

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 **September 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 November 11, 2000: 13,868,953

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>	<b>September 30, 2000</b>	<b>December 31, 1999</b>
<b>Assets</b>		
Real estate investments		
Land	\$ 65,676	\$ 64,233
Buildings and equipment	319,247	304,149
	<u>384,923</u>	<u>368,382</u>
Accumulated depreciation	(120,660)	(112,272)
	264,263	256,110
Construction in progress	36,509	21,201
Cash and cash equivalents	2,236	957
Accounts receivable and accrued income, net	7,896	8,723
Prepaid expenses	8,520	7,959
Deferred debt costs, net	3,691	3,197
Other assets	2,566	1,518
Total assets	<u>\$ 325,681</u>	<u>\$ 299,665</u>
<b>Liabilities</b>		
Notes payable	\$ 335,995	\$ 310,268
Accounts payable, accrued expenses and other liabilities	18,894	18,391
Deferred income	2,122	2,865
Total liabilities	<u>357,011</u>	<u>331,524</u>
<b>Minority interests</b>	<u>--</u>	<u>--</u>
<b>Stockholders' equity (deficit)</b>		
Common stock, \$0.01 par value, 30,000,000 shares authorized, 13,731,106 and 13,334,145 shares issued and outstanding, respectively	137	133
Additional paid-in capital	50,532	44,616
Accumulated deficit	(81,999)	(76,608)
Total stockholders' equity (deficit)	<u>(31,330)</u>	<u>(31,859)</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 325,681</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 amounts)</i>	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
<b>Revenue</b>				
Base rent	\$ 15,934	\$ 14,952	\$ 47,315	\$ 43,752
Expense recoveries	2,786	2,529	8,153	7,410
Percentage rent	588	478	1,437	1,508
Other	416	450	1,214	1,723
Total revenue	<u>19,724</u>	<u>18,409</u>	<u>58,119</u>	<u>54,393</u>
<b>Operating expenses</b>				
Property operating expenses	1,940	2,074	6,156	5,909
Provision for credit losses	72	57	305	182
Real estate taxes	1,591	1,476	4,785	4,636
Interest expense	6,037	5,636	17,695	16,734
Amortization of deferred debt expense	123	104	330	312
Depreciation and amortization	3,164	3,004	9,447	8,793
General and administrative	938	913	2,826	2,710
Total operating expenses	<u>13,865</u>	<u>13,264</u>	<u>41,544</u>	<u>39,276</u>
<b>Net income before minority interests</b>	<u>5,859</u>	<u>5,145</u>	<u>16,575</u>	<u>15,117</u>
<b>Minority interests</b>				
Minority share of income	(1,607)	(1,451)	(4,575)	(4,203)
Distributions in excess of earnings	(410)	(567)	(1,476)	(1,703)
Total minority interests	<u>(2,017)</u>	<u>(2,018)</u>	<u>(6,051)</u>	<u>(5,906)</u>
<b>Net income</b>	<u>\$ 3,842</u>	<u>\$ 3,127</u>	<u>\$ 10,524</u>	<u>\$ 9,211</u>
<b>Per share (basic and dilutive)</b>				
Net income before minority interests	<u>\$ 0.31</u>	<u>\$ 0.28</u>	<u>\$ 0.89</u>	<u>\$ 0.84</u>
Net income	<u>\$ 0.28</u>	<u>\$ 0.24</u>	<u>\$ 0.78</u>	<u>\$ 0.71</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 amounts)</i>	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Accumulated Deficit</b>	<b>Total</b>
<b>Stockholders' equity (deficit):</b>				
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	136	48,523	(80,485)	(31,826)
Issuance of 130,925 shares of common stock	1	2,009	--	2,010
Net income	--	--	3,842	3,842
Distributions payable (\$.39 per share)	--	--	(5,356)	(5,356)
Balance, September 30, 2000	<u>\$ 137</u>	<u>\$ 50,532</u>	<u>\$ (81,999)</u>	<u>\$ (31,330)</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>	<b>For the Nine Months Ended September 30,</b>	
	<b>2000</b>	<b>1999</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 10,524	\$ 9,211
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interests	6,051	5,906
Depreciation and amortization	9,777	9,105
Provision for credit losses	305	182
Decrease (increase) in accounts receivable	522	(1,021)
Increase in prepaid expenses	(1,620)	(2,394)
Increase in other assets	(1,048)	(613)
Increase in accounts payable, accrued expenses and other liabilities	503	3,266
Increase (decrease) in deferred income	(743)	392
Net cash provided by operating activities	<u>24,271</u>	<u>24,034</u>
<b>Cash flows from investing activities:</b>		
Additions to real estate investments	(11,295)	(7,948)
Additions to construction in progress	(20,554)	(17,615)
Net cash used in investing activities	<u>(31,849)</u>	<u>(25,563)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from notes payable	54,729	21,582
Repayments on notes payable	(29,002)	(9,694)
Additions to deferred debt expense	(824)	(12)
Proceeds from the issuance of common stock and convertible limited partnership units in the Operating Partnership	5,920	10,791
Distributions to common stockholders and holders of convertible limited partnership units in the Operating Partnership	(21,966)	(21,229)
Net cash provided by financing activities	<u>8,857</u>	<u>1,438</u>
Net increase (decrease) in cash	1,279	(91)
Cash, beginning of period	957	2,395
Cash, end of period	<u>\$ 2,236</u>	<u>\$ 2,304</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 September 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. In addition, the Company plans to immediately begin developing Ashburn Village III, an 18,000 square foot expansion to the retail area of the existing Ashburn Village shopping centers.

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 4,924,000, 975,000 and 197,000 square feet of GLA, respectively. Only the United States Government (10.6%), a tenant at seven properties and Giant Food (7.3%), a tenant at 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. Saul QRS, Inc. and Saul Subsidiary I Limited Partnership are separate legal entities whose assets together collateralize a mortgage debt obligation and such assets are not available to pay the claims of creditors of other entities included in these consolidated financial statements.

**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,

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

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 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 nine month periods ended September 30, 2000 and 1999, was \$1,839,000 and \$607,000, 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 September 30, 2000 and December 31, 1999, accounts receivable included \$2,623,000 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 \$787,000 and \$594,000, at September 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 \$1,326,000 and \$1,005,000, at September 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 18,860,000 and 18,288,000, for the quarters, and 18,729,000 and 18,043,000, for the nine month periods ended September 30, 2000 and 1999, respectively. Per share data for net income after minority interests is computed using weighted average shares of 13,688,000 and 13,158,000, for the quarters ended, and 13,556,000 and 13,037,000, for the nine month periods ended September 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 27.4% limited partnership interest, represented by 5,172,000 convertible limited partnership units in the Operating Partnership, as of September 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 27.4% 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 September 30, 2000, 120,000 shares were authorized and registered for use under the Plan, and 87,000 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 September 30, 2000 and December 31, 1999 are as follows:

<u>Construction in Progress</u> <i>(In thousands)</i>	September 30, <u>2000</u>	December 31, <u>1999</u>
Washington Square.....	\$34,544	\$18,009
Ashburn Village II.....	-	2,326
Ashburn Village III.....	1,582	-
French Market.....	-	509
Crosstown Business Center.....	<u>383</u>	<u>357</u>
Total .....	<u>\$36,509</u>	<u>\$21,201</u>

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

**4. Notes Payable**

Notes payable totaled \$335,995,000 at September 30, 2000, of which \$277,141,000 (82.5%) was fixed rate debt and \$58,854,000 (17.5%) was floating rate debt. At September 30, 2000, the Company had a \$70,000,000 unsecured revolving credit facility with outstanding borrowings of \$29,000,000 and additional borrowing availability of \$41,000,000. 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 facility matures July 18, 2003 and 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 \$29,854,000 of a \$42,000,000 construction loan secured by Washington Square as of September 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 September 30, 2000, the scheduled maturities of all debt for years ending December 31, were as follows:

Debt Maturity Schedule

*(In thousands)*

October 1 through December 31, 2000.....	\$ 1,268
2001.....	6,322
2002.....	35,876
2003.....	35,525
2004.....	16,317
2005.....	7,375
Thereafter.....	<u>233,312</u>
Total.....	<u>\$335,995</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 September 30, 2000 includes a charge for minority interests of \$2,017,000 consisting of \$1,607,000 related to The Saul Organization's share of the net income for such quarter and \$410,000 related to distributions to minority interests in excess of allocated net income for that period. The charge for the three months ended September 30, 1999 of \$2,018,000 consists of \$1,451,000 related to The Saul Organization's share of net income for such quarter and \$567,000 related to distributions to minority interests in excess of allocated net income for that period. The Consolidated Statement of Operations for the nine months ended September 30, 2000 includes a charge for minority interests of \$6,051,000 consisting of \$4,575,000 related to The Saul Organization's share of the net income for such quarter and \$1,476,000 related to distributions to minority interests in excess of allocated net income for that period. The charge for the nine months ended September 30, 1999 of \$5,906,000 consists of \$4,203,000 related to The Saul Organization's share of net income for such quarter and \$1,703,000 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> <sup>(1)</sup>	<u>Consolidated Totals</u>
<b>Quarter ended September 30, 2000</b>				
Real estate rental operations:				
Revenues.....	\$ 14,359	\$ 5,251	\$ 114	\$ 19,724
Expenses.....	<u>(2,360)</u>	<u>(1,232)</u>	<u>(11)</u>	<u>(3,603)</u>
Income from real estate.....	11,999	4,019	103	16,121
Interest expense & amortization of debt costs.....			(6,160)	(6,160)
General and administrative.....			<u>(938)</u>	<u>(938)</u>
Subtotal.....	11,999	4,019	(6,995)	9,023
Depreciation and amortization.....	(2,225)	(915)	(24)	(3,164)
Minority interests.....			<u>(2,017)</u>	<u>(2,017)</u>
Net income.....	<u>\$ 9,774</u>	<u>\$ 3,104</u>	<u>\$ (9,036)</u>	<u>\$ 3,842</u>
Capital investment.....	<u>\$ 2,994</u>	<u>\$ 3,766</u>	<u>\$ 1,158</u>	<u>\$ 7,918</u>
Total assets.....	<u>\$ 193,502</u>	<u>\$ 103,828</u>	<u>\$ 28,351</u>	<u>\$ 325,681</u>
<b>Quarter ended September 30, 1999</b>				
Real estate rental operations:				
Revenues.....	\$ 13,444	\$ 4,941	\$ 24	\$ 18,409
Expenses.....	<u>(2,362)</u>	<u>(1,242)</u>	<u>(3)</u>	<u>(3,607)</u>
Income from real estate.....	11,082	3,699	21	14,802
Interest expense & amortization of debt costs.....	--		(5,740)	(5,740)
General and administrative.....	--		<u>(913)</u>	<u>(913)</u>
Subtotal.....	11,082	3,699	(6,632)	8,149
Depreciation and amortization.....	(2,095)	(887)	(22)	(3,004)
Minority interests.....	--	--	<u>(2,018)</u>	<u>(2,018)</u>
Net income.....	<u>\$ 8,987</u>	<u>\$ 2,812</u>	<u>\$ (8,672)</u>	<u>\$ 3,127</u>
Capital investment.....	<u>\$ 10,304</u>	<u>\$ 1,016</u>	<u>\$ 312</u>	<u>\$ 11,632</u>
Total assets.....	<u>\$ 195,283</u>	<u>\$ 70,559</u>	<u>\$ 25,417</u>	<u>\$ 291,259</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> <sup>(1)</sup>	<u>Consolidated Totals</u>
<b>Nine months ended September 30, 2000</b>				
Real estate rental operations:				
Revenues.....	\$ 42,085	\$ 15,756	\$ 278	\$ 58,119
Expenses.....	<u>(7,638)</u>	<u>(3,581)</u>	<u>(27)</u>	<u>(11,246)</u>
Income from real estate.....	34,447	12,175	251	46,873
Interest expense & amortization of debt costs.....	--	--	(18,025)	(18,025)
General and administrative.....	--	--	<u>(2,826)</u>	<u>(2,826)</u>
Subtotal.....	34,447	12,175	(20,600)	26,022
Depreciation and amortization.....	(6,636)	(2,742)	(69)	(9,447)
Minority interests.....	--	--	<u>(6,051)</u>	<u>(6,051)</u>
Net income.....	<u>\$ 27,811</u>	<u>\$ 9,433</u>	<u>\$ (26,720)</u>	<u>\$ 10,524</u>
Capital investment.....	<u>\$ 12,551</u>	<u>\$ 18,019</u>	<u>\$ 1,279</u>	<u>\$ 31,849</u>
Total assets.....	<u>\$ 193,502</u>	<u>\$ 103,828</u>	<u>\$ 28,351</u>	<u>\$ 325,681</u>
<b>Nine months ended September 30, 1999</b>				
Real estate rental operations:				
Revenues.....	\$ 40,133	\$ 14,188	\$ 72	\$ 54,393
Expenses.....	<u>(7,238)</u>	<u>(3,484)</u>	<u>(5)</u>	<u>(10,727)</u>
Income from real estate.....	32,895	10,704	67	43,666
Interest expense & amortization of debt costs.....	--	--	(17,046)	(17,046)
General and administrative.....	--	--	<u>(2,710)</u>	<u>(2,710)</u>
Subtotal.....	32,895	10,704	(19,689)	23,910
Depreciation and amortization.....	(6,104)	(2,623)	(66)	(8,793)
Minority interests.....	--	--	<u>(5,906)</u>	<u>(5,906)</u>
Net income.....	<u>\$ 26,791</u>	<u>\$ 8,081</u>	<u>\$ (25,661)</u>	<u>\$ 9,211</u>
Capital investment.....	<u>\$ 22,301</u>	<u>\$ 2,764</u>	<u>\$ 498</u>	<u>\$ 25,563</u>
Total assets.....	<u>\$ 195,283</u>	<u>\$ 70,559</u>	<u>\$ 25,417</u>	<u>\$ 291,259</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 September 30, 2000 and for the three and nine month periods ended September 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 \$41,000,000 was available for borrowing as of September 30, 2000, will be sufficient to meet its liquidity needs for the foreseeable future.

### Financial Information

For the third quarter of 2000, the Company reported Funds From Operations ("FFO") of \$9,023,000. This represents a 10.7% increase over the comparable 1999 period's FFO of \$8,149,000. For the nine month period ended September 30, 2000, the Company reported FFO of \$26,022,000, representing a 8.8% increase over the comparable 1999 period's FFO of \$23,910,000. 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</u> <u>Ended September 30,</u>	
	<u>2000</u>	<u>1999</u>
Net income before minority interests.....	\$ 5,859	\$ 5,145
Add:		
Depreciation and amortization of real property.....	<u>3,164</u>	<u>3,004</u>
Funds From Operations .....	<u>\$ 9,023</u>	<u>\$ 8,149</u>

	<u>For the Nine Months Ended September 30,</u>	
	<u>2000</u>	<u>1999</u>
Net income before minority interests.....	\$ 16,575	\$ 15,117
Add:		
Depreciation and amortization of real property.....	<u>9,447</u>	<u>8,793</u>
Funds From Operations .....	<u>\$ 26,022</u>	<u>\$ 23,910</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 nine months ended September 30, 2000 and 1999 are as follows:

Cash flow provided by (used in):

*(Dollars in thousands)*

	<u>For the Nine Months Ended September 30,</u>	
	<u>2000</u>	<u>1999</u>
Operating activities.....	\$ 24,271	\$ 24,034
Investing activities.....	(31,849)	(25,563)
Financing activities.....	8,857	1,438

## 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 September 30 and November 11, 2000, respectively, outstanding borrowings on this construction loan totaled \$29,854,000 and \$31,733,000.

At November 11, 2000, outstanding borrowings on the Company's \$70,000,000 unsecured credit line totaled \$36,500,000, leaving \$33,500,000 of credit availability. The 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 November 11, 2000, the Company had fixed interest rates on approximately 80.2% of its total debt outstanding. The fixed interest rate debt had a weighted remaining term of approximately 11.5 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, Ashburn III, 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 landscaped brick courtyard. Base building construction is substantially completed. Work continues on the building tenants' fixturing and interior areas. The Company has delivered substantially all of the leased retail space to tenants, several of which have scheduled to open in November 2000. The Company has successfully negotiated and signed leases on 49% of the 235,000 square feet of tenant space. The 45,000 square feet of street level retail space is 83% leased and 40% of the office space is leased.

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 92% of the new space has been leased. The entire shopping center is currently 98% leased.

During the third quarter of 2000, the Company purchased an additional 7.1 acres of land adjacent to Ashburn Village II for \$1,579,000. The Company plans to immediately begin developing 4.0 acres of the land as Ashburn Village III, consisting of an 18,000 square foot in-line expansion to the retail area of the existing shopping center. Ashburn III will also include several free standing pad sites. Construction is scheduled to begin in November 2000 and is planned to be ready for occupancy in the spring of 2001. The remaining 3.1 acres provides the Company with the ability to develop up to 40,000 square feet of additional retail space.

During 1998 and 1999, the Company executed a plan to redevelop its 213,000 square foot French Market center, advantageously located in the thriving northwest section of Oklahoma City, Oklahoma. The plan specified the retenting of a 103,000 square foot anchor tenant space and conversion of an outdated mini-mall to an anchor tenant use. The former Venture store space was rebuilt and leased to Bed Bath and Beyond, Staples, Famous Footwear, BridesMart and Lakeshore Learning. The former enclosed mini-mall was leased to Burlington Coat Factory and converted into a two-level 90,000 square foot super store, increasing the center's size to 247,000 square feet. The façade of the center was updated to complement the addition of the new tenants. The Company has recently obtained control of 20,000 square feet of space formerly operated as a grocery store, which the Company expects to lease during the next six months. As a result, of the Company's efforts, approximately 86% of the center was leased as of September 30, 2000.

The conversion and redevelopment of the former Tulsa, Oklahoma shopping center to an industrial/office facility named Crosstown Business Center continues. Five tenants have leased 28% of the office park and several other leases are under negotiation.

In October 2000, the Company purchased a newly constructed 30,000 square foot office/flex building adjacent to its Avenel Business Park in Gaithersburg, Maryland. The building is 100% leased to a single tenant. This acquisition increases the size of the Company's Avenel Business Park to 389,000 square feet. The initial cash yield on the \$4,200,000 purchase price is 10%. The property was purchased from the Saul Organization, members of which are shareholders of the Company and limited partners in the Operating Partnership. Management believes that the acquisition of the property was on terms no less favorable than those that could have been obtained in a comparable transaction with an unaffiliated party.

## Portfolio Leasing Status

At September 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. In addition, the Company plans to immediately begin developing Ashburn Village III, an 18,000 square foot expansion to the retail area of the existing Ashburn Village shopping centers.

At September 30, 2000, 92.3% of the Company's 5.8 million square feet of operating leaseable space was leased to tenants (excluding the Washington Square project under development), as compared to 91.9% at September 30, 1999. The shopping center portfolio was 93.9% leased at September 30, 2000 and 94.6% leased at September 30, 1999. The Office Properties (excluding the Washington Square project under development) were 98.9% leased at September 30, 2000 compared to 96.3% as of September 30, 1999. The Industrial Property was 28% leased at September 30, 2000 compared to 9.0% as of September 30, 1999. The overall improvements in the current period's leasing percentages compared to the prior year's period resulted primarily from 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 nine month periods ended September 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 September 30, 2000 Compared to Three Months Ended September 30, 1999

Revenues for the three month period ended September 30, 2000 (the "2000 Quarter"), totaled \$19,724,000 compared to \$18,409,000 for the comparable quarter in 1999 (the "1999 Quarter"), an increase of \$1,315,000 (7.1%).

Base rent income was \$15,934,000 for the 2000 Quarter, compared to \$14,952,000 for the 1999 Quarter, representing an increase of \$982,000 (6.6%). The increase in base rent resulted primarily from new leases in effect at recently developed and redeveloped shopping centers (Ashburn Village II, French Market, Shops at Fairfax, Thruway), 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 \$2,786,000 for the 2000 Quarter compared to \$2,529,000 for the comparable 1999 Quarter, representing an increase of \$257,000 (10.2%). The increase resulted

from improved occupancy rates which allowed a greater percentage of operating expenses to be recovered from tenants.

Percentage rent was \$588,000 in the 2000 Quarter, compared to \$478,000 in the 1999 Quarter, an increase of \$110,000 (23.0%), resulting from increased sales reported by tenants in Thruway and White Oak shopping centers.

Other income, which primarily consists of parking income, kiosk and temporary leasing, and fees associated with the early termination of leases, was \$416,000 in the 2000 Quarter, compared to \$450,000 in the 1999 Quarter, representing a decrease of \$34,000 (7.6%). The decrease in other income resulted primarily from the collection of two 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, decreased \$134,000 (6.5%) to \$1,940,000 in the 2000 Quarter from \$2,074,000 in the 1999 Quarter. The decrease resulted primarily from reduced maintenance and utility expenses attributable to the redevelopment of French Market, where the interior mall area was replaced by Burlington Coat Factory's new super store.

The provision for credit losses increased \$15,000 (26.3%) to \$72,000 in the 2000 Quarter from \$57,000 in the 1999 Quarter. The increase resulted primarily from additions to credit loss reserves for two retail tenants in bankruptcy and rent in dispute with an office tenant.

Real estate taxes increased \$115,000 (7.8%) to \$1,591,000 in the 2000 Quarter from \$1,476,000 in the 1999 Quarter, resulting from increased real estate valuations assessed at several of the Company's recently redeveloped Northern Virginia shopping centers.

Interest expense increased \$401,000 (7.1%) to \$6,037,000 for the 2000 Quarter from \$5,636,000 reported for the 1999 Quarter. The increase resulted from increased average borrowing balances on the 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 approximately 150 basis points higher in the 2000 Quarter compared to the 1999 Quarter.

Amortization of deferred debt expense increased \$19,000 (18.3%) to \$123,000 for the 2000 Quarter compared to \$104,000 for the 1999 Quarter. The increase resulted from the amortization of additional loan costs related to a new mortgage financing in May 2000 and the refinancing of the Company's line of credit.

Depreciation and amortization expense increased \$160,000 (5.3%) to \$3,164,000 in the 2000 Quarter, from \$3,004,000 in the 1999 Quarter, reflecting increased depreciation expense on redevelopments placed in service during 2000 and the last quarter of 1999.

General and administrative expense, which consists of payroll, administrative and other overhead expense, was \$938,000 for the 2000 Quarter, an increase of \$25,000 (2.7%) over the 1999 Quarter.

## Nine Months Ended September 30, 2000 Compared to Nine Months Ended September 30, 1999

Revenues for the nine month period ended September 30, 2000 (the "2000 Period"), totaled \$58,119,000 compared to \$54,393,000 for the comparable period in 1999 (the "1999 Period"), an increase of \$3,726,000 (6.9%).

Base rent income was \$47,315,000 for the 2000 Period, compared to \$43,752,000 for the 1999 Period, representing an increase of \$3,563,000 (8.1%). The increase in base rent resulted primarily from new leases at recently developed and redeveloped shopping centers (Ashburn Village II, French Market, Shops at Fairfax and Thruway), 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 \$8,153,000 for the 2000 Period compared to \$7,410,000 for the comparable 1999 Period, representing an increase of \$743,000 (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 and to a lesser extent, improved occupancy rates which allowed a greater percentage of operating expenses to be recovered from tenants.

Percentage rent was \$1,437,000 in the 2000 Period, compared to \$1,508,000 in the 1999 Period, a decrease of \$71,000 (4.7%).

Other income, which primarily consists of parking income, kiosk and temporary leasing, and fees associated with early termination of leases, was \$1,214,000 in the 2000 Period, compared to \$1,723,000 in the 1999 Period, representing a decrease of \$509,000 (29.5%). The decrease in other income resulted primarily from the collection of six shopping center lease termination fees in the 1999 Period and only two in the 2000 Period.

Operating expenses, consisting primarily of repairs and maintenance, utilities, payroll, insurance and other property related expenses, increased \$247,000 (4.2%) to \$6,156,000 in the 2000 Period from \$5,909,000 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, offset in part by reduced maintenance and utility expenses attributable to the redevelopment of French Market, where the interior mall area was replaced by Burlington Coat Factory's new super store.

The provision for credit losses increased \$123,000 (67.6%) to \$305,000 in the 2000 Period from \$182,000 in the 1999 Period. The increase resulted primarily from additions to credit loss reserves for two retail tenants in bankruptcy and rent in dispute with an office tenant.

Real estate taxes increased \$149,000 (3.2%) to \$4,785,000 in the 2000 Period from \$4,636,000 in the 1999 Period.

Interest expense increased \$961,000 (5.7%) to \$17,695,000 in the 2000 Period from \$16,734,000 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 approximately 120 basis points higher in the 2000 Period compared to the 1999 Period.

Amortization of deferred debt expense increased \$18,000 (5.8%) to \$330,000 in the 2000 Period compared to \$312,000 in the 1999 Period. The increase resulted from the amortization of additional loan costs related to a new mortgage financing in May 2000 and the refinancing of the Company's line of credit.

Depreciation and amortization expense increased \$654,000 (7.4%) from \$9,447,000 in the 1999 Period to \$8,793,000 in the 2000 Period, reflecting depreciation expense on redevelopments placed in service during 2000 and the second half of 1999.

General and administrative expense, which consists of payroll, administrative and other overhead expense, was \$2,826,000 in the 2000 Period, an increase of \$116,000 (4.3%) over the 1999 Period.

### **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 September 30, 2000, the Company had variable rate indebtedness totaling \$58,854,000. 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 September 30, 2000 had been one percent higher, annual interest expense relating to these debt instruments would have increased by \$589,000, based on those balances. Interest rate fluctuations will also affect the fair value of the Company's fixed rate debt instruments. As of September 30, 2000, the Company had fixed rate indebtedness totaling \$277,141,000. If interest rates on the Company's fixed rate debt instruments at September 30, 2000 had been one percent higher, the fair value of those debt instruments on that date would have decreased by approximately \$30,071,000.

**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, as amended by the First Amendment to Revolving Credit Agreement dated as of July 18, 2000 is filed herewith.
- (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: November 14, 2000

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

Date: November 14, 2000

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



**Saul Centers, Inc.**  
**Schedule of Current Portfolio Properties**  
**September 30, 2000**

Property	Location	Leasable Area (Square Feet)	Year Developed or Acquired (Renovated)	Land Area (Acres)	Percentage Leased		Anchor / Significant Tenants
					Sep-2000	Sep-1999	
<b><u>Shopping Centers (continued)</u></b>							
Southside Plaza	Richmond, VA	348,164	1972	32.8	78%	90%	CVS Pharmacy, Community Pride Supermarket, Maxway
South Dekalb Plaza	Atlanta, GA	180,429	1976	14.6	100%	81%	MacFrugals, Pep Boys, The Emory Clinic
Thruway	Winston-Salem, NC	345,454	1972 (1997)	30.5	93%	95%	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	100%	97%	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	98%	100%	Giant Food, Sears, Rite Aid, Blockbuster
	Total Shopping Centers	4,923,608		426.7	93.9%	94.6%	
<b><u>Office Properties</u></b>							
Avenel Business Park	Gaithersburg, MD	358,620	1981/85/89/98/99	33.4	100%	94%	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%	96%	United Mine Workers Pension Trust, Office Depot, Pier 1
Washington Square	Alexandria, VA	235,000	1975 (2000)	2.0	49%	<i>n/a</i>	Vanderweil Engineering, World Wide Retail Exchange, American Management Systems, Rite Aid, Trader Joe's, Blockbuster
	Total Office Properties	975,025		35.6	98.9% <sup>(c)</sup>	96.3%	
<b><u>Industrial Property</u></b>							
Crosstown Business Center	<sup>(b)</sup> Tulsa, OK	197,135	1975 (2000)	22.4	28%	9%	Compass Group, Roxtec
	<b>Total Portfolio</b>	<b>6,095,768</b> SF		<b>484.7</b>	<b>92.3%</b> <sup>(c)</sup>	<b>91.9%</b>	

<sup>(a)</sup> Undeveloped land acquired August 2000. Construction is scheduled to commence November 2000.

<sup>(b)</sup> Currently operational, but under development to convert former shopping center to office park/warehouse use.

<sup>(c)</sup> Washington Square, currently under construction and not yet operational, is excluded from this average.