall consumer confidence appears to have improved, retailers continue to be cautious about capital allocation when implementing store expansion. Vacancies continue to remain elevated compared to pre-recession levels; however, the Company's overall leasing percentage on a comparative same property basis, which excludes the impact of properties not in operation for the entirety of the comparable periods, at December 31, 2012 increased to 91.9% from 90.7% at December 31, 2011, an increase in leased space of approximately 107,000 square feet, primarily caused by the leasing of a portion of the space vacated by major shopping center tenants in 2011.

Because of the Company's conservative capital structure, its liquidity has not been significantly affected by the recent turmoil in the credit markets. The Company maintains a ratio of total debt to total asset value of under 50%, which allows the Company to obtain additional secured borrowings if necessary. As of December 31, 2012, amortizing fixed-rate mortgage debt with staggered maturities from 2013 to 2027 represented approximately 93.6% of the Company's notes payable, thus minimizing refinancing risk. The Company has two fixed-rate debt maturities scheduled for 2013, one of which was refinanced on February 27, 2013. Management currently expects to repay in full the \$6.8 million remaining balance on the second loan when it matures in July 2013. The Company's variable-rate debt consists of a \$14.9 million bank term loan for the Northrock shopping center, which was refinanced on February 27, 2013, and \$38.0 million outstanding under its line of credit. As of December 31, 2012, the Company has loan availability of approximately \$136.8 million under its \$175.0 million unsecured revolving line of credit.

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

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP), which requires management to make certain estimates and assumptions that affect the reporting of financial position and results of operations. See Note 2 to the Consolidated Financial Statements in this report. The Company has identified the following policies that, due to estimates and assumptions inherent in those policies, involve a relatively high degree of judgment and complexity.

Real Estate Investments

Real estate investment properties are stated at historic cost less depreciation. Although the Company intends to own its real estate investment properties over a long term, from time to time it will evaluate its market position, market conditions, and other factors and may elect to sell properties that do not conform to the Company's investment profile. Management believes that the Company's real estate assets have generally appreciated in value since their acquisition or development 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 the financial statements. Because the financial statements are prepared in conformity with GAAP, they do not report the current value of the Company's real estate investment properties.

The Company purchases real estate investment properties from time to time and records assets acquired and liabilities assumed, including land, buildings, and intangibles related to in-place leases and customer relationships based on their fair values. The fair value of buildings generally is determined as if the buildings were vacant upon acquisition and subsequently leased at market rental rates and considers the present value of all cash flows expected to be generated by 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 in-place lease relative to market terms for similar leases at acquisition taking into consideration the remaining contractual lease period, renewal periods, and the likelihood of the tenant exercising its renewal options. The fair value of a below market lease component is recorded as deferred income and accreted as additional lease revenue over the remaining contractual lease period and any renewal option periods included in the valuation analysis. The fair value of above market lease intangibles is recorded as a deferred asset and is amortized as a reduction of lease revenue over the remaining contractual lease term. The Company determines the fair value of at-market in-place leases considering the cost of acquiring similar leases, the foregone rents associated with the lease-up period and carrying costs associated with the lease-up period. Intangible assets associated with at-market in-place leases are amortized as additional expense over the remaining contractual lease term. To the extent customer relationship intangibles are present in an acquisition, the fair value of the intangibles are amortized over the life of the customer relationship. From time to time the Company may purchase a property for future development purposes. The property may be improved with an existing structure that would be demolished as part of the development. In such cases, the fair value of the building may be determined based only on existing leases and not include estimated cash flows related to future leases.

If there is an event or change in circumstance that indicates a potential impairment in the value of a real estate investment property, the Company prepares an analysis to determine whether the carrying value of the real estate investment property exceeds its estimated fair value. The Company considers both quantitative and qualitative factors in identifying impairment indicators including recurring operating losses, significant decreases in occupancy, and significant adverse changes in legal factors and business climate. If impairment indicators are present, the Company compares the projected cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying value of that property. The Company assesses its undiscounted projected cash flows based upon estimated capitalization rates, historic operating results and market conditions that may affect the property. If the carrying value is greater than the undiscounted projected cash flows, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its then estimated fair value. The fair value of any property is sensitive to the actual results of any of the aforementioned estimated factors, either individually or taken as a whole. Should the actual results differ from management's projections, the valuation could be negatively or positively affected.

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

Interest, real estate taxes, development-related salary costs and other carrying costs are capitalized on projects under construction. Once construction is substantially complete and the assets are placed in service, rental income, direct operating expenses, and depreciation associated with such properties are included in current operations. Commercial development projects are substantially complete and available for occupancy upon completion of tenant improvements, but no later than one year from the cessation of major construction activity. Residential development projects are considered substantially complete and available for occupancy upon receipt of

the certificate of occupancy from the appropriate licensing authority. 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 generally between 35 and 50 years for base buildings, or a shorter period if management determines that the building has a shorter useful life, and up to 20 years for certain other improvements.

Deferred Leasing Costs

Certain initial direct costs incurred by the Company in negotiating and consummating successful commercial leases are capitalized and amortized over the term of the leases. Deferred leasing costs consist of commissions paid to third-party leasing agents as well as internal direct costs such as employee compensation and payroll-related fringe benefits directly related to time spent performing successful leasing-related activities. Such activities include evaluating prospective tenants' financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating lease terms, preparing lease documents and closing transactions. In addition, deferred leasing costs include amounts attributed to in-place leases associated with acquisition properties.

Revenue Recognition

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

Allowance for Doubtful Accounts - Current and Deferred Receivables

Accounts receivable primarily represent amounts accrued and unpaid from tenants in accordance with the terms of the respective leases, subject to the Company's revenue recognition policy. Receivables are reviewed monthly and reserves are established with a charge to current period operations when, in the opinion of management, collection of the receivable is doubtful. In addition to rents due currently, accounts receivable include amounts representing minimum rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases. Reserves are established with a charge to income for tenants whose rent payment history or financial condition casts doubt upon the tenant's ability to perform under its lease obligations.

Legal Contingencies

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

Results of Operations

Same property revenue and operating income were \$160.1 million and \$119.7 million, respectively, in 2012 representing increases of \$1.5 million (1.0%) and \$2.1 million (1.8%) over 2011. Same property comparisons for 2012 and 2011 include 46 Shopping Centers and 5 Mixed-Use Properties which were in operation for the entirety of 2012 and 2011.

Same property revenue and operating income were \$151.8 million and \$112.6 million, respectively, in 2011 representing decreases of \$8.9 million (5.6%) and \$6.7 million (5.6%) compared to 2010. Same property comparisons for 2011 and 2010 include 44 Shopping Centers and 5 Mixed-Use Properties which were in operation for the entirety of 2011 and 2010.

The following is a discussion of the components of revenue and expense for the entire Company.

Revenue

(Dollars in thousands)

	For the year ended December 31,			Percentage Change	
	2012	2011	2010	2012 to 2011	2011 to 2010
Base rent	\$ 152,777	\$ 138,486	\$ 126,163	10.3%	9.8%
Expense recoveries	30,391	28,368	29,488	7.1%	-3.8%
Percentage rent	1,545	1,503	1,447	2.8%	3.9%
Other	5,379	5,521	6,010	-2.6%	-8.1%
Total revenue	\$ 190,092	\$ 173,878	\$ 163,108	9.3%	6.6%

Note: (Dollars in thousands)

Base rent includes \$3,796, \$3,694, and \$227, for the years 2012, 2011, and 2010, respectively, to recognize base rent on a straight-line basis. In addition, base rent includes \$1,495, \$1,119, and \$1,024, for the years 2012, 2011, and 2010, respectively, to recognize income from the amortization of in-place leases.

Total revenue increased 9.3% in 2012 compared to 2011 primarily due to \$14.5 million of aggregate revenue generated by Clarendon Center and the three Shopping Center Properties acquired in 2011 (collectively, the New 2012 Properties).

Total revenue increased 6.6% in 2011 compared to 2010. The increased revenue resulted primarily from (a) rental income generated by a development property (Clarendon Center) and five acquisition properties (11503 Rockville Pike, Metro Pike Center, Kentlands Square II, Severna Park MarketPlace and Cranberry Square), defined as the 2011 Acquisition Properties and together with Clarendon Center, the 2011 Development and Acquisition Properties (approximately \$19.1 million), offset in part by (b) (x) decreased revenue from rental properties fully in operation during both 2011 and 2010 (approximately \$8.9 million), comprised primarily of a decline in revenue generated by the Mixed-Use Properties (approximately \$4.1 million) due to a decrease in occupancy that occurred in the latter part of 2010 and the first quarter of 2011, (y) a decrease in other income compared to 2010, when the collection of rent and other damages arising from a long-standing dispute with a tenant over the non-payment of rent over a period of time was recorded (\$1.9 million), and (z) reduced expense recovery income resulting from substantial snow removal expenses incurred in 2010.

A discussion of the components of revenue follows.

Base rent

The \$14.3 million increase in base rent in 2012 compared to 2011 was attributable to \$12.4 million of increased base rent generated by the New 2012 Properties and \$2.3 million of increased base rent in the remainder of the portfolio.

The \$12.3 million increase in base rent in 2011 compared to 2010 was primarily attributable to the 2011 Development and Acquisition Properties (approximately \$16.8 million) which was offset in part by decreases at same center Mixed-Use Properties (approximately \$3.0 million) and the Shopping Centers (approximately \$1.9 million).

Expense recoveries

Expense recovery income increased \$2.0 million in 2012 compared to 2011 primarily due to \$1.7 million of increased expense recovery income generated by the New 2012 Properties.

Expense recovery income decreased \$1.1 million in 2011 compared to 2010 due primarily to recovery in 2010 of snow removal expenses incurred as a result of severe winter weather impacting the Mid-Atlantic states during January and February 2010.

Other revenue

The decline in operating income in 2012 compared to 2011 is primarily due to the collection in 2011 of \$325,000 of past due rents from a former tenant, partially offset by increased parking income at the Mixed-Use Properties.

Other revenue decreased in 2011 primarily due to the collection during 2010 of past due rents and other damages arising from a long-standing dispute with a tenant over the non-payment of rent over a period of time (approximately \$1.9 million) partially offset by increased residential tenant fees and parking income (combined \$755,000) at Clarendon Center.

Operating expenses*(Dollars in thousands)*

	For the year ended December 31,			Percentage Change	
	2012	2011	2010	2012 to 2011	2011 to 2010
Property operating expenses	\$ 23,794	\$ 24,715	\$ 22,897	-3.7%	7.9%
Provision for credit losses	1,151	1,880	1,334	-38.8%	40.9%
Real estate taxes	22,325	18,435	17,744	21.1%	3.9%
Interest expense and amortization of deferred debt	49,544	45,324	34,799	9.3%	30.2%
Depreciation and amortization	40,112	35,298	28,379	13.6%	24.4%
General and administrative	14,274	14,256	13,968	0.1%	2.1%
Predevelopment Expense	2,667			N/A	N/A
Total operating expenses	\$ 153,867	\$ 139,908	\$ 119,121	10.0%	17.5%

Total operating expenses increased 10.0% in 2012 compared to 2011 primarily due to increased real estate taxes, interest expense, depreciation expense and predevelopment expense. Total operating expenses increased 17.5% in 2011 compared to 2010 primarily due to increased interest and depreciation expense arising from the operation of the 2011 Development and Acquisition Properties.

Property operating expenses

Property operating expenses decreased \$900,000 in 2012 compared to 2011 primarily due to lower snow removal costs.

Property operating expenses increased \$1.8 million in 2011 primarily due to operating expenses arising from the operation of the 2011 Development and Acquisition Properties (\$3.3 million) and modest increases in non-snow removal same property operating expenses offset in part by a \$2.3 million decrease in snow removal expense.

Provision for credit losses

The provision for credit losses represents the Company's estimate of amounts owed by tenants that may not be collectible. The \$729,000 decrease in 2012 compared to 2011 reflects a general improvement in the retail economy and lack of significant bankruptcy losses among the Company's various tenants. The \$546,000 increase in 2011 compared to 2010 reflects the continued stress of a stagnant housing market and slowly recovering jobs market in the local economies where the Current Portfolio Properties are located. Approximately \$505,000 of the increase was caused by the SuperFresh and Borders Bookstore bankruptcies and a local grocery store vacancy.

Real estate taxes

The \$3.9 million increase in real estate taxes in 2012 compared to 2011 is comprised of increased property taxes charged by the District of Columbia and taxes related to the New 2012 Properties. The \$691,000 increase in real estate taxes in 2011 over 2010 resulted primarily from the operation of the 2011 Development and Acquisition Properties.

Interest and amortization of deferred debt

Interest expense increased \$4.2 million in 2012 compared to 2011 primarily due to approximately \$4.1 million of interest related to \$67.2 million of higher average debt balances and \$1.9 million of reduced capitalized interest, partially offset by \$2.1 million of lower interest resulting from lower average cost of debt.

Interest expense increased \$10.5 million in 2011 compared to 2010 primarily due to Clarendon Center, because more than 85% of the project was placed in service during 2011, which caused an \$8.9 million increase in interest expense, net of amounts capitalized, as well as increased interest expense arising from the refinancing in March 2011 of the project's construction loan with a higher fixed-rate, 15 year mortgage. Interest expense also increased in 2011 by \$1.3 million from debt incurred to finance the 2011 Acquisition Properties.

Depreciation and amortization

Depreciation and amortization of deferred leasing costs increased \$4.8 million in 2012 compared to 2011 primarily due to the New 2012 Properties.

Depreciation and amortization of deferred leasing costs increased \$6.9 million in 2011 compared to 2010 primarily as a result of depreciation commencement for the 2011 Development and Acquisition Properties placed in service during 2011.

General and administrative

General and administrative expenses increased \$288,000 in 2011 compared to 2010 primarily due to increased local taxes.

Predevelopment Expenses

Predevelopment expenses represent costs incurred, primarily lease termination costs, in preparation of the potential repositioning of Van Ness Square.

Acquisition Related Costs

Acquisition related costs in 2012 totaling approximately \$1.1 million arose from the December 2012 purchases of 1500 Rockville Pike and 5541 Nicholson Lane.

Acquisition related costs in 2011 totaling approximately \$2.5 million arose from the Company's September 23, 2011, purchase of Kentlands Square II, Severna Park MarketPlace and Cranberry Square and the February 17, 2011 purchase of a 3,000 square foot retail property located adjacent to the Company's Van Ness Square in Washington, D.C.

Acquisition related costs totaling approximately \$1.2 million in 2010 relate to the Company's October 1, 2010 purchase of a 20,000 square foot property and December 17, 2010 purchase of a 67,500 square foot property, both located near the White Flint Metro Station in Montgomery County, Maryland.

Gain on Casualty Settlement

Gain on casualty settlement in 2012 reflects insurance proceeds received in excess of the carrying value of assets damaged during a hail storm at French Market in 2012. Gain on casualty settlement in 2011 and 2010 reflects insurance proceeds received in excess of the carrying value of assets damaged during a severe hail storm at French Market in May 2010. In each instance, the insurance proceeds funded substantially all of the restoration of the damaged property.

Loss on Early Extinguishment of Debt

In June 2010, the Company refinanced its Thruway shopping center, located in Winston-Salem, North Carolina. The \$45.6 million loan requires principal and interest payments calculated using a 5.83% interest rate and a 25-year amortization schedule, and matures in ten years. In December 2010, the Company refinanced its Ravenwood shopping center, located in Baltimore, Maryland. The \$17.0 million loan requires principal and interest

payments calculated using a 6.18% interest rate and a 25-year amortization schedule, and matures in 15 years. These loans refinanced a portion of a 7.67%, multi-property loan that was scheduled to mature in October 2012. In conjunction with the refinancings, the Company incurred costs to retire the previous Thruway debt totaling \$4.5 million (approximately \$4.4 million to defease the original loan and write-offs of unamortized deferred debt costs of approximately \$54,000) and to retire the previous Ravenwood debt totaling \$926,000 (approximately \$912,000 to defease the original loan and write-offs of unamortized deferred debt costs of approximately \$14,000). The transactions reduced the Company's future refinancing risk by decreasing the amount of debt maturing in 2012 from \$95.7 million to \$62.0 million, and provided net cash proceeds of approximately \$17.4 million.

Gain on Sale of Property

Gain on sales of properties in 2012 resulted from the July 2012 sale of West Park shopping center and the December 2012 sale of the Belvedere shopping center.

Gain on sale of property in 2010 resulted from the sale of the Lexington Center land parcel and Lexington pads.

Impact of Inflation

Inflation has remained relatively low during 2012 and 2011. The impact of rising operating expenses due to inflation on the operating performance of the Company's portfolio would have been mitigated by terms in substantially all of the Company's leases which contain provisions designed to increase revenues to offset the adverse impact of inflation on the Company's results of operations. These provisions include upward periodic adjustments in base rent due from tenants, usually based on a stipulated increase and to a lesser extent on a factor of the change in the consumer price index, commonly referred to as the CPI.

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

Liquidity and Capital Resources

Cash and cash equivalents were \$12.1 million and \$12.3 million at December 31, 2012 and 2011, respectively. The changes in cash and cash equivalents during the years ended December 31, 2012 and 2011 were attributable to operating, investing and financing activities, as described below.

<i>(Dollars in thousands)</i>	For the year ended December 31,	
	2012	2011
Net cash provided by operating activities	\$ 78,423	\$ 55,669
Net cash used in investing activities	(46,873)	(201,500)
Net cash provided by (used in) financing activities	(31,740)	145,186
Decrease in cash and cash equivalents	\$ (190)	\$ (645)

Operating Activities

Net cash provided by operating activities increased \$22.7 million to \$78.4 million for the year ended December 31, 2012 compared to \$55.7 million for the year ended December 31, 2011, primarily reflecting the full year operating effect of properties acquired in September 2011. Net cash provided by operating activities represents, in each year, cash received primarily from rental income, plus other income, less property operating expenses, normal recurring general and administrative expenses and interest payments on debt outstanding.

Investing Activities

Net cash used in investing activities decreased \$154.6 million to \$46.9 million for the year ended December 31, 2012 compared to \$201.5 million for the year ended December 31, 2011. Investing activities in 2012 primarily reflect (a) the purchases of 1500 Rockville Pike and 5541 Nicholson Lane (b) tenant improvements and

capital expenditures and (c) Clarendon Center and Ashland Square Phase I development costs partially offset by (d) proceeds from the sales of West Park and Belvedere and (e) proceeds from casualty settlement. Investing activities for 2011 primarily reflect the purchase of Cranberry Square, Kentlands Square II and Severna Park MarketPlace and Clarendon Center construction costs.

Tenant improvement and property capital expenditures totaled \$12.7 million and \$11.6 million for 2012 and 2011, respectively.

Financing Activities

Net cash used in financing activities was \$31.7 million for the year ended December 31, 2012. Net cash provided by financing activities for the year ended December 31, 2011, was \$145.2 million. Net cash used in financing activities for the year ended December 31, 2012 primarily reflects:

the repayment of mortgage notes payable totaling \$117.6 million;

distributions made to common stockholders and holders of convertible limited partnership units in the Operating Partnership during the year totaling \$38.1 million;

distributions made to preferred stockholders during the year totaling \$15.1 million;

repayments of \$8.0 million on the revolving credit facility; and

payments of \$2.2 million for financing costs of new mortgage loans;
which was partially offset by:

proceeds received from one new and one modified mortgage notes payable totaling \$83.5 million;

proceeds of \$38.0 million from the revolving credit facility; and

\$27.8 million of proceeds received from the issuance of common stock under the dividend reinvestment program and from the exercise of stock options.

Cash provided by financing activities for the year ended December 31, 2011 primarily reflects:

proceeds of \$226.0 million received from mortgage notes payable;

proceeds of \$60.0 million received from secured bridge financing loans;

proceeds of \$13.4 million received from construction loan draws;

proceeds of \$16.0 million received from revolving credit facility draws;

Edgar Filing: SAUL CENTERS INC - Form 10-K/A

proceeds of \$55.8 million from an equity offering of common stock and limited partnership units in the Operating Partnership; and

proceeds of \$20.9 million from the issuance of common stock under the dividend reinvestment program, directors deferred plan and the exercise of stock options;
which was partially offset by:

the repayment of mortgage notes payable totaling \$22.7 million;

the repayment of secured bridge financing loans totaling \$60.0 million;

the repayment of construction loans payable totaling \$104.2 million;

the repayment of amounts borrowed under the revolving credit facility of \$8.0 million;

distributions to common stockholders totaling \$27.1 million;

distributions to holders of convertible limited partnership units in the Operating Partnership totaling \$8.3 million;

distributions made to preferred stockholders totaling \$15.1 million; and

payments of \$1.4 million for financing costs of mortgage notes payable.

Liquidity Requirements

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

Long-term liquidity requirements consist primarily of obligations under our long-term debt and dividends paid to our preferred shareholders. We anticipate that long-term liquidity requirements will also include amounts required for property acquisitions and developments. Management anticipates that during the coming years the Company will commence activities related to the redevelopment of Van Ness Square and the adjacent 4469 Connecticut Avenue and may redevelop certain of the Current Portfolio Properties and may develop additional freestanding outparcels or expansions within certain of the Shopping Centers.

Acquisition and development of properties are undertaken only after careful analysis and review, and management's determination that such properties are expected to provide long-term earnings and cash flow growth.

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

Any future borrowings may be at the Saul Centers, Operating Partnership or Subsidiary Partnership level, and securities offerings may include (subject to certain limitations) the issuance of additional limited partnership interests in the Operating Partnership which can be converted into shares of Saul Centers common stock. The availability and terms of any such financing will depend upon market and other conditions.

Contractual Payment Obligations

As of December 31, 2012, the Company had unfunded contractual payment obligations of approximately \$110.6 million, excluding operating obligations, due within the next 12 months. The table below shows the total contractual payment obligations as of December 31, 2012.

<i>(Dollars in thousands)</i>	Payments Due By Period				Total
	One Year or Less	2 - 3 Years	4 - 5 Years	After 5 Years	
Notes Payable:					
Interest	\$ 44,095	\$ 81,751	\$ 75,052	\$ 185,757	\$ 386,655
Scheduled Principal	19,212	39,886	43,369	148,817	251,284
Balloon Payments	37,305	28,295	38,000	472,892	576,492
Subtotal	100,612	149,932	156,421	807,466	1,214,431
Ground Leases (1)	176	352	352	9,538	10,418
Corporate Headquarters Lease (1)	818	1,711	1,045		3,574
Development Obligations	8,953				8,953
Total Contractual Obligations	\$ 110,559	\$ 151,995	\$ 157,818	\$ 817,004	\$ 1,237,376

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

Management believes that the Company's cash flow from operations and its capital resources, which at December 31, 2012 included cash balances of \$12.1 million and borrowing availability of approximately \$136.8 million on its revolving line of credit, will be sufficient to meet its contractual obligations for the foreseeable future.

Preferred Stock Issues

In November 2003, the Company sold 4,000,000 depositary shares, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock. The depositary shares may be redeemed at the Company's option, in whole or in part from time to time, at the \$25.00 liquidation preference plus accrued but unpaid dividends. The depositary shares pay an annual dividend of \$2.00 per share, equivalent to 8% of the \$25.00 liquidation preference. The Series A preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company. Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events. On January 31, 2013, the Company issued a notice to redeem 60% of the outstanding depositary shares at a price of \$25.00 per depositary share, plus accrued dividends. The redemption was completed on March 2, 2013.

In March 2008, the Company sold, in an underwritten public offering, 3,173,115 depositary shares, each representing 1/100th of a share of 9% Series B Cumulative Redeemable Preferred Stock, providing net cash proceeds of \$76.3 million. The depositary shares may be redeemed at the Company's option, in whole or in part, at the \$25.00 liquidation preference plus accrued but unpaid dividends on or after March 15, 2013. The depositary shares pay an annual dividend of \$2.25 per share, equivalent to 9% of the \$25.00 liquidation preference. The first dividend was paid on July 15, 2008 and covered the period from March 27, 2008 through June 30, 2008. The Series B preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company. Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events. On February 12, 2013, the Company issued a notice to redeem all of the outstanding depositary shares at a price of \$25.00 per depositary share, plus accrued dividends. The redemption date is March 15, 2013.

In February 2013, the Company sold, in an underwritten public offering, 5.6 million depositary shares, each representing 1/100th of a share of 6.875% Series C Cumulative Redeemable Preferred Stock, providing net cash proceeds of approximately \$135.0 million. The depositary shares may be redeemed at the Company's option, in whole or in part, at the \$25.00 liquidation preference plus accrued but unpaid dividends on or after February 12, 2018. The depositary shares pay an annual dividend of \$1.71875 per share, equivalent to 6.875% of the \$25.00 liquidation preference. The first dividend is scheduled to be paid on April 15, 2013 and covers the period from February 12, 2013 through March 31, 2013. The Series C preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company except in connection with certain changes of control or delisting events. Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events.

Dividend Reinvestments

In December 1995, the Company established a Dividend Reinvestment Plan (the "Plan") to allow its common stockholders and holders of limited partnership interests an opportunity to buy additional shares of common stock by reinvesting all or a portion of their dividends or distributions. The Plan provides for investing in newly issued shares of common stock at a 3% discount from market price without payment of any brokerage commissions, service charges or other expenses. All expenses of the Plan are paid by the Company. The Company issued 586,838 and 489,890 shares under the Plan at a weighted average discounted price of \$38.85 and \$39.64 per share during the years ended December 31, 2012 and 2011, respectively. The Company also credited 8,551 and 8,358 shares to directors pursuant to the reinvestment of dividends specified by the Directors' Deferred Compensation Plan at a weighted average discounted price of \$38.76 and \$39.94 per share, during the years ended December 31, 2012 and 2011, respectively.

Capital Strategy and Financing Activity

As a general policy, the Company intends to maintain a ratio of its total debt to total asset value of 50% or less and to actively manage the Company's leverage and debt expense on an ongoing basis in order to maintain prudent coverage of fixed charges. Asset value is the aggregate fair market value of the Current Portfolio Properties and any subsequently acquired properties as reasonably determined by management by reference to the properties' aggregate cash flow. Given the Company's current debt level, it is management's belief that the ratio of the Company's debt to total asset value was below 50% as of December 31, 2012.

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

Edgar Filing: SAUL CENTERS INC - Form 10-K/A

The following is a summary of notes payable as of December 31, 2012 and 2011:

Notes Payable (Dollars in thousands)	December 31,		Interest Rate*	Scheduled Maturity*	
	2012	2011			
Fixed rate mortgages:	\$	(a) \$ 64,844	7.67%	Oct-2012	
		(b) 10,244	6.12%	Jan-2013	
		(c) 24,598	7.88%	Jan-2013	
		15,750 (d)	4.67%	Jun-2013	
		6,936 (e)	5.77%	Jul-2013	
		13,875 (f)	5.40%	May-2014	
		16,798 (g)	7.45%	Jun-2015	
		34,373 (h)	6.01%	Feb-2018	
		38,388 (i)	5.88%	Jan-2019	
		12,418 (j)	5.76%	May-2019	
		17,145 (k)	5.62%	Jul-2019	
		17,040 (l)	5.79%	Sep-2019	
		15,176 (m)	5.22%	Jan-2020	
		11,421 (n)	5.60%	May-2020	
		10,288 (o)	5.30%	Jun-2020	
		43,424 (p)	5.83%	Jul-2020	
		8,934 (q)	5.81%	Feb-2021	
		6,359 (r)	6.01%	Aug-2021	
		36,699 (s)	5.62%	Jun-2022	
		11,129 (t)	6.08%	Sep-2022	
		11,989 (u)	6.43%	Apr-2023	
		16,247 (v)	6.28%	Feb-2024	
		17,469 (w)	7.35%	Jun-2024	
		15,140 (x)	7.60%	Jun-2024	
		26,635 (y)	7.02%	Jul-2024	
		31,709 (z)	7.45%	Jul-2024	
		31,490 (aa)	7.30%	Jan-2025	
		16,419 (bb)	6.18%	Jan-2026	
		120,822 (cc)	5.31%	Apr-2026	
		36,986 (dd)	4.30%	Oct-2026	
		41,970 (ee)	4.53%	Nov-2026	
		19,569 (ff)	4.70%	Dec-2026	
		72,233 (gg)	5.84%	May-2027	
Total fixed rate		774,831	808,765	5.82%	10.0 Years
Variable rate loans:					
Revolving credit facility		38,000 (hh)	8,000	LIBOR + 1.90%	May-2016
Northrock bank term loan		14,945 (ii)	15,106	LIBOR + 3.00%	May-2013
Total variable rate		52,945	23,106	2.80%	3.4 Years
Total notes payable		\$ 827,776	\$ 831,871	5.77%	9.7 Years

* Interest rate and scheduled maturity data presented as of December 31, 2012. Totals computed using weighted averages.
(a) The loan was collateralized by seven shopping centers (Seven Corners, White Oak, Hampshire Langley, Great Eastern, Southside Plaza, Belvedere and Giant) and required equal monthly principal and interest payments of \$734,000 based upon a 25-year amortization schedule and a final payment of \$62.0 million at loan maturity. The loan was repaid in full in 2012.

- (b) *The loan was collateralized by Smallwood Village Center and required equal monthly principal and interest payments of \$71,000 based upon a 30-year amortization schedule and a final payment of \$10.1 million at loan maturity. The loan was repaid in full in 2012.*
- (c) *The loan was collateralized by 601 Pennsylvania Avenue and required equal monthly principal and interest payments of \$294,000 based upon a 25-year amortization schedule and a final payment of \$23.0 million at loan maturity. The loan was repaid in full in 2012.*
- (d) *The loan, together with a corresponding interest-rate swap, was assumed with the December 17, 2010 acquisition of, and is collateralized by, Metro Pike Center. On a combined basis, the loan and the swap required interest only payments of \$63,000 until August 1, 2011, then equal monthly payments of \$86,000 based upon a 25-year amortization schedule and a final payment of \$15.6 million at loan maturity. Principal of \$282,000 was amortized during 2012.*
- (e) *The loan is collateralized by Cruse MarketPlace and requires equal monthly principal and interest payments of \$56,000 based upon an amortization schedule of approximately 24 years and a final payment of \$6.8 million at loan maturity. Principal of \$267,000 was amortized during 2012.*
- (f) *The loan is collateralized by Seabreeze Plaza and requires equal monthly principal and interest payments totaling \$102,000 based upon a weighted average 26-year amortization schedule and a final payment of \$13.3 million is due at loan maturity. Principal of \$460,000 was amortized during 2012.*
- (g) *The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires equal monthly principal and interest payments totaling \$156,000 based upon a weighted average 23-year amortization schedule and a final payment of \$15.2 million is due at loan maturity. Principal of \$617,000 was amortized during 2012.*
- (h) *The loan is collateralized by Washington Square and requires equal monthly principal and interest payments of \$264,000 based upon a 27.5-year amortization schedule and a final payment of \$28.0 million at loan maturity. Principal of \$1.1 million was amortized during 2012.*
- (i) *The loan is collateralized by three shopping centers, Broadlands Village, The Glen and Kentlands Square I, and requires equal monthly principal and interest payments of \$306,000 based upon a 25-year amortization schedule and a final payment of \$28.4 million at loan maturity. Principal of \$1.4 million was amortized during 2012.*
- (j) *The loan is collateralized by Olde Forte Village and requires equal monthly principal and interest payments of \$98,000 based upon a 25-year amortization schedule and a final payment of \$9.0 million at loan maturity. Principal of \$442,000 was amortized during 2012.*
- (k) *The loan is collateralized by Countryside and requires equal monthly principal and interest payments of \$133,000 based upon a 25-year amortization schedule and a final payment of \$12.3 million at loan maturity. Principal of \$610,000 was amortized during 2012.*
- (l) *The loan is collateralized by Briggs Chaney MarketPlace and requires equal monthly principal and interest payments of \$133,000 based upon a 25-year amortization schedule and a final payment of \$12.2 million at loan maturity. Principal of \$587,000 was amortized during 2012.*
- (m) *The loan is collateralized by Shops at Monocacy and requires equal monthly principal and interest payments of \$112,000 based upon a 25-year amortization schedule and a final payment of \$10.6 million at loan maturity. Principal of \$537,000 was amortized during 2012.*
- (n) *The loan is collateralized by Boca Valley Plaza and requires equal monthly principal and interest payments of \$75,000 based upon a 30-year amortization schedule and a final payment of \$9.1 million at loan maturity. Principal of \$249,000 was amortized during 2012.*
- (o) *The loan is collateralized by Palm Springs Center and requires equal monthly principal and interest payments of \$75,000 based upon a 25-year amortization schedule and a final payment of \$7.1 million at loan maturity. Principal of \$348,000 was amortized during 2012.*
- (p) *The loan and a corresponding interest-rate swap closed on June 29, 2010 and are collateralized by Thruway. On a combined basis, the loan and the interest-rate swap require equal monthly principal and interest payments of \$289,000 based upon a 25-year amortization schedule and a final payment of \$34.8 million at loan maturity. Principal of \$909,000 was amortized during 2012.*

- (q) The loan is collateralized by Jamestown Place and requires equal monthly principal and interest payments of \$66,000 based upon a 25-year amortization schedule and a final payment of \$6.1 million at loan maturity. Principal of \$270,000 was amortized during 2012.
- (r) The loan is collateralized by Hunt Club Corners and requires equal monthly principal and interest payments of \$42,000 based upon a 30-year amortization schedule and a final payment of \$5.0 million, at loan maturity. Principal of \$118,000 was amortized during 2012.
- (s) The loan is collateralized by Lansdowne Town Center and requires monthly principal and interest payments of \$230,000 based on a 30-year amortization schedule and a final payment of \$28.2 million at loan maturity. Principal of \$678,000 was amortized during 2012.
- (t) The loan is collateralized by Orchard Park and requires equal monthly principal and interest payments of \$73,000 based upon a 30-year amortization schedule and a final payment of \$8.6 million at loan maturity. Principal of \$188,000 was amortized during 2012.
- (u) The loan is collateralized by BJ's Wholesale and requires equal monthly principal and interest payments of \$80,000 based upon a 30-year amortization schedule and a final payment of \$9.3 million at loan maturity. Principal of \$183,000 was amortized during 2012.
- (v) The loan is collateralized by Great Falls shopping center. The loan consists of three notes which require equal monthly principal and interest payments of \$138,000 based upon a weighted average 26-year amortization schedule and a final payment of \$6.3 million at maturity. Principal of \$611,000 was amortized during 2012.
- (w) The loan is collateralized by Leesburg Pike and requires equal monthly principal and interest payments of \$135,000 based upon a 25-year amortization schedule and a final payment of \$11.5 million at loan maturity. Principal of \$322,000 was amortized during 2012.
- (x) The loan is collateralized by Village Center and requires equal monthly principal and interest payments of \$119,000 based upon a 25-year amortization schedule and a final payment of \$10.1 million at loan maturity. Principal of \$269,000 was amortized during 2012.
- (y) The loan is collateralized by White Oak and requires equal monthly principal and interest payments of \$193,000 based upon a 24.4 year weighted amortization schedule and a final payment of \$18.5 million at loan maturity. The loan was previously collateralized by Van Ness Square. During 2012, the Company substituted White Oak as the collateral and borrowed an additional \$10.5 million. Principal of \$359,000 was amortized during 2012.
- (z) The loan is collateralized by Avenel Business Park and requires equal monthly principal and interest payments of \$246,000 based upon a 25-year amortization schedule and a final payment of \$20.9 million at loan maturity. Principal of \$572,000 was amortized during 2012.
- (aa) The loan is collateralized by Ashburn Village and requires equal monthly principal and interest payments of \$240,000 based upon a 25-year amortization schedule and a final payment of \$20.5 million at loan maturity. Principal of \$554,000 was amortized during 2012.
- (bb) The loan is collateralized by Ravenwood and requires equal monthly principal and interest payments of \$111,000 based upon a 25-year amortization schedule and a final payment of \$10.1 million at loan maturity. Principal of \$312,000 was amortized during 2012.
- (cc) The loan is collateralized by Clarendon Center and requires equal monthly principal and interest payments of \$753,000 based upon a 25-year amortization schedule and a final payment of \$70.5 million at loan maturity. Principal of \$2.6 million was amortized during 2012.
- (dd) The loan is collateralized by Severna Park MarketPlace and requires equal monthly principal and interest payments of \$207,000 based upon a 25-year amortization schedule and a final payment of \$20.3 million at loan maturity. Principal of \$872,000 was amortized during 2012.
- (ee) The loan is collateralized by Kentlands Square II and requires equal monthly principal and interest payments of \$240,000 based upon a 25-year amortization schedule and a final payment of \$23.1 million at loan maturity. Principal of \$953,000 was amortized during 2012.
- (ff) The loan is collateralized by Cranberry Square and requires equal monthly principal and interest payments of \$113,000 based upon a 25-year amortization schedule and a final payment of \$10.9 million at loan maturity. Principal of \$431,000 was amortized during 2012.

- (gg) *The loan in the original amount of \$73.0 million closed in May 2012, is collateralized by Seven Corners and requires equal monthly principal and interest payments of \$463,200 based upon a 25-year amortization schedule and a final payment of \$42.3 million at loan maturity. Principal of \$767,000 was amortized during 2012.*
- (hh) *The loan is a \$175.0 million unsecured revolving credit facility. Interest accrues at a rate equal to the sum of one-month LIBOR plus a spread of 1.90 %. The line may be extended at the Company's option for one year with payment of a fee of 0.20%. Monthly payments, if required, are interest only and vary depending upon the amount outstanding and the applicable interest rate for any given month.*
- (ii) *The loan is collateralized by Northrock and requires monthly principal and interest payments of \$13,409 and a final payment of \$14.9 million at maturity. Principal of \$161,000 was amortized during 2012.*

The carrying value of properties collateralizing the mortgage notes payable totaled \$916.1 million and \$997.5 million as of December 31, 2012 and 2011, respectively. The Company's credit facility requires the Company and its subsidiaries to maintain certain financial covenants, which are summarized below. As of December 31, 2012, the Company was in compliance with all such covenants:

maintain tangible net worth, as defined in the loan agreement, of at least \$503.3 million plus 80% of the Company's net equity proceeds received after May 2012;

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

limit the amount of debt so that interest coverage will exceed 2.0x on a trailing four-quarter basis (interest expense coverage);

limit the amount of debt so that interest, scheduled principal amortization and preferred dividend coverage exceeds 1.3x on a trailing four-quarter basis (fixed charge coverage); and

limit the amount of variable rate debt and debt with initial loan terms of less than five years to no more than 40% of total debt.

2013 Financing Activity

On February 27, 2013, the Company closed on a three-year \$15.6 million mortgage loan secured by Metro Pike Center. The loan matures in 2016, bears interest at a variable rate equal to the sum of one-month LIBOR and 165 basis points, requires monthly principal and interest payments based on a 25-year amortization schedule and requires a final payment of \$14.7 million at maturity. The loan may be extended for up to two years. Proceeds were used to pay-off the \$15.9 million remaining balance of existing debt secured by Metro Pike Center, and to extinguish the related swap agreement, both of which were scheduled to mature in June 2013.

On February 27, 2013, the Company closed on a three-year \$15.0 million mortgage loan secured by Northrock. The loan matures in 2016, bears interest at a variable rate equal to the sum of one-month LIBOR and 165 basis points, requires monthly principal and interest payments based on a 25-year amortization schedule and requires a final payment of \$14.2 million at maturity. The loan may be extended for up to two years. Proceeds were used to pay-off the \$15.0 million remaining balance of existing debt secured by Northrock, which was scheduled to mature in May 2013.

2012 Financing Activity

On April 11, 2012, the Company closed on a 15-year non-recourse mortgage loan in the amount of \$73.0 million secured by Seven Corners shopping center. The loan matures in May 2027, bears interest at a fixed rate of 5.84%, requires equal monthly principal and interest payments totaling \$463,226 based upon a 25-year amortization schedule and a final payment of \$42.5 million at maturity. Proceeds from the loan were used to pay-off the \$63 million remaining balance of existing debt secured by Seven Corners and six other Shopping Center properties, which was scheduled to mature in October 2012, and to provide cash of approximately \$10 million.

On April 26, 2012, the Company substituted the White Oak shopping center for Van Ness Square as collateral for one of its existing mortgage loans which will allow the Company to analyze the feasibility of repositioning Van Ness Square. The terms of the original loan, including its 8.11% interest rate, are unchanged and, in conjunction with the collateral substitution, the Company borrowed an additional \$10.5 million, also secured by

White Oak. The new borrowing requires equal monthly payments based upon a fixed 4.90% interest rate and 25-year amortization schedule, and will mature in July 2024, conterminously with the original loan. The consolidated loan requires equal monthly payments based upon a blended fixed interest rate of 7.0% and will require a final payment of \$18.5 million at maturity.

On May 21, 2012, the Company replaced its existing unsecured revolving credit facility with a new \$175.0 million facility that expires on May 20, 2016. The facility, which provides working capital and funds for acquisitions, certain developments, redevelopments and letters of credit, may be extended for one year, at the Company's option, subject to the satisfaction of certain conditions. Loans under the facility bear interest at a rate equal to the sum of LIBOR and a margin, based on the Company's leverage ratio, ranging from 160 basis points to 250 basis points. Based on the leverage ratio of December 31, 2012, the margin was 190 basis points.

2011 Financing Activity

On March 23, 2011, the Company closed on a 15-year non-recourse mortgage loan in the amount of \$125.0 million, secured by Clarendon Center. The loan matures April 5, 2026, bears interest at a fixed rate of 5.31%, requires equal monthly principal and interest payments of \$753,000, based upon a 25-year amortization schedule, and requires a final principal payment of approximately \$70.5 million at maturity. Proceeds from the loan were used to repay \$104.2 million outstanding on the Clarendon Center construction loan.

On September 23, 2011, the Company closed on a 15-year non-recourse mortgage loan in the amount of \$38.0 million, secured by Severna Park MarketPlace. The loan matures October 1, 2026, bears interest at a fixed rate of 4.30%, requires equal monthly principal and interest payments of \$207,000, based upon a 25-year amortization schedule, and requires a final principal payment of approximately \$20.3 million at maturity. Proceeds from the loan were used to purchase Severna Park MarketPlace.

Also on September 23, 2011, the Company closed on two six-month bridge financing loans in the total amount of \$60.0 million, secured by Kentlands Square II and Cranberry Square. Proceeds from the loans were used to purchase Kentlands Square II and Cranberry Square.

On October 5, 2011, the Company closed on a new 15-year non-recourse mortgage loan in the amount of \$43.0 million, secured by Kentlands Square II. The loan matures November 5, 2026, bears an interest at a fixed rate of 4.53%, requires equal monthly principal and interest payments of \$240,000, based upon a 25-year principal amortization, and requires a final principal payment of approximately \$23.1 million at maturity. Proceeds from the loan were used to repay the \$40.0 million bridge financing used to acquire Kentlands Square II.

On November 6, 2011, the Company closed on a new 15-year non-recourse mortgage loan in the amount of \$20.0 million, secured by Cranberry Square. The loan matures December 1, 2026, bears interest at a fixed rate of 4.70%, requires equal monthly principal and interest payments of \$113,000, based upon a 25-year principal amortization, and requires a final principal payment of approximately \$10.9 million at maturity. Proceeds from the loan were used to repay the \$20.0 million bridge financing used to acquire Cranberry Square.

2010 Financing Activity

On June 29, 2010, the Company closed on a new 10-year mortgage loan in the amount of \$45.6 million, secured by Thruway. The loan matures July 1, 2020, and bears interest at a variable rate equal to the sum of one-month LIBOR and 260 basis points. In conjunction with the financing, the Company entered into an interest rate swap agreement with a \$45.6 million notional amount to manage the interest rate risk associated with the above \$45.6 million of variable-rate mortgage debt. The swap agreement was effective June 29, 2010, terminates on July 1, 2020 and effectively fixes the interest rate on the mortgage debt at 5.83%. The Company has designated this agreement as a cash flow hedge for accounting purposes. The Company recognizes interest expense on the combined variable-rate debt and the interest-rate swap at the effective fixed rate of 5.83%. On a combined basis, the loan and the interest-rate swap require equal monthly principal and interest payments of approximately \$289,000, based upon an assumed interest rate of 5.83% and a 25-year principal amortization, and requires a final principal payment of approximately \$34.8 million at maturity.

Prior to the refinancing, Thruway was one of nine properties securing debt included in a collateralized mortgage-backed security (CMBS) with an outstanding balance of \$108.3 million, an interest rate of 7.67% and due to mature October 2012. In order to release Thruway, the Company defeased \$30.2 million of the outstanding balance at a cost of approximately \$4.4 million, using proceeds from the new mortgage financing.

On August 24, 2010, the Company entered into an amendment to its Northrock construction loan to provide an option to extend the loan for two years. The extension is available at the Company's option subject to notice to the bank, and to a principal repayment in an amount required to cause property operating income to meet certain debt service coverage levels.

On December 9, 2010, the Company closed on a new 15-year, fixed-rate mortgage loan in the amount of \$17.0 million secured by Ravenwood. The loan matures January 2026, requires monthly interest and principal payments of approximately \$111,000 based upon a fixed interest rate of 6.18% and a 25-year principal amortization and requires a final principal payment of approximately \$10.1 million at maturity.

Prior to the refinancing, Ravenwood was one of eight remaining properties securing debt included in a CMBS with an outstanding balance of \$76.3 million, an interest rate of 7.67% and due to mature October 2012. In order to release Ravenwood, the Company defeased \$7.8 million of the outstanding balance at a cost of approximately \$900,000, using proceeds from the new mortgage financing.

On December 17, 2010, the Company purchased Metro Pike Center, a 67,000 square foot retail property located in Rockville, Maryland. In conjunction with the acquisition, the Company assumed a mortgage loan with a principal balance of \$16.2 million. The loan matures June 30, 2013, bears interest at a variable rate equal to the sum of one-month LIBOR and 245 basis points. In conjunction with the loan assumption, the Company assumed a corresponding interest rate swap agreement with a \$16.2 million notional amount to manage the interest rate risk associated with the variable-rate mortgage debt. The swap agreement was effective at closing, terminates on June 30, 2013 and effectively fixes the interest rate on the mortgage debt at 4.67%. On a combined basis, the loan and the interest-rate swap require interest-only payments of approximately \$63,000 until August 1, 2011, followed by equal monthly principal and interest payments of approximately \$86,000 based upon a 25-year amortization schedule and a final payment of \$15.6 million at loan maturity.

Off-Balance Sheet Arrangements

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

Funds From Operations

In 2012, the Company reported Funds From Operations (FFO)¹ available to common shareholders (common stockholders and limited partner unitholders) of \$60.1 million, a 19.5% increase from 2011 FFO available to common shareholders of \$50.3 million. The following table presents a reconciliation from net income to FFO available to common shareholders for the periods indicated:

<i>(Dollars in thousands)</i>	Year ended December 31,				
	2012	2011	2010	2009	2008
Net income	\$ 39,780	\$ 30,294	\$ 43,185	\$ 43,230	\$ 47,666
Subtract:					
Gains on property sales	(4,510)		(3,591)		
Gain on casualty settlement	(219)	(245)	(2,475)	(329)	(1,301)
Add:					
Real estate depreciation - discontinued operations	77	102	198	203	213
Real estate depreciation and amortization	40,112	35,298	28,379	28,061	29,570
FFO	75,240	65,449	65,696	71,165	76,148
Subtract:					
Preferred dividends	(15,140)	(15,140)	(15,140)	(15,140)	(13,453)
FFO available to common shareholders	\$ 60,100	\$ 50,309	\$ 50,556	\$ 56,025	\$ 62,695
Average shares and units used to compute FFO per share	26,614	24,740	23,793	23,359	23,377
FFO per share	\$ 2.26	\$ 2.03	\$ 2.12	\$ 2.40	\$ 2.68

Acquisitions, Redevelopments and Renovations

Management anticipates that during the coming year the Company will commence activities related to the redevelopment of Van Ness Square and the adjacent 4469 Connecticut Avenue and may develop additional freestanding outparcels or expansions within certain of the Shopping Centers. Although not currently planned, it is possible that the Company may redevelop additional Current Portfolio Properties and may develop expansions within certain of the Shopping Centers. Acquisition and development of properties are undertaken only after careful analysis and review, and management's determination that such properties are expected to provide long-term earnings and cash flow growth. During the coming year, any developments, expansions or acquisitions are expected to be funded with borrowings from the Company's credit line, construction financing, proceeds from the operation of the Company's dividend reinvestment plan or other external capital resources available to the Company.

The Company has been selectively involved in acquisition, development, redevelopment and renovation activities. It continues to evaluate the acquisition of land parcels for retail and office development and acquisitions of operating properties for opportunities to enhance operating income and cash flow growth. The following describes the acquisitions, developments, redevelopments and renovations which affected the Company's financial position and results of operations in 2012, 2011, and 2010.

¹ The National Association of Real Estate Investment Trusts (NAREIT) developed FFO as a relative non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO is defined by NAREIT as net income, computed in accordance with GAAP, plus real estate depreciation and amortization, and excluding extraordinary items, impairment charges on depreciable real estate assets and gains or losses from property dispositions. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs, which is disclosed in the Company's Consolidated Statements of Cash Flows for the applicable periods. There are no material legal or functional restrictions on the use of FFO. FFO should not be considered as an alternative to net income, its most directly comparable GAAP measure, as an indicator of the Company's operating performance, or as an alternative to cash flows as a measure of liquidity. Management considers FFO a meaningful supplemental measure of operating performance because it primarily excludes the assumption that the value of the real estate assets diminishes predictably over time (i.e. depreciation), which is contrary to what we believe occurs with our assets, and because industry analysts have accepted it as a performance measure. FFO may not be comparable to similarly titled measures employed by other REITs.

Ashland Square Phase I

On December 15, 2004, the Company purchased for \$6.3 million, a 19.3 acre parcel of land in Manassas, Prince William County, Virginia. The Company has an approved site plan to develop a grocery-anchored neighborhood shopping center totaling approximately 160,000 square feet. Capital One Bank operates a branch on the site and the Company previously executed a lease with CVS. During 2012, the Company completed the site work for two pads, constructed a 6,500 square foot building that has been leased to a restaurant and CVS constructed a 13,000 square foot pharmacy building. Both facilities have opened for business, and the cost to the Company was approximately \$3.0 million. The balance of the center is being marketed to grocers and other retail businesses, with a development timetable yet to be finalized.

Clarendon Center

In late 2010, the Company substantially completed construction of a mixed-use project which includes approximately 42,000 square feet of retail space, 171,000 square feet of office space, 244 apartments and 600 underground parking spaces, on two city blocks, adjacent to the Clarendon Metro Station in Arlington County, Virginia. Development costs are expected to total approximately \$195.0 million upon the completion of final office tenant improvements which are expected to total approximately \$2.9 million. As of December 31, 2012, 208,900 square feet (97.9%) of the commercial space (comprising of all of the retail space and 167,200 square feet (97.4%) of the office space) as well as 244 apartments (100.0%), were leased.

Seven Corners

During 2010, the Company expanded the Seven Corners shopping center by approximately 6,000 square feet. Red Robin Gourmet Burgers opened in November 2010 in a newly-constructed, free-standing building. The Company also completed construction of parking lot, landscaping and site lighting improvements to enhance the common areas.

11503 Rockville Pike

On October 1, 2010, the Company purchased for \$15.6 million, including acquisition costs, approximately 20,000 square feet of retail space located on the east side of Rockville Pike (Route 355), near the White Flint Metro Station in Montgomery County, Maryland. The property, which was fully leased to two tenants at December 31, 2011, is zoned for up to 297,000 square feet of rentable mixed use space. The Company intends to redevelop the property but has not committed to any redevelopment plan or time table.

Metro Pike Center

On December 17, 2010, the Company purchased for \$34.3 million, including acquisition costs, approximately 67,000 square feet of retail space located on the west side of Rockville Pike (Route 355) near the White Flint Metro Station in Montgomery County, Maryland. The property was acquired subject to the assumption of a \$16.2 million mortgage loan and a corresponding interest rate swap with a fair value of \$0.5 million. The property, which was 83.6% leased to multiple tenants at December 31, 2012, is zoned for up to 807,000 square feet of rentable mixed use space. The Company does not anticipate redeveloping the property in the foreseeable future.

4469 Connecticut Avenue

On February 17, 2011, the Company purchased for \$1.7 million, including acquisition costs, approximately 3,000 square feet of retail space located adjacent to the Company's Van Ness Square in Washington D.C. The property is unoccupied and will be included in the project to redevelop Van Ness Square.

Kentlands Square II

On September 23, 2011, the Company purchased for \$74.5 million Kentlands Square II, and incurred acquisition costs of \$1.1 million. Kentlands Square II is a 241,000 square foot neighborhood shopping center located in Gaithersburg, Maryland, in Montgomery County, the state's most populous and affluent county. More than 38,000 households, with annual household incomes averaging over \$114,000, are located within a three-mile radius of the center. As of December 31, 2012, the center was 95.8% leased and anchored by a 61,000 square foot Giant Food supermarket and a 104,000 square foot Kmart. The property is adjacent to the Company's Kentlands Square I, which is anchored by Lowe's Home Improvement, and Kentlands Place.

Severna Park MarketPlace

Edgar Filing: SAUL CENTERS INC - Form 10-K/A

On September 23, 2011, the Company purchased for \$61.0 million Severna Park MarketPlace, and incurred acquisition costs of \$0.8 million. Severna Park MarketPlace is a 254,000 square foot neighborhood shopping center located in Severna Park, Maryland, in Anne Arundel County. More than 15,000 households, with annual household

incomes averaging over \$112,000, are located within a three-mile radius of the center. As of December 31, 2012, the center was 100% leased and anchored by a 63,000 square foot Giant Food supermarket and a 92,000 square foot Kohl's.

Cranberry Square

On September 23, 2011, the Company purchased for \$33.0 million Cranberry Square, and incurred acquisition costs of \$0.5 million. Cranberry Square is a 140,000 square foot neighborhood shopping center located in Westminster, Maryland, in Carroll County. More than 12,000 households, with annual household incomes averaging over \$72,000, are located within a three-mile radius of the center. As of December 31, 2012, the center was 92.2% leased and anchored by a 56,000 square foot Giant Food supermarket and a 24,000 square foot Staples.

1500 Rockville Pike

In December 2012, the Company purchased for \$23.0 million, including acquisition costs, approximately 52,700 square feet of retail space located on the east side of Rockville Pike near the Twinbrook Metro Station. The property, which was 90.5% leased to multiple tenants at December 31, 2012, is zoned for up to 745,000 square feet of rentable mixed-use space. The Company intends to redevelop the site but has not committed to any redevelopment plan or time table.

5541 Nicholson Lane

In December 2012, the Company purchased for \$12.2 million, including acquisition costs, approximately 20,100 square feet of mixed-use space, which was 40.5% leased to multiple tenants, located on the east side of Rockville Pike and adjacent to 11503 Rockville Pike, which was purchased in 2010. The property, when combined with 11503 Rockville Pike, will provide zoning for up to 331,000 square feet of rentable mixed-use space for a total development potential of up to 622,000 square feet. The Company intends to redevelop the site but has not committed to any redevelopment plan or time table.

Van Ness Square

The Company recently completed negotiation of lease termination agreements with the tenants of Van Ness Square and expects the building will be vacant on or about April 30, 2013. Costs incurred related to those termination arrangements are being amortized to expense using the straight-line method over the remaining terms of the leases, are included in Predevelopment Expenses in the Consolidated Statements of Operations, totaled \$2.7 million in 2012 and are expected to total approximately \$3.3 million over the first two quarters of 2013. The Company intends to develop a primarily residential project with street-level retail and will recognize additional predevelopment expenses in future periods when the existing improvements of Van Ness Square and the adjacent 4469 Connecticut Avenue are demolished, the timing of which is uncertain and dependent on the issuance of various governmental approvals and permits.

Property Sales

West Park

On July 25, 2012, the Company sold for \$2.0 million the 77,000 square foot West Park shopping center in Oklahoma City, Oklahoma and recorded a \$1.1 million gain. As of June 30, 2012, West Park was 11.7% leased and the carrying amounts of the associated assets and liabilities were \$1.0 million and \$207,000, respectively. There was no debt associated with the property.

Belvedere

In December 2012, the Company sold for \$4.0 million, the 54,900 square foot Belvedere shopping center in Baltimore, Maryland and recorded a \$3.4 million gain. As of September 30, 2012, Belvedere was 34% leased and the carrying amounts of the associated assets and liabilities were \$488,000 and \$22,000, respectively. There was no debt associated with the property.

Portfolio Leasing Status

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

As of December 31,	Total Properties		Total Square Footage		Percentage Leased	
	Shopping Centers	Mixed-Use	Shopping Centers	Mixed-Use	Shopping Centers	Mixed-Use
2012	50	7	7,877,200	1,612,200	93.4%	82.8%
2011	51	7	7,930,000	1,610,400	90.8%	85.8%
2010	48	6	7,293,000	1,608,000	92.0%	81.5%

The 2012 shopping center leasing percentages include 1500 Rockville Pike and 5541 Nicholson Lane, which were acquired in December 2012, and exclude West Park and Belvedere, which were sold during 2012. The 2012 mixed-use leasing percentages include Clarendon Center commercial area, which was 97.9% leased at December 31, 2012. The Clarendon Center residential component was 100% leased at December 31, 2012. On a same property basis, which excludes the impact of properties not in operation for the entirety of the comparable periods, Shopping Center leasing percentages increased to 93.5% from 91.6% and Mixed-Use leasing percentages decreased to 82.8% from 85.8%. The overall portfolio leasing percentage, on a comparative same center basis, ended the year at 91.9%, an increase from 90.7% at yearend 2011. The 2012 shopping center leasing percentages were impacted by a net increase of approximately 151,000 square feet of leased space, the majority of which resulted from the leasing of space vacated by major tenants during 2011. The 2012 mixed-use leasing percentages were adversely impacted by a net decrease of approximately 44,000 square feet of leased space, the majority of which resulted from the early termination of leases at Van Ness Square in preparation for redevelopment.

The 2011 shopping center percentages leased included three centers acquired September 23, 2011, Kentlands Square II (100% leased), Severna Park MarketPlace (100% leased) and Cranberry Square (91% leased). The 2011 and 2010 mixed-use percentages include Clarendon Center commercial area, which was 92.4% and 58.6% leased at December 31, 2011 and 2010, respectively. The Clarendon Center residential component was 100% and 43.9% leased at December 31, 2011 and 2010, respectively. On a same property basis, Shopping Center leasing percentages decreased to 90.2% from 92.0% and Mixed-Use leasing percentages decreased to 84.9% from 85.5%. Overall portfolio leasing percentage, on a comparative same center basis, ended the year at 89.4%, a decrease from 91.1% at year end 2010. The 2011 commercial leasing percentages were adversely impacted by a net decrease of approximately 140,000 square feet of leased space, of which approximately 98,000 square feet was caused by the Syms, SuperFresh and Borders Books bankruptcies and the balance resulting from the early lease termination of a local grocer. As of March 1, 2012, a total of 61,000 square feet of these four vacant spaces had been leased.

The 2010 shopping center percentage leased included recently constructed but not yet fully leased Northrock and Westview Village, which were 72.3% and 36.1% leased as of December 31, 2010, respectively. On a same property basis, shopping center leasing percentages increased to 93.1% from 93.0%. The 2010 mixed-use percentage leased included Clarendon Center, whose construction was substantially completed at year end 2010 and whose residential component was 43.9% leased and office and retail component was 58.6% leased as of December 31, 2010. Including Clarendon Center, overall mixed-use property leasing percentages decreased to 81.5% from 90.6%. On a comparative same property basis, overall property leasing ended the year at 92.0%, a decrease from 92.7% at year end 2009, a space leased reduction of approximately 55,000 square feet. Shopping center same property leasing was 93.1% and 93.0%, and mixed-use same property leasing was 85.5% and 90.5%, as of December 31, 2010 and 2009, respectively.

The following table shows selected data for leases executed in the indicated periods. The information is based on executed leases without adjustment for the timing of occupancy, tenant defaults, or landlord concessions. The base rent for an expiring lease is the annualized contractual base rent, on a cash basis, as of the expiration date of the lease. The base rent for a new or renewed lease is the annualized contractual base rent, on a cash basis, as of the expected rent commencement date. Because tenants that execute leases may not ultimately take possession of their space or pay all of their contractual rent, the changes presented in the table provide information only about trends in market rental rates. The actual changes in rental income received by the Company may be different.

Year ended December 31,	Square Feet	Number of Leases	Base Rent per Square Foot	
			New/Renewed Leases	Expiring Leases
2012	1,579,000	256	\$ 16.39	\$ 16.30
2011	1,178,000	245	15.21	16.41
2010	1,336,000	253	13.19	14.62

During 2012, the Company entered into 216 new or renewed apartment leases. The monthly rent per square foot for these leases increased to \$3.31 from \$3.11.

PART IV

Item 15. Exhibits and Financial Statement Schedules

- (a) The following documents were filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 2012:

1. Financial Statements

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

- (a) Reports of Independent Registered Public Accounting Firm - Ernst & Young LLP
- (b) Consolidated Balance Sheets - December 31, 2012 and 2011
- (c) Consolidated Statements of Operations - Years ended December 31, 2012, 2011, and 2010.
- (d) Consolidated Statements of Comprehensive Income - Years ended December 31, 2012, 2011, and 2010.
- (e) Consolidated Statements of Stockholders' Equity - Years ended December 31, 2012, 2011, and 2010.
- (f) Consolidated Statements of Cash Flows - Years ended December 31, 2012, 2011, and 2010.
- (g) 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.

Exhibits

- 3. (a) First Amended and Restated Articles of Incorporation of Saul Centers, Inc. filed with the Maryland Department of Assessments and Taxation on August 23, 1994 and filed as Exhibit 3.(a) of the 1993 Annual Report of the Company on Form 10-K are hereby incorporated by reference. Articles of Amendment to the First Amended and Restated Articles of Incorporation of Saul Centers, Inc., filed with the Maryland Department of Assessments and Taxation on May 28, 2004 and filed as Exhibit 3.(a) of the June 30, 2004 Quarterly Report of the Company is hereby incorporated by reference. Articles of Amendment to the First Amended and Restated Articles of Incorporation of Saul Centers, Inc., filed with the Maryland Department of Assessments and Taxation on May 26, 2006 and filed as Exhibit 3.(a) of the Company's Current Report on Form 8-K filed May 30, 2006 is hereby incorporated by reference.
- (b) Amended and Restated Bylaws of Saul Centers, Inc. as in effect at and after August 24, 1993 and as of August 26, 1993 and filed as Exhibit 3.(b) of the 1993 Annual Report of the Company on Form 10-K are hereby incorporated by reference. Amendment No. 1 to Amended and Restate Bylaws of Saul Centers, Inc. adopted November 29, 2007 and filed as Exhibit 3(b) of the Company's Current Report on Form 8-K filed December 3, 2007 is hereby incorporated by reference.
- (c) Articles Supplementary to First Amended and Restated Articles of Incorporation of the Company, dated October 30, 2003, filed as Exhibit 2 to the Company's Current Report on Form 8-A dated October 31, 2003, is hereby incorporated by reference.
- (d) Articles Supplementary to First Amended and Restated Articles of Incorporation of the Company, as amended, dated March 26, 2008, filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed March 27, 2008, is hereby incorporated by reference.
- (e) Articles Supplementary to First Amended and Restated Articles of Incorporation of the Company, dated February 6, 2013, filed as Exhibit 3.2 to Saul Centers' Registration Statement on Form 8-A, filed February 7, 2013, is hereby incorporated by reference.
- 4. (a) Deposit Agreement, dated November 5, 2003, among the Company, Continental Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock of Saul Centers, Inc. and filed as Exhibit 4 to the Registration Statement on Form 8-A on October 31, 2003 is hereby incorporated by reference.
- (b) Deposit Agreement, dated March 27, 2008, among the Company, Continental Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts, each representing 1/100th of a share of 9% Series B Cumulative Redeemable Preferred Stock of Saul Centers, Inc. and filed as Exhibit 4.1 to the Registration Statement on Form 8-A on March 27, 2008 is hereby incorporated by reference.
- (c) Deposit Agreement, dated February 6, 2013, among the Company, Continental Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts, each representing 1/100th of a share of 6.875% Series C Cumulative Redeemable Preferred Stock of Saul Centers, Inc. filed as Exhibit 4.1 to Saul Centers' Registration Statement on Form 8-A on February 7, 2013 is hereby incorporated by reference.

- (d) Form specimen of receipt representing the depositary shares, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock of Saul Centers, Inc. and included as part of Exhibit 4 to the Registration Statement on Form 8-A on October 31, 2003 is hereby incorporated by reference.
 - (e) Form specimen of receipt representing the depositary shares, each representing 1/100th of a share of 9% Series B Cumulative Redeemable Preferred Stock of Saul Centers, Inc. and included as part of Exhibit 4.2 to the Registration Statement on Form 8-A on March 27, 2008 is hereby incorporated by reference.
 - (f) Form specimen of receipt representing the depositary shares, each representing 1/100th of a share of 6.875% Series C Cumulative Redeemable Preferred Stock of Saul Centers, Inc. and included as part of Exhibit 4.1 to Saul Centers Registration Statement on Form 8-A on February 7, 2013 is hereby incorporated by reference.
10. (a) First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit No. 10.1 to Registration Statement No. 33-64562 is hereby incorporated by reference. The First Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership, the Second Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership, and the Third Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the 1995 Annual Report of the Company on Form 10-K is hereby incorporated by reference. The Fourth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the March 31, 1997 Quarterly Report of the Company is hereby incorporated by reference. The Fifth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 4.(c) to Registration Statement No. 333-41436, is hereby incorporated by reference. The Sixth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the September 30, 2003 Quarterly Report of the Company on Form 10-Q is hereby incorporated by reference. The Seventh Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the December 31, 2003 Annual Report of the Company on Form 10-K is hereby incorporated by reference. The Eighth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the December 31, 2007 Annual Report of the Company on Form 10-K is hereby incorporated by reference. The Ninth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the March 31, 2008 Quarterly Report of the Company on Form 10-Q is hereby incorporated by reference. The Tenth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the March 31, 2008 Quarterly Report of the Company on Form 10-Q is hereby incorporated by reference. The Eleventh Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10 (a) of the September 30, 2011 Quarterly Report of the Company on Form 10-Q is hereby incorporated by reference. The Twelfth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.1 of the Current Report of the Company on Form 8-K dated February 12, 2013 is hereby incorporated by reference.
- (b) First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership and Amendment No. 1 thereto filed as Exhibit 10.2 to Registration Statement No. 33-64562 are hereby incorporated by reference. The Second Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership, the Third Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership and the Fourth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership as filed as Exhibit 10.(b) of the 1997 Annual Report of the Company on Form 10-K are hereby incorporated by reference.

- (c) First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary II Limited Partnership and Amendment No. 1 thereto filed as Exhibit 10.3 to Registration Statement No. 33-64562 are hereby incorporated by reference. The Second Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary II Limited Partnership filed as Exhibit 10.(c) of the June 30, 2001 Quarterly Report of the Company is hereby incorporated by reference. The Third Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary II Limited Partnership as filed as exhibit 10.(c) of the 2006 Annual Report of the Company on Form 10-K are hereby incorporated by reference. The Fourth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary II Limited Partnership as filed as Exhibit 10.(c) of the 2009 Annual Report of the Company on Form 10-K are hereby incorporated by reference.
- (d) Property Conveyance Agreement filed as Exhibit 10.4 to Registration Statement No. 33- 64562 is hereby incorporated by reference.
- (e) Management Functions Conveyance Agreement filed as Exhibit 10.5 to Registration Statement No. 33-64562 is hereby incorporated by reference.
- (f) Registration Rights and Lock-Up Agreement filed as Exhibit 10.6 to Registration Statement No. 33-64562 is hereby incorporated by reference.
- (g) Exclusivity and Right of First Refusal Agreement filed as Exhibit 10.7 to Registration Statement No. 33-64562 is hereby incorporated by reference.
- (h) Agreement of Assumption dated as of August 26, 1993 executed by Saul Holdings Limited Partnership and filed as Exhibit 10.(i) of the 1993 Annual Report of the Company on Form 10-K is hereby incorporated by reference.
- (i) Deferred Compensation Plan for Directors, dated as of April 23, 2004 and filed as Exhibit 10.(k) of the June 30, 2004 Quarterly Report of the Company is hereby incorporated by reference.
- (j) Credit Agreement, dated as of May 21, 2012, by and among Saul Holdings Limited Partnership as Borrower; Wells Fargo Bank, National Association, as Administrative Agent and Sole Lead Arranger; JP Morgan Chase Bank, N.A., as Syndication Agent; and Wells Fargo Bank, National Association, JP Morgan Chase Bank, N.A., Capital One, N.A. and Citizens Bank of Pennsylvania as Lenders, as filed as Exhibit 10.1 of the Company's Current Report on Form 8-K, dated May 24, 2012, is hereby incorporated by reference.
- (k) Guaranty, dated as of May 21, 2012, by and between Saul Centers, Inc., as Guarantor, and Wells Fargo Bank, National Association, as Administrative Agent and Sole Lead Arranger for itself and other financial institutions as Lenders, as filed as Exhibit 10.2 of the Company's Current Report on Form 8-K, dated May 24, 2012, is hereby incorporated by reference.
- (l) The Saul Centers, Inc. 2004 Stock Plan, as filed as Annex A to the Proxy Statement of the Company for its 2004 Annual Meeting of Stockholders, is hereby incorporated by reference. The Amendment to Saul Centers, Inc. 2004 Stock Plan, as filed as Annex A to the Proxy Statement of the Company for its 2008 Annual Meeting of Stockholders, is hereby incorporated by reference.
- (m) Form of Director Stock Option Agreements, as filed as Exhibit 10.(j) of the September 30, 2004 Quarterly Report of the Company, is hereby incorporated by reference.
- (n) Form of Officer Stock Option Grant Agreements, as filed as Exhibit 10.(k) of the September 30, 2004 Quarterly Report of the Company, is hereby incorporated by reference.
- (o) Promissory Note, dated as of March 23, 2011, by Clarendon Center LLC to The Prudential Life Insurance Company of America as filed as Exhibit 10.(a) of the Company's Current Report on Form 8-K dated April 28, 2011, is hereby incorporated by reference.

- (p) Deed of Trust, Security Agreement and Fixture Filing, dated as of March 23, 2011, by Clarendon Center LLC to Lawyers Title Realty Services, Inc. as trustee for the benefit of The Prudential Insurance Company of America, as beneficiary, as filed as Exhibit 10.(b) of the Company's Current Report on Form 8-K dated April 28, 2011, is hereby incorporated by reference.
 - (q) Shared Services Agreement, dated as of July 1, 2004, between B. F. Saul Company and Saul Centers, Inc., as filed as Exhibit 10.(c) of the Company's Current Report on Form 8-K dated August 11, 2010, is hereby incorporated by reference.
 - (r) Purchase Agreement, dated as of August 9, 2011, by and among the Company, Saul Holdings Limited Partnership and B. F. Saul Real Estate Investment Trust and filed as Exhibit 10.(r) of the September 30, 2011 Quarterly Report of the Company is hereby incorporated by reference.
 - (s) Agreement of Purchase and Sale, dated as of August 9, 2011, between Cranberry Retail, Inc. and Saul Holdings Limited Partnership, as amended and filed as Exhibit 2.(a) of the September 30, 2011 Quarterly Report of the Company is hereby incorporated by reference.
 - (t) Agreement of Purchase and Sale, dated as of August 9, 2011, between Kentlands Retail, Inc. and Saul Holdings Limited Partnership, as amended and filed as Exhibit 2.(b) of the September 30, 2011 Quarterly Report of the Company is hereby incorporated by reference.
 - (u) Agreement of Purchase and Sale, dated as of August 9, 2011, between Severna Retail, Inc. and Saul Holdings Limited Partnership, as amended and filed as Exhibit 2.(c) of the September 30, 2011 Quarterly Report of the Company is hereby incorporated by reference.
 - (v) Consulting Agreement, dated as of September 4, 2012, by and among Saul Centers, Inc. its subsidiary entities and B. Francis Saul III and filed as Exhibit 10.(v) of the September 30, 2012 Quarterly Report of the Company is hereby incorporated by reference.
21. Subsidiaries of Saul Centers, Inc. as filed as Exhibit 21 to the December 31, 2012 Annual Report of the Company is hereby incorporated by reference.
23. Consent of Independent Registered Public Accounting Firm as filed as Exhibit 23 to the December 31, 2012 Annual Report of the Company.
24. Power of Attorney as filed as Exhibit 24 to the December 31, 2012 Annual Report of the Company is hereby incorporated by reference.
31. Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer and Chief Financial Officer are filed herewith.
32. Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer are filed herewith.
101. The following financial statements from the Company's Annual Report on Form 10-K for the year ended December 31, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statements of changes in stockholders' equity and comprehensive income, (iv) consolidated statements of cash flows, and (v) the notes to the consolidated financial statements. Under Rule 406T of Regulation S-T, this exhibit is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise is not subject to liability under those sections.

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: March 19, 2013

/s/ B. Francis Saul II
B. Francis Saul II
Chairman of the Board of Directors & Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons in the capacities indicated.

Date: March 19, 2013

/s/ Thomas H. McCormick
Thomas H. McCormick, President and Director

Date: March 19, 2013

/s/ Philip D. Caraci*
Philip D. Caraci, Vice Chairman

Date: March 19, 2013

/s/ Scott V. Schneider*
Scott V. Schneider, Senior Vice President, Treasurer and
Secretary (Principal Financial Officer)

Date: March 19, 2013

/s/ Joel A. Friedman*
Joel A. Friedman, Senior Vice President-Chief Accounting
Officer (Principal Accounting Officer)

Date: March 19, 2013

/s/ John E. Chapoton*
John E. Chapoton, Director

Date: March 19, 2013

/s/ G. Patrick Clancy, Jr.*
G. Patrick Clancy, Jr., Director

Date: March 19, 2013

/s/ Gilbert M. Grosvenor*
Gilbert M. Grosvenor, Director

Date: March 19, 2013 /s/ Philip C. Jackson Jr.*
Philip C. Jackson Jr., Director

Date: March 19, 2013 /s/ General Paul X. Kelley*
General Paul X. Kelley, Director

Date: March 19, 2013 /s/ Charles R. Longsworth*
Charles R. Longsworth, Director

Date: March 19, 2013 /s/ Patrick F. Noonan*
Patrick F. Noonan, Director

Date: March 19, 2013 /s/ H. Gregory Platts*
H. Gregory Platts, Director

Date: March 19, 2013 /s/ Mark Sullivan III*
Mark Sullivan III, Director

Date: March 19, 2013 /s/ James W. Symington*
James W. Symington, Director

Date: March 19, 2013 /s/ John R. Whitmore*
John R. Whitmore, Director

* by Thomas H. McCormick, attorney-in-fact