

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

FOR QUARTER ENDED June 30, 2000

COMMISSION FILE NUMBER 1-12254

SAUL CENTERS, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

52-1833074

(I.R.S. Employer Identification No.)

8401 Connecticut Avenue, Chevy Chase, Maryland 20815

(Address of principal executive office) (Zip Code)

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

Number of shares of common stock, par value \$0.01 per share
outstanding as of August 11, 2000: 13,730,648

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days.

YES X

NO

SAUL CENTERS, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements reflect all adjustments necessary for the fair presentation of the financial position and results of operations of Saul Centers, Inc. All such adjustments are of a normal recurring nature. These consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements of Saul Centers, Inc. for the year ended December 31, 1999, which are included in its Annual Report on Form 10-K. The results of operations for interim periods are not necessarily indicative of results to be expected for the year.

Saul Centers, Inc.

CONSOLIDATED BALANCE SHEETS (Unaudited)

| <i>(Dollars in thousands)</i> | June 30, 2000 | December 31, 1999 |
|---|--------------------------|------------------------------|
| Assets | | |
| Real estate investments | | |
| Land | \$ 65,676 | \$ 64,233 |
| Buildings and equipment | 313,979 | 304,149 |
| | <u>379,655</u> | <u>368,382</u> |
| Accumulated depreciation | (117,844) | (112,272) |
| | 261,811 | 256,110 |
| Construction in progress | 33,859 | 21,201 |
| Cash and cash equivalents | 3,171 | 957 |
| Accounts receivable and accrued income, net | 6,475 | 8,723 |
| Prepaid expenses | 7,307 | 7,959 |
| Deferred debt costs, net | 3,157 | 3,197 |
| Other assets | 3,422 | 1,518 |
| Total assets | <u>\$ 319,202</u> | <u>\$ 299,665</u> |
| Liabilities | | |
| Notes payable | \$ 327,236 | \$ 310,268 |
| Accounts payable, accrued expenses and other liabilities | 21,163 | 18,391 |
| Deferred income | 2,629 | 2,865 |
| Total liabilities | <u>351,028</u> | <u>331,524</u> |
| Minority interests | | |
| | <u>--</u> | <u>--</u> |
| Stockholders' equity (deficit) | | |
| Common stock, \$0.01 par value, 30,000,000 shares authorized, 13,600,181 and 13,334,145 shares issued and outstanding, respectively | 136 | 133 |
| Additional paid-in capital | 48,523 | 44,616 |
| Accumulated deficit | (80,485) | (76,608) |
| Total stockholders' equity (deficit) | <u>(31,826)</u> | <u>(31,859)</u> |
| Total liabilities and stockholders' equity (deficit) | <u>\$ 319,202</u> | <u>\$ 299,665</u> |

The accompanying notes are an integral part of these statements.

Saul Centers, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

| <i>(Dollars in thousands, except per share amo</i> | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|--|--|-----------------|--------------------------------------|-----------------|
| | 2000 | 1999 | 2000 | 1999 |
| Revenue | | | | |
| Base rent | \$ 15,734 | \$ 14,467 | \$ 31,381 | \$ 28,800 |
| Expense recoveries | 2,545 | 2,433 | 5,367 | 4,881 |
| Percentage rent | 261 | 250 | 849 | 1,030 |
| Other | 448 | 870 | 798 | 1,273 |
| Total revenue | <u>18,988</u> | <u>18,020</u> | <u>38,395</u> | <u>35,984</u> |
| Operating expenses | | | | |
| Property operating expenses | 1,960 | 1,899 | 4,216 | 3,835 |
| Provision for credit losses | 112 | 64 | 233 | 125 |
| Real estate taxes | 1,553 | 1,626 | 3,194 | 3,160 |
| Interest expense | 5,870 | 5,568 | 11,658 | 11,098 |
| Amortization of deferred debt expense | 104 | 105 | 207 | 208 |
| Depreciation and amortization | 3,236 | 2,892 | 6,283 | 5,789 |
| General and administrative | 970 | 935 | 1,888 | 1,797 |
| Total operating expenses | <u>13,805</u> | <u>13,089</u> | <u>27,679</u> | <u>26,012</u> |
| Net income before minority interests | <u>5,183</u> | <u>4,931</u> | <u>10,716</u> | <u>9,972</u> |
| Minority interests | | | | |
| Minority share of income | (1,430) | (1,371) | (2,968) | (2,752) |
| Distributions in excess of earnings | (587) | (596) | (1,066) | (1,136) |
| Total minority interests | <u>(2,017)</u> | <u>(1,967)</u> | <u>(4,034)</u> | <u>(3,888)</u> |
| Net income | <u>\$ 3,166</u> | <u>\$ 2,964</u> | <u>\$ 6,682</u> | <u>\$ 6,084</u> |
| Per share (basic and dilutive) | | | | |
| Net income before minority interests | <u>\$ 0.28</u> | <u>\$ 0.28</u> | <u>\$ 0.58</u> | <u>\$ 0.56</u> |
| Net income | <u>\$ 0.24</u> | <u>\$ 0.23</u> | <u>\$ 0.50</u> | <u>\$ 0.47</u> |

The accompanying notes are an integral part of these statements.

Saul Centers, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (Unaudited)

| <i>(Dollars in thousands, except per share amo</i> | Common Stock | Additional Paid-in Capital | Accumulated Deficit | Total |
|--|-------------------------|---|--------------------------------|--------------------|
| Stockholders' equity (deficit): | | | | |
| Balance, December 31, 1998 | \$ 129 | \$ 31,967 | \$ (69,380) | \$ (37,284) |
| Issuance of 497,767 shares of common stock | 4 | 7,158 | -- | 7,162 |
| Issuance of 373,546 convertible limited partnership units in the Operating Partnership | -- | 5,491 | -- | 5,491 |
| Net income | -- | -- | 13,297 | 13,297 |
| Distributions (\$1.17 per share) | -- | -- | (15,323) | (15,323) |
| Distributions payable (\$.39 per share) | -- | -- | (5,202) | (5,202) |
| Balance, December 31, 1999 | 133 | 44,616 | (76,608) | (31,859) |
| Issuance of 134,696 shares of common stock | 2 | 1,943 | -- | 1,945 |
| Net income | -- | -- | 3,516 | 3,516 |
| Distributions payable (\$.39 per share) | -- | -- | (5,254) | (5,254) |
| Balance, March 31, 2000 | 135 | 46,559 | (78,346) | (31,652) |
| Issuance of 131,340 shares of common stock | 1 | 1,964 | -- | 1,965 |
| Net income | -- | -- | 3,166 | 3,166 |
| Distributions payable (\$.39 per share) | -- | -- | (5,305) | (5,305) |
| Balance, June 30, 2000 | <u>\$ 136</u> | <u>\$ 48,523</u> | <u>\$ (80,485)</u> | <u>\$ (31,826)</u> |

The accompanying notes are an integral part of these statements.

Saul Centers, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| <i>(Dollars in thousands)</i> | For the Six Months Ended June 30, | |
|--|--|-----------------|
| | 2000 | 1999 |
| Cash flows from operating activities: | | |
| Net income | \$ 6,682 | \$ 6,084 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Minority interests | 4,034 | 3,888 |
| Depreciation and amortization | 6,490 | 5,997 |
| Provision for credit losses | 233 | 125 |
| Decrease in accounts receivable | 2,015 | 1,426 |
| Increase in prepaid expenses | (59) | (134) |
| Increase in other assets | (1,904) | (2,042) |
| Increase in accounts payable, accrued expenses and other liabilities | 2,772 | 2,072 |
| Decrease in deferred income | (236) | (500) |
| Net cash provided by operating activities | <u>20,027</u> | <u>16,916</u> |
| Cash flows from investing activities: | | |
| Additions to real estate investments | (6,903) | (5,057) |
| Additions to construction in progress | (17,028) | (8,874) |
| Net cash used in investing activities | <u>(23,931)</u> | <u>(13,931)</u> |
| Cash flows from financing activities: | | |
| Proceeds from notes payable | 38,581 | 10,500 |
| Repayments on notes payable | (21,613) | (6,912) |
| Additions to deferred debt expense | (167) | (12) |
| Proceeds from the issuance of common stock and convertible limited partnership units in the Operating Partnership | 3,910 | 7,108 |
| Distributions to common stockholders and holders of convertible limited partnership units in the Operating Partnership | (14,593) | (14,063) |
| Net cash provided by (used in) financing activities | <u>6,118</u> | <u>(3,379)</u> |
| Net decrease in cash | 2,214 | (394) |
| Cash, beginning of period | 957 | 2,395 |
| Cash, end of period | <u>\$ 3,171</u> | <u>\$ 2,001</u> |

The accompanying notes are an integral part of these statements.

Saul Centers, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. Organization, Formation and Structure

Organization

Saul Centers, Inc. ("Saul Centers") was incorporated under the Maryland General Corporation Law on June 10, 1993. Saul Centers operates as a real estate investment trust (a "REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Saul Centers generally will not be subject to federal income tax, provided it annually distributes at least 95% of its REIT taxable income to its stockholders and meets certain organizational and other requirements. Saul Centers has made and intends to continue to make regular quarterly distributions to its stockholders. Saul Centers, together with its wholly owned subsidiaries and the limited partnerships of which Saul Centers or one of its subsidiaries is the sole general partner, are referred to collectively as the "Company". B. Francis Saul II serves as Chairman of the Board of Directors and Chief Executive Officer of Saul Centers.

Saul Centers was formed to continue and expand the shopping center business previously owned and conducted by the B.F. Saul Real Estate Investment Trust, the B.F. Saul Company, Chevy Chase Bank, F.S.B. and certain other affiliated entities (collectively, "The Saul Organization"). On August 26, 1993, The Saul Organization transferred to Saul Holdings Limited Partnership, a newly formed Maryland limited partnership (the "Operating Partnership"), and two newly formed subsidiary limited partnerships (the "Subsidiary Partnerships", and collectively with the Operating Partnership, the "Partnerships"), shopping center and office properties, and the management functions related to the transferred properties. Since its formation, the Company has purchased and developed additional properties. The Company is currently developing Washington Square at Old Town, a 235,000 square foot Class A mixed-use office/retail complex, on the two-acre site of the former North Washington shopping center property, and is repositioning an under-performing shopping center to an industrial/warehouse use (the "Industrial Property"). As of June 30, 2000, the Company's properties (the "Current Portfolio Properties") consisted of 28 operating shopping center properties (the "Shopping Centers"), three predominantly office operating properties and Washington Square at Old Town (the "Office Properties"), and the Industrial Property.

To facilitate the placement of collateralized mortgage debt, the Company established Saul QRS, Inc. and SC Finance Corporation, each of which is a wholly owned subsidiary of Saul Centers. Saul Centers serves as the sole general partner of the Operating Partnership and of Saul Subsidiary II Limited Partnership, while Saul QRS, Inc. serves as the sole general partner of Saul Subsidiary I Limited Partnership. The remaining limited partnership interests in Saul Subsidiary I Limited Partnership and Saul Subsidiary II Limited Partnership are held by the Operating Partnership as the sole limited partner. Through this structure, the Company owns 100% of the Current Portfolio Properties.

Saul Centers, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

2. Summary of Significant Accounting Policies

Nature of Operations

The Company, which conducts all of its activities through its subsidiaries, the Operating Partnership and Subsidiary Partnerships, engages in the ownership, operation, management, leasing, acquisition, renovation, expansion, development and financing of community and neighborhood shopping centers and office properties, primarily in the Mid-Atlantic region. The Company's long-term objectives are to increase cash flow from operations and to maximize capital appreciation of its real estate.

The Company is the owner and operator of a real estate portfolio of 33 properties totaling approximately 6,100,000 square feet of gross leasable area ("GLA") located primarily in the Washington, D.C./Baltimore metropolitan area. The portfolio is composed of 28 neighborhood and community Shopping Centers, 4 Office Properties and one Industrial Property, totaling 4,931,000, 975,000 and 197,000 square feet of GLA, respectively. Only the United States Government (10.6%), a tenant of seven properties and Giant Food (7.3%), a tenant of eight Shopping Centers, individually accounted for more than 1.6% of the Company's 1999 total revenues. With the exception of five Shopping Center properties and a portion of one Office Property purchased or developed during the past four years, the Company's Current Portfolio Properties consist of seasoned properties that have been owned and managed by The Saul Organization for 15 years or more. The Company expects to hold its properties as long-term investments, and it has no maximum period for retention of any investment. The Company plans to selectively acquire additional income-producing properties and to expand, renovate, and improve its properties when circumstances warrant.

Principles of Consolidation

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

Real Estate Investment Properties

These financial statements are prepared in conformity with generally accepted accounting principles, and accordingly, do not report the current value of the Company's real estate assets. Real estate investment properties are stated at the lower of depreciated cost or fair value less cost to sell. Management believes that these assets have generally appreciated in value and, accordingly, the aggregate current value exceeds their aggregate net book value and also exceeds the value of the Company's liabilities as reported in these financial statements. Real estate investment properties are reviewed for potential impairment losses whenever events or changes

Saul Centers, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of an individual property's undiscounted expected future cash flows is less than its carrying amount, the Company's policy is to recognize an impairment loss measured by the amount the depreciated cost of the property exceeds its fair value. Fair value is calculated as the present value of expected future cash flows.

Interest, real estate taxes and other carrying costs are capitalized on projects under development and construction. Interest expense capitalized during the six month periods ended June 30, 2000 and 1999, was \$1,068,000 and \$314,000, respectively. Once construction is substantially completed and the assets are placed in service, their rental income, direct operating expenses and depreciation are included in current operations. Expenditures for repairs and maintenance are charged to operations as incurred.

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

Accounts Receivable and Accrued Income

Accounts receivable primarily represent amounts currently due from tenants in accordance with the terms of the respective leases. In addition, at June 30, 2000 and December 31, 1999, accounts receivable included \$2,373,000 and \$1,803,000, respectively, representing minimum rental income accrued on a straight-line basis to be paid by tenants over the terms of the respective leases. Receivables are reviewed monthly and reserves are established when, in the opinion of management, collection of the receivable is doubtful. Accounts receivable in the accompanying financial statements are shown net of an allowance for doubtful accounts of \$763,000 and \$594,000, at June 30, 2000 and December 31, 1999, respectively.

Deferred Debt Costs

Deferred debt costs consist of financing fees and costs incurred to obtain long-term financing. These fees and costs are being amortized over the terms of the respective loans or agreements. Deferred debt costs in the accompanying financial statements are shown net of accumulated amortization of \$1,203,000 and \$1,005,000, at June 30, 2000 and December 31, 1999, respectively.

Saul Centers, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Revenue Recognition

Rental and interest income is accrued as earned except when doubt exists as to collectibility, in which case the accrual is discontinued. When rental payments due under leases vary from a straight-line basis because of free rent periods or stepped increases, income is recognized on a straight-line basis in accordance with generally accepted accounting principles. Expense recoveries represent a portion of property operating expenses billed to the tenants, including common area maintenance, real estate taxes and other recoverable costs. Expense recoveries are recognized in the period when the expenses are incurred. Rental income based on a tenant's revenues ("percentage rent") is accrued when a tenant reports sales that exceed a specified breakpoint.

Income Taxes

The Company made an election to be treated, and intends to continue operating so as to qualify as a REIT under the Code, commencing with its taxable year ending December 31, 1993. A REIT generally will not be subject to federal income taxation on that portion of its income that qualifies as REIT taxable income to the extent that it distributes at least 95% of its REIT taxable income to stockholders and complies with certain other requirements. Therefore, no provision has been made for federal income taxes in the accompanying consolidated financial statements.

Per Share Data

Per share data is calculated in accordance with SFAS No. 128, "Earnings Per Share." The Company has no dilutive securities; therefore, basic and diluted earnings per share are identical. Net income before minority interests is presented on a fully converted basis, as if the limited partners had exercised their right to convert their partnership ownership into shares of Saul Centers, and is computed using weighted average shares of 18,729,000 and 18,042,000, for the quarters, and 18,663,000 and 17,921,000, for the six month periods ended June 30, 2000 and 1999, respectively. Per share data for net income after minority interests is computed using weighted average shares of 13,557,000 and 13,036,000, for the quarters ended, and 13,491,000 and 12,977,000, for the six month periods ended June 30, 2000 and 1999, respectively.

Reclassifications

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

Saul Centers, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

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

The Saul Organization has a 27.6% limited partnership interest, represented by 5,172,000 convertible limited partnership units in the Operating Partnership, as of June 30, 2000. These Convertible Limited Partnership Units are convertible into shares of Saul Centers' common stock on a one-for-one basis. The impact of The Saul Organization's 27.6% limited partnership interest in the Operating Partnership is reflected as minority interests in the accompanying consolidated financial statements.

Deferred Compensation and Stock Plan for Directors

Saul Centers has established a Deferred Compensation and Stock Plan for Directors (the "Plan") for the benefit of its directors and their beneficiaries. A director may elect to defer all or part of his or her director's fees and has the option to have the fees paid in cash, in shares of common stock or in a combination of cash and shares of common stock upon termination from the Board. If the director elects to have fees paid in stock, the number of shares allocated to the director is determined by the closing market price of the common stock on the day the fee is earned. As of June 30, 2000, 120,000 shares were authorized and registered for use under the Plan, and 82,000 shares had been credited to the directors' deferred fee accounts.

Beginning in 1999, pursuant to the Plan, 100 shares of the Company's common stock are awarded annually as additional compensation to each director serving on the Board of Directors as of the record date for the Annual Meeting of Stockholders. The shares are issued on the date of the Annual Meeting, their issuance may not be deferred and transfer of the shares is restricted for a period of twelve months following the date of issue.

3. Construction In Progress

Construction in progress includes the costs of active development projects and other predevelopment project costs. Development costs include direct construction costs and indirect costs such as architectural, engineering, construction management and carrying costs consisting of interest, real estate taxes and insurance. Construction in progress balances as of June 30, 2000 and December 31, 1999 are as follows:

| <u>Construction in Progress</u> <i>(In thousands)</i> | June 30, <u>2000</u> | December 31, <u>1999</u> |
|--|-------------------------|-----------------------------|
| Washington Square..... | \$31,228 | \$18,009 |
| Ashburn Village II..... | - | 2,326 |
| French Market..... | 2,292 | 509 |
| Crosstown Business Center..... | <u>339</u> | <u>357</u> |
| Total | <u>\$33,859</u> | <u>\$21,201</u> |

Saul Centers, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

4. Notes Payable

Notes payable totaled \$327,236,000 at June 30, 2000, of which \$278,578,000 (85.1%) was fixed rate debt and \$48,658,000 (14.9%) was floating rate debt. At June 30, 2000, the Company had a \$60,000,000 unsecured revolving credit facility with outstanding borrowings of \$23,000,000 and additional borrowing availability of \$37,000,000. The Company and the agent bank closed on a new three year agreement on July 18, 2000, which increased the borrowing availability from \$60,000,000 to \$70,000,000. The new facility matures July 18, 2003. The new facility requires monthly interest payments either at a rate of LIBOR plus a spread of 1.625% to 1.875% (determined by certain debt service coverage and leverage tests) or at the bank's reference rate at the Company's option. The Company also had borrowed \$25,658,000 of a \$42,000,000 construction loan secured by Washington Square at June 30, 2000. The facility requires monthly interest payments at a rate of LIBOR plus a spread of 1.9%, which will decrease as leasing of the office and retail space proceeds.

Notes payable totaled \$310,268,000 at December 31, 1999, of which \$266,990,000 (86.1%), was fixed rate debt and \$43,278,000 (13.9%) was floating rate debt. Outstanding borrowings on the \$60,000,000 unsecured revolving credit facility were \$31,000,000 at December 31, 1999, with additional borrowing availability of \$29,000,000.

At June 30, 2000, the scheduled maturities of all debt for years ending December 31, were as follows:

Debt Maturity Schedule

(In thousands)

| | |
|---------------------------------------|------------------|
| July 1 through December 31, 2000..... | \$ 25,706 |
| 2001..... | 6,322 |
| 2002..... | 31,679 |
| 2003..... | 6,525 |
| 2004..... | 16,317 |
| 2005..... | 7,375 |
| Thereafter..... | <u>233,312</u> |
| Total..... | <u>\$327,236</u> |

Saul Centers, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

5. Shareholders' Equity (Deficit) and Minority Interests

The accompanying consolidated financial statements are prepared in conformity with generally accepted accounting principles and, accordingly, do not report the current value of the Company's real estate assets. The Shareholders' Equity (Deficit) reported on the Consolidated Balance Sheets does not reflect any increase in the value resulting from the difference between the current value and the net book value of the Company's assets. Therefore, Shareholders' Equity (Deficit) reported on the Consolidated Balance Sheets does not reflect the market value of stockholders' investment in the Company.

The Consolidated Statement of Operations for the three months ended June 30, 2000 includes a charge for minority interests of \$2,017,000 consisting of \$1,430,000 related to The Saul Organization's share of the net income for such quarter and \$587,000 related to distributions to minority interests in excess of allocated net income for that period. The charge for the three months ended June 30, 1999 of \$1,967,000 consists of \$1,371,000 related to The Saul Organization's share of net income for such quarter and \$596,000 related to distributions to minority interests in excess of allocated net income for that period. The Consolidated Statement of Operations for the six months ended June 30, 2000 includes a charge for minority interests of \$4,034,000 consisting of \$2,968,000 related to The Saul Organization's share of the net income for such quarter and \$1,066,000 related to distributions to minority interests in excess of allocated net income for that period. The charge for the six months ended June 30, 1999 of \$3,888,000 consists of \$2,752,000 related to The Saul Organization's share of net income for such quarter and \$1,136,000 related to distributions to minority interests in excess of allocated net income for that period.

Saul Centers, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

6. Business Segments

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

| <i>(Dollars in thousands)</i> | <u>Shopping Centers</u> | <u>Office Properties</u> | <u>Corporate and Other</u> ⁽¹⁾ | <u>Consolidated Totals</u> |
|--|-----------------------------|------------------------------|---|--------------------------------|
| Quarter ended June 30, 2000 | | | | |
| Real estate rental operations: | | | | |
| Revenues..... | \$ 13,621 | \$ 5,282 | \$ 85 | \$ 18,988 |
| Expenses..... | (2,468) | (1,146) | (11) | (3,625) |
| Income from real estate..... | 11,153 | 4,136 | 74 | 15,363 |
| Interest expense & amortization of debt costs..... | -- | -- | (5,974) | (5,974) |
| General and administrative..... | -- | -- | (970) | (970) |
| Subtotal..... | 11,153 | 4,136 | (6,870) | 8,419 |
| Depreciation and amortization..... | (2,308) | (904) | (24) | (3,236) |
| Minority interests..... | -- | -- | (2,017) | (2,017) |
| Net income..... | <u>\$ 8,845</u> | <u>\$ 3,232</u> | <u>\$ (8,911)</u> | <u>\$ 3,166</u> |
| Capital investment..... | <u>\$ 3,744</u> | <u>\$ 6,436</u> | <u>\$ (186)</u> | <u>\$ 9,994</u> |
| Total assets..... | <u>\$ 192,915</u> | <u>\$ 100,736</u> | <u>\$ 25,551</u> | <u>\$ 319,202</u> |
| Quarter ended June 30, 1999 | | | | |
| Real estate rental operations: | | | | |
| Revenues..... | \$ 13,292 | \$ 4,681 | \$ 47 | \$ 18,020 |
| Expenses..... | (2,468) | (1,121) | -- | (3,589) |
| Income from real estate..... | 10,824 | 3,560 | 47 | 14,431 |
| Interest expense & amortization of debt costs..... | -- | -- | (5,673) | (5,673) |
| General and administrative..... | -- | -- | (935) | (935) |
| Subtotal..... | 10,824 | 3,560 | (6,561) | 7,823 |
| Depreciation and amortization..... | (2,005) | (865) | (22) | (2,892) |
| Minority interests..... | -- | -- | (1,967) | (1,967) |
| Net income..... | <u>\$ 8,819</u> | <u>\$ 2,695</u> | <u>\$ (8,550)</u> | <u>\$ 2,964</u> |
| Capital investment..... | <u>\$ 6,577</u> | <u>\$ 450</u> | <u>\$ 81</u> | <u>\$ 7,108</u> |
| Total assets..... | <u>\$ 186,882</u> | <u>\$ 70,194</u> | <u>\$ 22,135</u> | <u>\$ 279,211</u> |

(1) Includes the Industrial Property, Crosstown Business Center.

Saul Centers, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

| <i>(Dollars in thousands)</i> | <u>Shopping Centers</u> | <u>Office Properties</u> | <u>Corporate and Other</u> ⁽¹⁾ | <u>Consolidated Totals</u> |
|--|-----------------------------|------------------------------|---|--------------------------------|
| Six months ended June 30, 2000 | | | | |
| Real estate rental operations: | | | | |
| Revenues..... | \$ 27,726 | \$ 10,505 | \$ 164 | \$ 38,395 |
| Expenses..... | <u>(5,278)</u> | <u>(2,349)</u> | <u>(16)</u> | <u>(7,643)</u> |
| Income from real estate..... | 22,448 | 8,156 | 148 | 30,752 |
| Interest expense & amortization of debt costs..... | -- | -- | (11,865) | (11,865) |
| General and administrative..... | -- | -- | <u>(1,888)</u> | <u>(1,888)</u> |
| Subtotal..... | 22,448 | 8,156 | (13,605) | 16,999 |
| Depreciation and amortization..... | (4,411) | (1,827) | (45) | (6,283) |
| Minority interests..... | -- | -- | <u>(4,034)</u> | <u>(4,034)</u> |
| Net income..... | <u>\$ 18,037</u> | <u>\$ 6,329</u> | <u>\$ (17,684)</u> | <u>\$ 6,682</u> |
| Capital investment..... | <u>\$ 9,557</u> | <u>\$ 14,253</u> | <u>\$ 121</u> | <u>\$ 23,931</u> |
| Total assets..... | <u>\$ 192,915</u> | <u>\$ 100,736</u> | <u>\$ 25,551</u> | <u>\$ 319,202</u> |
| Six months ended June 30, 1999 | | | | |
| Real estate rental operations: | | | | |
| Revenues..... | \$ 26,689 | \$ 9,248 | \$ 47 | \$ 35,984 |
| Expenses..... | <u>(4,875)</u> | <u>(2,242)</u> | <u>(3)</u> | <u>(7,120)</u> |
| Income from real estate..... | 21,814 | 7,006 | 44 | 28,864 |
| Interest expense & amortization of debt costs..... | -- | -- | (11,306) | (11,306) |
| General and administrative..... | -- | -- | <u>(1,797)</u> | <u>(1,797)</u> |
| Subtotal..... | 21,814 | 7,006 | (13,059) | 15,761 |
| Depreciation and amortization..... | (4,009) | (1,736) | (44) | (5,789) |
| Minority interests..... | -- | -- | <u>(3,888)</u> | <u>(3,888)</u> |
| Net income..... | <u>\$ 17,805</u> | <u>\$ 5,270</u> | <u>\$ (16,991)</u> | <u>\$ 6,084</u> |
| Capital investment..... | <u>\$ 11,997</u> | <u>\$ 1,748</u> | <u>\$ 186</u> | <u>\$ 13,931</u> |
| Total assets..... | <u>\$ 186,882</u> | <u>\$ 70,194</u> | <u>\$ 22,135</u> | <u>\$ 279,211</u> |

(1) Includes the Industrial Property, Crosstown Business Center.

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

This section should be read in conjunction with the consolidated financial statements of the Company and the accompanying notes in "Item 1. Financial Statements" of this report. Historical results and percentage relationships set forth in Item 1 and this section should not be taken as indicative of future operations of the Company. Capitalized terms used but not otherwise defined in this section, have the meanings given to them in Item 1 of this Form 10-Q. This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are generally characterized by terms such as "believe", "expect" and "may".

Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, the Company's actual results could differ materially from those given in the forward-looking statements as a result of changes in factors which include among others, the following: general economic and business conditions, which will, among other things, affect demand for retail and office space; demand for retail goods; availability and credit worthiness of the prospective tenants; lease rents and the terms and availability of financing; adverse changes in the real estate markets including, among other things, competition with other companies and technology, risks of real estate development and acquisition, governmental actions and initiatives, debt refinancing risk, conflicts of interests, maintenance of REIT status and environmental/safety requirements.

General

The following discussion is based primarily on the consolidated financial statements of the Company, as of June 30, 2000 and for the three and six month periods ended June 30, 2000.

Liquidity and Capital Resources

The Company's principal demands for liquidity are expected to be distributions to its stockholders, debt service and loan repayments, expansion, renovation, and redevelopment 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 95% of its "real estate investment trust taxable income," as defined in the Code. The Company anticipates that operating revenues will provide the funds necessary for operations, debt service, distributions, and required recurring capital expenditures. Balloon principal repayments are expected to be funded by refinancings.

Management anticipates that during the current year the Company may: i) redevelop certain of the Shopping Centers, ii) develop additional freestanding outparcels or expansions within certain of the Shopping Centers, iii) acquire existing neighborhood and community shopping centers and/or office properties and iv) develop new shopping center or office sites.

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

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

Management believes that the Company's current capital resources, which include the Company's credit line of which \$37,000,000 was available for borrowing as of June 30, 2000, will be sufficient to meet its liquidity needs for the foreseeable future.

Financial Information

For the second quarter of 2000, the Company reported Funds From Operations ("FFO") of \$8,419,000. This represents an 7.6% increase over the comparable 1999 period's FFO of \$7,823,000. For the six month period ended June 30, 2000, the Company reported FFO of \$16,999,000, representing a 7.9% increase over the comparable 1999 period's FFO of \$15,761,000. FFO is presented on a fully converted basis and as the most widely accepted measure of operating performance for REITs is defined as net income before extraordinary items and before real estate depreciation and amortization. The following table represents a reconciliation from net income before minority interests to FFO:

Funds From Operations Schedule

(Dollars in thousands)

| | <u>For the Three Months Ended June 30,</u> | |
|---|--|-----------------|
| | <u>2000</u> | <u>1999</u> |
| Net income before minority interests..... | \$ 5,183 | \$ 4,931 |
| Add: | | |
| Depreciation and amortization of real property..... | <u>3,236</u> | <u>2,892</u> |
| Funds From Operations | <u>\$ 8,419</u> | <u>\$ 7,823</u> |

| | <u>For the Six Months Ended June 30,</u> | |
|---|--|------------------|
| | <u>2000</u> | <u>1999</u> |
| Net income before minority interests..... | \$ 10,716 | \$ 9,972 |
| Add: | | |
| Depreciation and amortization of real property..... | <u>6,283</u> | <u>5,789</u> |
| Funds From Operations | <u>\$ 16,999</u> | <u>\$ 15,761</u> |

FFO, as defined by the National Association of Real Estate Investment Trusts, is net income before minority interests excluding gains or losses from sales of property, adjustments for unconsolidated partnerships and joint ventures, depreciation and amortization. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs, which is disclosed in the accompanying Consolidated Statements of Cash Flows for the applicable periods. There are no material legal or functional restrictions on the use of FFO. FFO should not be considered as an alternative to net income, as an indicator of the Company's operating performance, or as an alternative to cash flows as a measure of liquidity. Management considers FFO a supplemental measure of operating performance and along with cash flow from operating activities, investing activities and financing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. FFO may not be comparable to similarly titled measures employed by other REITs.

Cash flow from operating activities, investing activities and financing activities for the six months ended June 30, 2000 and 1999 are as follows:

Cash flow provided by (used in):

(Dollars in thousands)

| | <u>For the Six Months Ended June 30,</u> | |
|---------------------------|--|-------------|
| | <u>2000</u> | <u>1999</u> |
| Operating activities..... | \$ 20,027 | \$ 16,916 |
| Investing activities..... | -23,931 | -13,931 |
| Financing activities..... | 6,118 | -3,379 |

Capital Strategy and Financing Activity

The Company's capital strategy is to maintain a ratio of total debt to total asset value of approximately 50% or less, and to actively manage the Company's leverage and debt expense on an ongoing basis in order to maintain prudent coverage of fixed charges. Management believes that current total debt remains less than 50% of total asset value.

In 1999, the Company closed a \$42,000,000 construction loan, which it anticipates will substantially fund the development costs associated with the 235,000 square foot Washington Square mixed-use office/retail complex, located in Old Town Alexandria, Virginia. The loan has an initial three-year term with an interest rate of LIBOR plus 1.90%, which will decline as leasing of the office and retail space proceeds. At August 11, 2000, outstanding borrowings on this construction loan totaled \$27,662,000.

On May 30, 2000, the Company closed a \$14,300,000, 15-year, fixed rate mortgage loan. The loan is collateralized by the Shops at Fairfax and Boulevard shopping centers. The loan requires monthly payments of principal and interest. Principal payments are calculated upon on a 22-year period and interest is calculated at 8.33%. The proceeds of the loan were used to repay a portion of outstanding indebtedness under the Company's floating rate credit line.

On July 18, 2000, the Company and the agent bank for the Company's unsecured credit line closed a new three year agreement which increased the maximum borrowing available under the facility from \$60,000,000 to \$70,000,000. The new facility requires monthly interest payments either at a rate of LIBOR plus a spread of 1.625% to 1.875% (determined by certain debt service coverage and leverage tests) or at the bank's reference rate, at the Company's option. The facility matures July 18, 2003, but may be extended an additional year, at the Company's option, upon the payment of an extension fee. At August 11, 2000, outstanding borrowings on the unsecured credit line totaled \$29,200,000, leaving \$40,800,000 of credit availability.

At August 11, 2000, the Company had fixed interest rates on approximately 83.0% of its total debt outstanding, which then had a weighted remaining term of approximately 10 years.

Redevelopment, Renovations and Acquisitions

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

In February 1999, the Company announced the development of Washington Square at Old Town, a new Class A mixed-use office / retail complex along North Washington Street in historic Old Town Alexandria in Northern Virginia. The project will provide 235,000 square feet of leasable area and is well located on a two-acre site along Alexandria's main street. The project

consists of two identical buildings separated by a brick courtyard. Construction of the southern building is nearing completion. Work continues on the building's interior common areas and mechanical systems. The Company expects to deliver a portion of the retail space to tenants during the early portion of the third quarter of 2000. Work on the north building is proceeding on schedule, with delivery lagging the south building by approximately six weeks. Base building construction of both buildings is scheduled to be completed by the end of the third quarter of 2000. The 45,000 square feet of retail space is approximately 82% pre-leased and several leases are under negotiation with office tenant prospects.

During late 1999, the Company purchased land located within the 1,580 acre community of Ashburn Village in Loudoun County, Virginia, adjacent to its 108,000 square foot Ashburn Village neighborhood shopping center. The land was developed into Ashburn Village II, a 39,700 square foot in-line and pad expansion to the existing shopping center, containing 23,600 square feet of retail space and 16,100 square feet of professional office suites. Pad sites are being leased to restaurant and other users for free-standing buildings. Base building construction and site work was completed in June 2000. Approximately 80% of the new space has been leased. On May 2, 2000, the Company delivered over 85% of the retail space to tenants to begin their work in preparation for store openings approximately 90 days later. Office space finish work is underway.

During 1999, the Company completed construction of a façade renovation and retenanting of a 103,000 square foot anchor space at the 213,000 square foot French Market center in Oklahoma City, Oklahoma. In December, a 90,000 square foot lease was signed with Burlington Coat Factory ("Burlington") to locate in the adjacent enclosed mall portion of the center. The common areas of the mall will become part of the Burlington leasable area, increasing the center to 247,000 square feet upon completion of tenant improvements. Mall tenants have been relocated to other space in the center or have ceased operations, which allowed construction to commence in February 2000. Burlington is scheduled to open in the third quarter of 2000, thereby increasing the center's occupancy to over 95%.

The conversion and redevelopment of the former Tulsa, Oklahoma shopping center to an industrial/office campus named Crosstown Business Center is proceeding. The first tenants have occupied 25% of the office park and several other leases are under negotiation.

Portfolio Leasing Status

At June 30, 2000, the portfolio consisted of 28 Shopping Centers, four Office Properties and one Industrial Property, all of which are located in seven states and the District of Columbia. The Office Properties consist of one office property and one office/retail property, both located in the District of Columbia, a research park located in a Maryland suburb of Washington, D.C. and an office/retail property under construction in Old Town Alexandria, Virginia.

At June 30, 2000, 92.9% of the Company's 5.8 million square feet of operating leaseable space was leased to tenants, as compared to 91.2% at June 30, 1999. The shopping center portfolio was 94.9% leased at June 30, 2000 and 94.0% leased at June 30, 1999. The Office Properties (excluding the Washington Square project under development) were 97.7% leased at

June 30, 2000 compared to 96.8% as of June 30, 1999. The Industrial Property was 25% leased at June 30, 2000 while it was vacant as of June 30, 1999. The overall improvements in the current period's leasing percentages compared to the prior year's period resulted primarily from the leasing of a substantial portion of French Market to Burlington, improved office leasing at Avenel Business Park and the progress in leasing the Crosstown Business Center.

Results of Operations

The following discussion compares the results of the Company for the three month and six month periods ended June 30, 2000 and 1999, respectively. This information should be read in conjunction with the accompanying consolidated financial statements and the notes related thereto. These financial statements include all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the interim periods presented.

Three Months Ended June 30, 2000 Compared to Three Months Ended June 30, 1999

Revenues for the three month period ended June 30, 2000 (the "2000 Quarter"), totaled \$18,988,000 compared to \$18,020,000 for the comparable quarter in 1999 (the "1999 Quarter"), an increase of \$968,000 (5.4%).

Base rent income was \$15,734,000 for the 2000 Quarter, compared to \$14,467,000 for the 1999 Quarter, representing an increase of \$1,267,000 (8.8%). The increase in base rent resulted primarily from new leases in effect at recently redeveloped shopping centers (French Market, Shops at Fairfax, Thruway and Boulevard), a two percent average occupancy increase at Avenel Business Park and a 60,000 square foot tenant paying higher rent while holding over beyond its scheduled lease expiration at 601 Pennsylvania Avenue.

Expense recoveries were \$2,545,000 for the 2000 Quarter compared to \$2,433,000 for the comparable 1999 Quarter, representing an increase of \$112,000 (4.6%).

Percentage rent was \$261,000 in the 2000 Quarter, compared to \$250,000 in the 1999 Quarter, an increase of \$11,000 (4.4%).

Other income, which primarily consists of parking income, kiosk and temporary leasing, and fees associated with the early termination of leases, was \$448,000 in the 2000 Quarter, compared to \$870,000 in the 1999 Quarter, representing a decrease of \$422,000 (48.5%). The decrease in other income resulted primarily from the collection of three shopping center lease termination fees in the 1999 Quarter.

Operating expenses, consisting primarily of repairs and maintenance, utilities, payroll, insurance and other property related expenses, increased \$61,000 (3.2%) to \$1,960,000 in the 2000 Quarter from \$1,899,000 in the 1999 Quarter.

The provision for credit losses increased \$48,000 (75.0%) to \$112,000 in the 2000 Quarter from \$64,000 in the 1999 Quarter. The increase resulted primarily from additions to credit loss reserves for a retail tenant in bankruptcy and rent in dispute with an office tenant.

Real estate taxes decreased \$73,000 (4.5%) to \$1,553,000 in the 2000 Quarter from \$1,626,000 in the 1999 Quarter.

Interest expense increased \$302,000 (5.4%) to \$5,870,000 for the 2000 Quarter from \$5,568,000 reported for the 1999 Quarter. The increase resulted from increased average borrowing balances on the Company's credit line used to fund redevelopments placed in service during 1999 and to a lesser extent, interest rates on the Company's floating rate credit line averaging 127 basis points higher in the 2000 Quarter compared to the 1999 Quarter.

Amortization of deferred debt expense decreased \$1,000 (1.0%) to \$104,000 for the 2000 Quarter compared to \$105,000 for the 1999 Quarter.

Depreciation and amortization expense increased \$344,000 (11.9%) from \$2,892,000 in the 1999 Quarter to \$3,236,000 in the 2000 Quarter, reflecting increased depreciation expense on redevelopments placed in service during 1999.

General and administrative expense, which consists of payroll, administrative and other overhead expense, was \$970,000 for the 2000 Quarter, an increase of \$35,000 (3.7%) over the 1999 Quarter.

Six Months Ended June 30, 2000 Compared to Six Months Ended June 30, 1999

Revenues for the six month period ended June 30, 2000 (the "2000 Period"), totaled \$38,395,000 compared to \$35,984,000 for the comparable period in 1999 (the "1999 Period"), an increase of \$2,411,000 (6.7%).

Base rent income was \$31,381,000 for the 2000 Period, compared to \$28,800,000 for the 1999 Period, representing an increase of \$2,581,000 (9.0%). The increase in base rent resulted primarily from new leases at recently redeveloped shopping centers (French Market, Shops at Fairfax, Thruway and Boulevard), a four percent average occupancy increase at Avenel Business Park and a 60,000 square foot tenant paying higher rent while holding over beyond its scheduled lease expiration at 601 Pennsylvania Avenue.

Expense recoveries were \$5,367,000 for the 2000 Period compared to \$4,881,000 for the comparable 1999 Period, representing an increase of \$486,000 (10.0%). This increase resulted primarily from substantial snow removal expenses during the 2000 Period, which were recovered from many of the Company's shopping center tenants.

Percentage rent was \$849,000 in the 2000 Period, compared to \$1,030,000 in the 1999 Period, a decrease of \$181,000 (17.6%). The decrease in percentage rent resulted primarily from the renewal of two anchor tenant leases with higher base rent in lieu of percentage rent at White Oak and Giant shopping centers.

Other income, which primarily consists of parking income, kiosk and temporary leasing, and fees associated with early termination of leases, was \$798,000 in the 2000 Period, compared to \$1,273,000 in the 1999 Period, representing a decrease of \$475,000 (37.3%). The decrease in other income resulted primarily from the collection of five shopping center lease termination fees in the 1999 Period and only one in the 2000 Period.

Operating expenses, consisting primarily of repairs and maintenance, utilities, payroll, insurance and other property related expenses, increased \$381,000 (9.9%) to \$4,216,000 in the 2000 Period from \$3,835,000 in the 1999 Period. The increase was primarily caused by higher snow removal expenses resulting from two severe snowstorms impacting the Mid-Atlantic region during January and February 2000.

The provision for credit losses increased \$108,000 (86.4%) to \$233,000 in the 2000 Period from \$125,000 in the 1999 Period. The increase resulted primarily from additions to credit loss reserves for a retail tenant in bankruptcy and rent in dispute with an office tenant.

Real estate taxes increased \$34,000 (1.1%) to \$3,194,000 in the 2000 Period from \$3,160,000 in the 1999 Period.

Interest expense increased \$560,000 (5.0%) to \$11,658,000 in the 2000 Period from \$11,098,000 reported in the 1999 Period. The increase resulted from higher average borrowing balances on the Company's credit line used to fund redevelopments placed in service during 1999 and, to a lesser extent, interest rates on the Company's floating rate credit line averaging 99 basis points higher in the 2000 Period compared to the 1999 Period.

Amortization of deferred debt expense decreased \$1,000 (0.5%) to \$207,000 in the 2000 Period compared to \$208,000 in the 1999 Period.

Depreciation and amortization expense increased \$494,000 (8.5%) from \$5,789,000 in the 1999 Period to \$6,283,000 in the 2000 Period, reflecting depreciation expense on redevelopments placed in service during 1999.

General and administrative expense, which consists of payroll, administrative and other overhead expense, was \$1,888,000 in the 2000 Period, an increase of \$91,000 (5.1%) over the 1999 Period. The increase in 2000 expenses compared to 1999 primarily resulted from a 5% change in payroll related expenses and higher legal expense.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

The Company is exposed to interest rate fluctuations primarily as a result of its variable rate debt used to finance the Company's development and acquisition activities and for general corporate purposes. As of June 30, 2000, the Company had variable rate indebtedness totaling \$48,658,000. Interest rate fluctuations will affect the Company's interest expense on its variable rate debt. If the interest rate on the Company's variable rate debt instruments outstanding at June 30, 2000 had been one percent higher, annual interest expense relating to these debt instruments would have increased by \$487,000, based on those balances. Interest rate fluctuations will also affect the fair value of the Company's fixed rate debt instruments. As of June 30, 2000, the Company had fixed rate indebtedness totaling \$278,578,000. If interest rates on the Company's fixed rate debt instruments at June 30, 2000 had been one percent higher, the fair value of those debt instruments on that date would have decreased by approximately \$16,374,000.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

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.
- (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. The First Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership, the Second Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership, the Third Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership and the Fourth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership as filed as Exhibit 3.(b) of the 1997 Annual Report of the Company on Form 10-K are hereby incorporated by reference.
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 are hereby incorporated by reference. The Fourth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 10.(a) of the March 31, 1997 Quarterly Report of the Company is hereby incorporated by reference. The Fifth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Holdings Limited Partnership filed as Exhibit 4.(c) to Registration Statement No. 333-41436, is hereby incorporated by reference.
- (b) First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership and Amendment No. 1 thereto filed as Exhibit 10.2 to Registration Statement No. 33-64562 are hereby incorporated by reference. The Second Amendment to the First Amended

and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership, the Third Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership and the Fourth Amendment to the First Amended and Restated Agreement of Limited Partnership of Saul Subsidiary I Limited Partnership as filed as Exhibit 10.(b) of the 1997 Annual Report of the Company on Form 10-K 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.
- (d) Property Conveyance Agreement filed as Exhibit 10.4 to Registration Statement No. 33-64562 is hereby incorporated by reference.
- (e) Management Functions Conveyance Agreement filed as Exhibit 10.5 to Registration Statement No. 33-64562 is hereby incorporated by reference.
- (f) Registration Rights and Lock-Up Agreement filed as Exhibit 10.6 to Registration Statement No. 33-64562 is hereby incorporated by reference.
- (g) Exclusivity and Right of First Refusal Agreement filed as Exhibit 10.7 to Registration Statement No. 33-64562 is hereby incorporated by reference.
- (h) Saul Centers, Inc. 1993 Stock Option Plan filed as Exhibit 10.8 to Registration Statement No. 33-64562 is hereby incorporated by reference.
- (i) Agreement of Assumption dated as of August 26, 1993 executed by Saul Holdings Limited Partnership and filed as Exhibit 10.(i) of the 1993 Annual Report of the Company on Form 10-K is hereby incorporated by reference.
- (j) Saul Centers, Inc. 1995 Dividend Reinvestment and Stock Purchase Plan as filed with the Securities and Exchange Commission as File No. 33-80291 is hereby incorporated by reference.
- (k) Deferred Compensation Plan for Directors dated as of December 13, 1993 as filed as Exhibit 10.(r) of the 1995 Annual Report of the Company on Form 10-K, as amended and restated by the Deferred Compensation and Stock Plan for Directors, dated as of March 18, 1999, filed as Exhibit 10.(k) of the March 31, 1999 Quarterly Report of the Company, is hereby incorporated by reference.
- (l) Deed of Trust, Assignment of Rents, and Security Agreement dated as of September 9, 1994 by and between Saul Holdings Limited Partnership and Ameribanc Savings Bank, FSB as filed as Exhibit 10.(t) of the 1995

Annual Report of the Company on Form 10-K is hereby incorporated by reference.

- (m) Deed of Trust Note dated as of January 22, 1996 by and between Saul Holdings Limited Partnership and Clarendon Station Limited Partnership, filed as Exhibit 10.(s) of the March 31, 1997 Quarterly Report of the Company, is hereby incorporated by reference.
- (n) Loan Agreement dated as of November 7, 1996 by and among Saul Holdings Limited Partnership, Saul Subsidiary II Limited Partnership and PFL Life Insurance Company, c/o AEGON USA Realty Advisors, Inc., filed as Exhibit 10.(t) of the March 31, 1997 Quarterly Report of the Company, is hereby incorporated by reference.
- (o) Promissory Note dated as of January 10, 1997 by and between Saul Subsidiary II Limited Partnership and The Northwestern Mutual Life Insurance Company, filed as Exhibit 10.(z) of the March 31, 1997 Quarterly Report of the Company, is hereby incorporated by reference.
- (p) Loan Agreement dated as of October 1, 1997 between Saul Subsidiary I Limited Partnership as Borrower and Nomura Asset Capital Corporation as Lender filed as Exhibit 10.(p) of the 1997 Annual Report of the Company on Form 10-K is hereby incorporated by reference.
- (q) Revolving Credit Agreement dated as of October 1, 1997 by and between Saul Holdings Limited Partnership and Saul Subsidiary II Limited Partnership as Borrower and U.S. Bank National Association as agent filed as Exhibit 10.(q) of the 1997 Annual Report of the Company on Form 10-K is hereby incorporated by reference.
- (r) Promissory Note dated as of November 30, 1999 by and between Saul Holdings Limited Partnership as Borrower and Wells Fargo Bank National Association as Lender filed as Exhibit 10.(r) of the 1999 Annual Report of the Company on Form 10-K is hereby incorporated by reference.

27. Financial Data Schedule

99. Schedule of Portfolio Properties

Reports on Form 8-K

None.

SIGNATURES

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

SAUL CENTERS, INC.
(Registrant)

Date: August 14, 2000

/s/ Philip D. Caraci
Philip D. Caraci, President

Date: August 14, 2000

/s/ Scott V. Schneider
Scott V. Schneider
Senior Vice President, Chief Financial Officer

Saul Centers, Inc
Schedule of Current Portfolio Properties
June 30, 2000

| Property | Location | Leasable Area (Square Feet) | Year Developed or Acquired (Renovated) | Land Area (Acres) | Percentage Leased | | Anchor / Significant Tenants |
|-------------------------|----------------------------|--------------------------------|---|----------------------|-------------------|--------------|--|
| | | | | | Jun-2000 | Jun-1999 | |
| Shopping Centers | | | | | | | |
| Ashburn Village | Ashburn, VA | 108,204 | 1994 | 12.7 | 100% | 98% | Giant Food, Blockbuster |
| Ashburn Village II | ^(a) Ashburn, VA | 39,679 | 1999/2000 | 6.6 | 72% | <i>n / a</i> | |
| Beacon Center | Alexandria, VA | 355,659 | 1972 (1993/99) | 32.3 | 95% | 100% | Lowe's, Giant Food, Office Depot, Outback Steakhouse, Marshalls, Hollywood Video, Hancock Fabrics |
| Belvedere | Baltimore, MD | 54,941 | 1972 | 4.8 | 100% | 91% | Food King, McCrory |
| Boulevard | Fairfax, VA | 56,350 | 1994 (1999) | 5.0 | 100% | 100% | Danker Furniture, Petco, Party City |
| Clarendon | Arlington, VA | 6,940 | 1973 | 0.5 | 100% | 100% | |
| Clarendon Station | Arlington, VA | 4,868 | 1996 | 0.1 | 100% | 100% | |
| Flagship Center | Rockville, MD | 21,500 | 1972, 1989 | 0.5 | 100% | 100% | |
| French Market | Oklahoma City, OK | 247,393 | 1974 (1984/98) | 13.8 | 95% | 81% | Burlington Coat Factory, Bed Bath & Beyond, Famous Footwear, Lakeshore Learning Center, BridesMart, Staples |
| Germantown | Germantown, MD | 26,241 | 1992 | 2.7 | 97% | 100% | |
| Giant | Baltimore, MD | 70,040 | 1972 (1990) | 5.0 | 100% | 100% | Giant Food |
| The Glen | Lake Ridge, VA | 112,639 | 1994 | 14.7 | 100% | 97% | Safeway Marketplace, CVS Pharmacy |
| Great Eastern | District Heights, MD | 254,398 | 1972 (1995) | 23.9 | 100% | 97% | Giant Food, Pep Boys, Big Lots, Run N' Shoot |
| Hampshire Langley | Langley Park, MD | 134,425 | 1972 (1979) | 9.9 | 97% | 100% | Safeway, McCrory, Blockbuster |
| Leesburg Pike | Baileys Crossroads, VA | 97,880 | 1966 (1982/95) | 9.4 | 100% | 100% | Zany Brainy, CVS Pharmacy, Kinko's, Hollywood Video |
| Lexington Mall | Lexington, KY | 315,707 | 1974 | 30.0 | 82% | 87% | Dillard's, Dawahares of Lexington, Rite Aid |
| Lumberton | Lumberton, NJ | 189,898 | 1975 (1992/96) | 23.3 | 86% | 91% | SuperFresh, Rite Aid, Blockbuster, Ace Hardware |
| Olney | Olney, MD | 53,765 | 1975 (1990) | 3.7 | 92% | 100% | Rite Aid |
| Ravenwood | Baltimore, MD | 87,750 | 1972 | 8.0 | 100% | 100% | Giant Food, Hollywood Video |
| Seven Corners | Falls Church, VA | 560,998 | 1973 (1994-7) | 31.6 | 100% | 100% | Home Depot, Shoppers Club, Best Buy, Michaels, Barnes & Noble, Ross Dress For Less, G Street Fabrics, Champs |
| Shops at Fairfax | Fairfax, VA | 68,743 | 1975 (1993/99) | 6.7 | 100% | 100% | SuperFresh, Blockbuster |
| Southdale | Glen Burnie, MD | 483,895 | 1972 (1986) | 39.6 | 100% | 96% | Giant Food, Circuit City, Kids R Us, Michaels, Marshalls, PetSmart, Value City Furniture |

Exhibit

Saul Centers, Inc
Schedule of Current Portfolio Properties
June 30, 2000

| Property | Location | Leasable Area (Square Feet) | Year Developed or Acquired (Renovated) | Land Area (Acres) | Percentage Leased | | Anchor / Significant Tenants |
|--|--------------------------------|--------------------------------|---|----------------------|-----------------------------|--------------|--|
| | | | | | Jun-2000 | Jun-1999 | |
| <u>Shopping Centers (continued)</u> | | | | | | | |
| Southside Plaza | Richmond, VA | 352,964 | 1972 | 32.8 | 83% | 90% | CVS Pharmacy, Community Pride Supermarket, Maxway |
| South Dekalb Plaza | Atlanta, GA | 180,429 | 1976 | 14.6 | 100% | 78% | MacFrugals, Pep Boys, The Emory Clinic |
| Thruway | Winston-Salem, NC | 345,454 | 1972 (1997) | 30.5 | 95% | 87% | Bed, Bath & Beyond, Stein Mart, Harris Teeter, Fresh Market, Eckerd Drugs, Houlihan's, Borders Books, Zany Brainy, Blockbuster |
| Village Center | Centreville, VA | 143,109 | 1990 | 17.2 | 99% | 91% | Giant Food, Tuesday Morning |
| West Park | Oklahoma City, OK | 76,610 | 1975 | 11.2 | 58% | 58% | Homeland Stores, Family Dollar |
| White Oak | Silver Spring, MD | 480,156 | 1972 (1993) | 28.5 | 99% | 100% | Giant Food, Sears, Rite Aid, Blockbuster |
| | Total Shopping Centers | 4,930,635 | | 419.6 | 95% | 94% | |
| <u>Office Properties</u> | | | | | | | |
| Avenel Business Park | Gaithersburg, MD | 358,620 | 1981/85/89/98/99 | 33.4 | 97% | 96% | Quanta Systems, General Services Administration, GeneLogic, Ventana Medical, Paragea Communications, Boston Biomedica |
| 601 Pennsylvania Ave | Washington, DC | 225,223 | 1973 (1986) | 1.0 | 100% | 100% | General Services Administration, Alltel, American Arbitration, Capital Grille |
| Van Ness Square | Washington, DC | 156,182 | 1973 (1990) | 1.2 | 95% | 95% | United Mine Workers Pension Trust, Office Depot, Pier 1 |
| Washington Square | Alexandria, VA | 235,000 | 1975 (2000) | 2.0 | 14% | <i>n/a</i> | |
| | Total Office Properties | 975,025 | | 35.6 | 98% ^(c) | 97% | |
| <u>Industrial Property</u> | | | | | | | |
| Crosstown Business Center | ^(b) Tulsa, OK | 197,135 | 1975 (2000) | 22.4 | 25% | - | Compass Group, Roxtec |
| | Total Portfolio | 6,102,795 SF | | 477.6 | 92.9% ^(c) | 91.2% | |

(a) Newly constructed. Operations commenced May 2000.

(b) Currently operational, but under development to convert former shopping center to warehouse use.

(c) Washington Square, currently under construction and not operational, is excluded from this average.