

Saul Centers



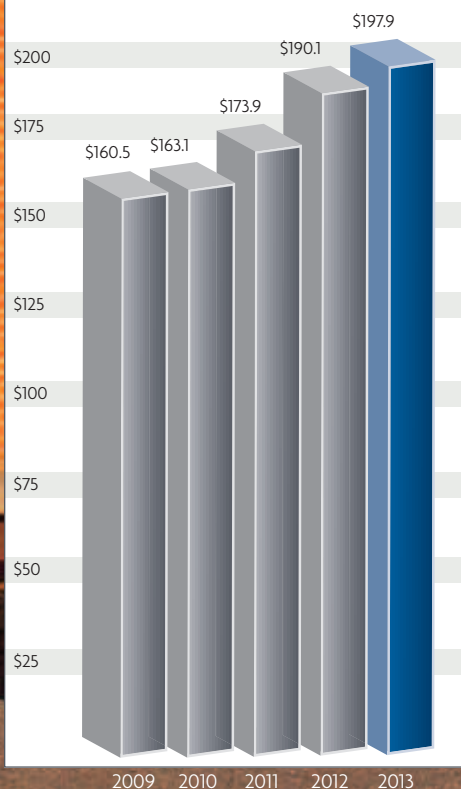
2013 Annual Report



SAUL CENTERS, INC.

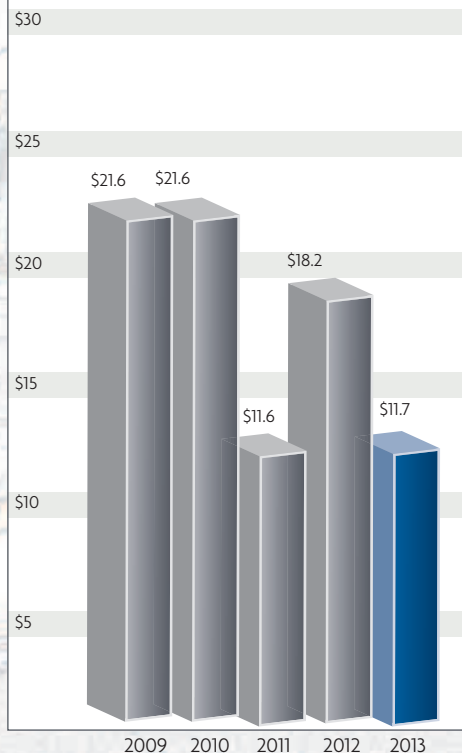
IS A SELF-MANAGED, SELF-ADMINISTERED EQUITY REAL ESTATE INVESTMENT TRUST (REIT) HEADQUARTERED IN BETHESDA, MARYLAND. SAUL CENTERS CURRENTLY OPERATES AND MANAGES A REAL ESTATE PORTFOLIO COMPRISED OF 59 PROPERTIES WHICH INCLUDES (A) 56 COMMUNITY AND NEIGHBORHOOD SHOPPING CENTERS AND MIXED-USE PROPERTIES WITH APPROXIMATELY 9.3 MILLION SQUARE FEET OF LEASABLE AREA AND (B) THREE LAND AND DEVELOPMENT PROPERTIES. OVER 85% OF THE COMPANY'S PROPERTY OPERATING INCOME IS GENERATED BY PROPERTIES IN THE METROPOLITAN WASHINGTON, DC/BALTIMORE AREA.

TOTAL REVENUE
(In millions)



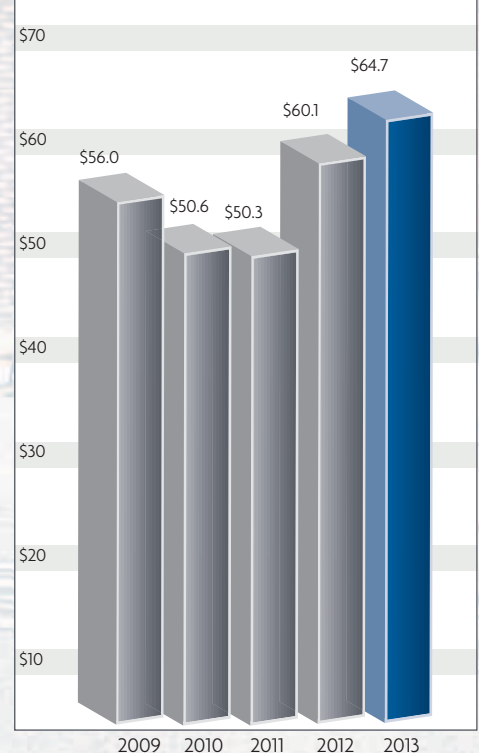
NET INCOME

Available to Common Stockholders
(In millions)



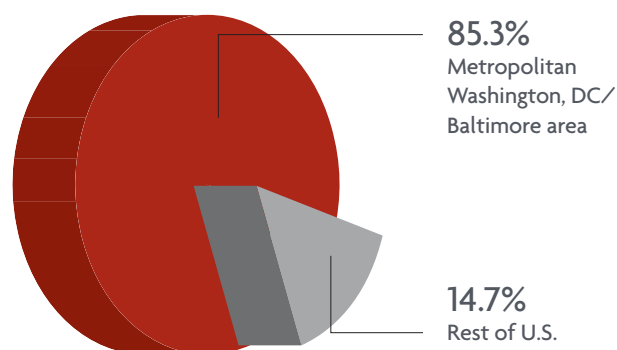
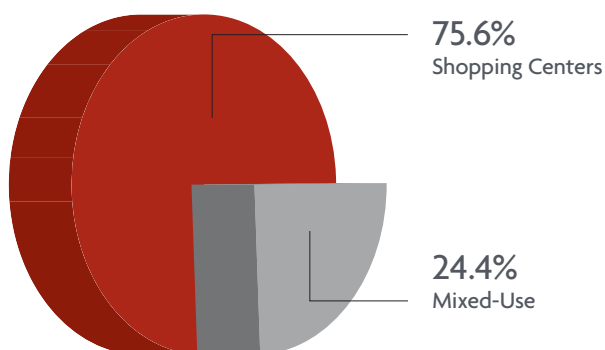
FUNDS FROM OPERATIONS*

Available to Common Shareholders
(In millions)



* Funds From Operations (FFO) is a non-GAAP financial measure. See page 24 for a definition of FFO and reconciliation from Net Income.

PORTFOLIO COMPOSITION Based on 2013 Property Operating Income



Year ended December 31,

	2013	2012	2011	2010	2009
Summary Financial Data					
Total Revenue	\$197,897,000	\$190,092,000	\$173,878,000	\$163,108,000	\$160,539,000
Net Income Available to Common Stockholders	\$11,661,000	\$18,234,000	\$11,593,000	\$21,623,000	\$21,573,000
FFO Available to Common Shareholders	\$64,684,000	\$60,100,000	\$50,309,000	\$50,556,000	\$56,025,000
Weighted Average Common Stock Outstanding (Diluted)	20,401,000	19,700,000	18,949,000	18,377,000	17,943,000
Weighted Average Shares and Units Outstanding	27,330,000	26,614,000	24,740,000	23,793,000	23,359,000
Net Income Per Share Available to Common Stockholders (Diluted)	\$0.57	\$0.93	\$0.61	\$1.18	\$1.20
FFO Per Share Available to Common Shareholders (Diluted)	\$2.37	\$2.26	\$2.03	\$2.12	\$2.40
Common Dividend as a Percentage of FFO	61%	64%	71%	68%	63%
Interest Expense Coverage ^a	2.98	2.68	2.62	3.22	3.28
Property Data					
Number of Operating Properties ^b	56	57	58	55	52
Total Portfolio Square Feet	9,333,000	9,489,000	9,543,000	8,901,000	8,424,000
Shopping Center Square Feet	7,880,000	7,877,000	7,933,000	7,293,000	7,218,000
Mixed-Use Square Feet	1,453,000	1,612,000	1,610,000	1,608,000	1,206,000
Average Percentage Leased ^c	92%	91%	90%	91%	92%

(a) Interest expense coverage is defined as operating income before the sum of interest expense and amortization of deferred debt, predevelopment expenses, acquisition related costs, and depreciation and amortization of deferred leasing costs, divided by interest expense.

(b) Excludes development parcels (Ashland Square Phase II and New Market, 2009 – 2012 and Ashland Square Phase II, New Market and Park Van Ness in 2013).

(c) Average percentage leased for 2013, 2012 and 2011 excludes Clarendon Center residential, which averaged 98%, 98% and 97% leased, respectively.



MESSAGE to shareholders

Park Van Ness (artist's rendering), Washington, DC

August 2013 marked our 20th anniversary as a public REIT. Since our 1993 initial public offering, through expansion and redevelopment of our core properties and selective acquisitions and new developments, our portfolio has grown from 29 operating properties with 5.3 million square feet of leasable area to 56 operating properties with 9.3 million square feet of leasable area.

In addition, several of our recent acquisitions, on a combined basis, are zoned for up to 2.4 million square feet of mixed-use development. Due largely to this portfolio growth and our core property cash flow growth, our total capitalization increased from \$500 million in 1993 to \$2.3 billion as of December 31, 2013. Our total return to shareholders, including both dividends and share price appreciation, has averaged 11.5% compounded annually over these 20 years.

Though we have been expanding our mixed-use, mass-transit oriented holdings through land assemblage and development, our core business continues to be neighborhood and community shopping centers. In 2013, over 75% of our property operating income was produced by our shopping center portfolio. During the past year, slow

and steady economic improvement allowed us to increase portfolio leasing percentage and property operating income, even as federal austerity continued to hinder economic growth in and around the Washington, DC region. We executed 287 new or renewed leases, the most ever in a single year for our company, comprising 1.5 million square feet of commercial space. Entering 2014, our properties are 93.9% leased, up from a low of 90.2% during the recent recession.

Development & Redevelopment

In early 2013, the last office and retail tenants vacated our 159,000 square foot Van Ness Square office/retail building, clearing the way for the redevelopment of the site with a 224,000 square foot apartment/retail building. This new project, named Park Van Ness, has a prestigious and convenient Connecticut Avenue location just north of the Van Ness Metro station, as well as a Rock Creek Park setting typical of a quiet suburb. The new building will include 271 luxury apartments and 9,000 square feet of street-level retail. The project will include underground parking and amenities, including a community room, a fitness center, landscaped courtyards, and a rooftop pool and deck.



Development site, Twinbrook Metro, Rockville, MD

Demolition of the existing building is complete and new construction is underway with completion scheduled in late 2015. The total development costs are estimated to be \$93 million. While there are many new residential projects underway in the Washington, DC metropolitan area, high barriers to entry have limited new supply in the Connecticut Avenue and Upper Northwest, Washington, DC corridor.

Additionally, we continue to assemble acreage in the area surrounding Montgomery County's Twinbrook Metro station along the east side of Rockville Pike at Congressional Lane. In January 2014, we closed on a 1.2 acre site with a 12,000 square foot CVS pharmacy. When combined with our adjacent 1500 Rockville Pike, we have 7.9 acres of land zoned for up to 900,000 square feet of mixed-use, transit-oriented development.

One Metro stop to the south, at White Flint, we acquired a total of 7.6 acres on both sides of Rockville Pike between 2010 and 2012. These sites have a combined mixed-use development potential of up to 1.5 million square feet. The properties currently contain one- and two-story retail buildings that produce an acceptable return on our land investment while we are engaged in the plan approval and permitting process.

The timetable for implementing this 10-plus year development pipeline along Rockville Pike at the Twinbrook and White Flint Metro stations will be determined by the plan approval process and market conditions.



Ashburn Village, Ashburn, VA

Balance Sheet Highlights

In 2013, we took advantage of the attractive capital markets environment through several transactions. In February 2013, we issued \$140 million of Series C perpetual preferred stock with a coupon of 6-7/8%. The proceeds of this offering were used to redeem all \$80 million of our 9% Series B and \$60 million of our 8% Series A preferred shares. As a result, our weighted average cost of preferred equity was reduced to 7.1% from 8.4%, an annual savings of \$2.3 million. During 2013, we completed \$71.0 million of 15-year, fixed-rate property financings at a weighted average interest rate of 3.77%, plus an additional \$30.6 million of 3-year financings at LIBOR plus 1.65%. With these financings, we reduced our weighted average cost of debt by 30 basis points, to 5.54% from 5.84%. Finally, in October 2013 we closed on a \$71.6 million construction-to-permanent loan for Park Van Ness which has an 18.8-year term and bears interest at a fixed-rate of 4.88%. Draws under the loan will begin in the spring of 2014 and continue as construction progresses.

Debt maturities over the next five years total only \$72 million. At December 31, 2013, our interest expense coverage was a comfortable 2.98 times, and our leverage was a modest 35% debt to total capitalization. There are no outstanding borrowings under our \$175 million credit line, and we have additional borrowing capacity with one of our most valuable assets, 601 Pennsylvania Avenue, held free and clear of debt. All these factors combine to give us over \$250 million of borrowing capacity to fund our future development activities.



Harris Teeter, Lansdowne Town Center, Leesburg, VA



Beacon Center, Alexandria, VA



Kentlands Square II, Gaithersburg, MD



Hunt Club Corners, Apopka, FL

2013 Financial Results

As we moved further into the current economic recovery cycle, 2013 brought us a continuation of improved Funds From Operations (FFO), increased same property leasing percentage, and growth in property operating income. Total revenue increased to \$197.9 million in 2013 from \$190.1 million in 2012, and operating income increased to \$35.3 million from \$35.1 million in 2012. Net income available to common stockholders was \$11.7 million in 2013 compared to \$18.2 million in 2012. While the commencement of our Park Van Ness development and our successful preferred stock offering are significant long-term positive events, they had a short term negative impact on 2013 operating income and net income. Excluding the impact of Park Van Ness' depreciation and pre-development expenses and preferred stock redemption charges, net income available to common stockholders in 2013 would have been \$4.2 million higher than in 2012.

During 2013, overall same property revenue increased 4.2% and same property operating income increased 4.4%. Same property comparisons exclude the results of properties not in operation for the entirety of the comparable reporting periods. Shopping center same property operating income increased 3.6% and mixed-use same property operating income increased 7.0%. Shopping center results benefitted primarily from higher revenue as a result of an 89,000 square foot increase in leased space. Clarendon Center office space leasing was the primary contributor to the mixed-use improvement.

FFO available to common shareholders (after deducting preferred stock dividends and redemption charges) increased 7.6% to \$64.7 million (\$2.37 per share) from \$60.1 million (\$2.26 per share) in 2012. The increase was a result of:

- property operating income increases of \$7.2 million;
- lower interest expense of \$3.0 million; and
- \$1.2 million of lower preferred stock dividends.

The combined impact was partially offset by preferred stock redemption charges totaling \$5.2 million.



Southdale, Glen Burnie, MD

Shopping Center Performance

The positive post-recession retail operating trend we experienced in 2012 continued in 2013. While our 2012 portfolio performance was highlighted by the re-leasing of over 150,000 square feet of anchor tenant space vacated during the downturn, our 2013 leasing percentage and property operating income growth were driven by improvement from small shops. At year end 2012, small shop space comprised approximately 2.5 million retail square feet, which was 86.9% leased. Leasing improved by 71,000 square feet over the past year, to 89.8% at year end 2013. Our pre-recession high for small shop leasing was over 94.0%, indicating that we have additional growth potential within our core shopping centers.

Shopping center rental rate increases on expiring leases have also shown signs of rebounding. For the three years from 2006 through 2008, same space rental rates improved an average of 10.3%. The recessionary period from 2009 to 2011 saw rents in our portfolio decline an average of 4.8%. Since then, same space new and renewal rents increased 1.6% in 2012 and 0.1% in 2013, stabilizing, but still below earlier highs.

One of the best indicators of the strength of our shopping center locations and tenants is the percentage of tenants who renew their leases at expiration. Over the past five

years, from 2008 through 2012, tenants representing an average of 68% of our expiring base rents renewed their leases, with a high of 74% in 2009. During 2013, tenants representing over 78% of expiring base rents renewed. The high renewal rate is significant because high tenant retention results in a continuation of rental income without re-leasing expenses and revenue down time. In turn, this contributes to improved same center property operating income, as we saw in 2013.

Our core growth is supplemented by selected shopping center renovations and pad site expansions. By example, 2014 results are expected to be positively impacted by the 2013 acquisition of a 7,000 square foot pad building adjacent to our Kentlands shopping center which has been leased to an upscale restaurant tenant. We also expect increased leasing at Countryside shopping center following site upgrades constructed during 2013 which improved access, visibility, and parking convenience, three critical ingredients to the success of retailers.

The grocery business continues to be very competitive throughout the country. With continued challenges from discounters such as Target and Wal-Mart, and grocery superstores like Wegman's, grocery sales within our portfolio have been relatively flat over the past five years. Sales volumes for the 25 grocery stores that have been in our centers for the past five years are only 2% higher than



601 Pennsylvania Avenue, Washington, DC

2009 levels. Despite the slow sales growth, sales volumes are healthy. For our 31 grocers that reported sales in 2013, overall sales averaged \$491 per square foot, and ten of these stores reported sales in excess of \$600 per square foot.

Our 37 core Washington, DC/Baltimore metropolitan area centers, which produce over 80% of our shopping center property operating income, are supported by three-mile surrounding population counts averaging 101,000 and household incomes averaging \$114,000. These well located in-fill shopping centers are positioned for sustained growth in the future.

Mixed-Use Performance

During 2013, despite very slow office demand in most of the Washington, DC submarkets, our mixed-use portfolio leasing percentage improved to 90.5% from 87.7% in 2012. Our Clarendon Center mixed-use project continued its strong performance. Since its completion in late 2010, Clarendon Center added \$1.0 million to FFO in 2012 and,

due to office tenant occupancy and escalating residential rents, contributed another \$1.9 million to FFO in 2013. Fully leased and occupied by mid-2013, this significant mixed-use, transit-oriented development is now our largest asset as measured by property operating income.

Significant 2014 lease expirations at 601 Pennsylvania Avenue were successfully renewed during 2013 and early this year. This building had five tenant leases, representing 125,000 square feet of office space, or 55% of the building square footage, scheduled to expire in 2014. All five have been renewed and the weighted average lease term is 8.8 years. Additionally, we are currently upgrading and modernizing the building common areas, including the lobby, fitness center and elevators. This combined effort will well-situate the building, the second largest asset in our portfolio as measured by property operating income, in the current softness of the office market. Our four Washington, DC area mixed-use projects should remain stable over the next two years. Only 111,000 square feet of leases, or 10% of the total square footage, are scheduled to expire in 2014 and 2015.



Thruway, Winston-Salem, NC

Our increased leasing percentage and growth in property operating income were the primary drivers behind our Board's recent decision to increase our quarterly common stock dividend by 11.1%, to \$0.40/share from \$0.36/share. We believe there is still room for growth within our core shopping center portfolio as overall market occupancy rates improve due to the limited new supply of centers under development. Our development pipeline, beginning with

the Park Van Ness apartments, our Montgomery County transit-oriented sites, and other opportunistic acquisitions or developments which we continue to pursue, should enhance our core operating performance for the foreseeable future. We extend our appreciation to our dedicated team of professionals and our loyal shareholders who have supported our efforts over the past 20 years.

For the Board

B. Francis Saul II
March 10, 2014



*Clarendon Center,
Arlington, VA*



As of December 31, 2013, Saul Centers' portfolio properties were located in Virginia, Maryland, Washington, DC, North Carolina, Delaware, Florida, Georgia, New Jersey and Oklahoma. Properties in the metropolitan Washington, DC/Baltimore area represent 75% of the portfolio's gross leasable area.

PORTFOLIO PROPERTIES

PROPERTY/LOCATION	GROSS LEASABLE SQUARE FEET	PROPERTY/LOCATION	GROSS LEASABLE SQUARE FEET
Shopping Centers			
ASHBURN VILLAGE, ASHBURN, VA	221,273	OLNEY, OLNEY, MD	53,765
ASHLAND SQUARE PHASE I, DUMFRIES, VA	23,120	ORCHARD PARK, DUNWOODY, GA	87,885
BEACON CENTER, ALEXANDRIA, VA	358,071	PALM SPRINGS CENTER, ALTAMONTE SPRINGS, FL	126,446
BJ'S WHOLESALE CLUB, ALEXANDRIA, VA	115,660	RAVENWOOD, BALTIMORE, MD	93,328
BOCA VALLEY PLAZA, BOCA RATON, FL	121,269	11503 ROCKVILLE PK / 5541 NICHOLSON LN, ROCKVILLE, MD	40,249
BOULEVARD, FAIRFAX, VA	49,140	1500 ROCKVILLE PIKE, ROCKVILLE, MD	52,681
BRIGGS CHANEY MARKETPLACE, SILVER SPRING, MD	194,347	SEABREEZE PLAZA, PALM HARBOR, FL	146,673
BROADLANDS VILLAGE, ASHBURN, VA	159,734	MARKETPLACE AT SEA COLONY, BETHANY BEACH, DE	21,677
COUNTRYSIDE MARKETPLACE, STERLING, VA	137,662	SEVEN CORNERS, FALLS CHURCH, VA	574,831
CRANBERRY SQUARE, WESTMINSTER, MD	141,450	SEVERNA PARK MARKETPLACE, SEVERNA PARK, MD	254,174
CRUSE MARKETPLACE, CUMMING, GA	78,686	SHOPS AT FAIRFAX, FAIRFAX, VA	68,762
FLAGSHIP CENTER, ROCKVILLE, MD	21,500	SMALLWOOD VILLAGE CENTER, WALDORF, MD	174,518
FRENCH MARKET, OKLAHOMA CITY, OK	244,718	SOUTHDALE, GLEN BURNIE, MD	484,115
GERMANTOWN, GERMANTOWN, MD	27,241	SOUTHSIDE PLAZA, RICHMOND, VA	371,761
GIANT, MILFORD MILL, MD	70,040	SOUTH DEKALB PLAZA, ATLANTA, GA	163,418
THE GLEN, WOODBRIDGE, VA	136,440	THRUWAY, WINSTON-SALEM, NC	362,056
GREAT EASTERN, DISTRICT HEIGHTS, MD	255,398	VILLAGE CENTER, CENTREVILLE, VA	146,032
GREAT FALLS CENTER, GREAT FALLS, VA	91,666	WESTVIEW VILLAGE, FREDERICK, MD	97,145
HAMPSHIRE LANGLEY, TAKOMA PARK, MD	131,700	WHITE OAK, SILVER SPRING, MD	480,676
HUNT CLUB CORNERS, APOPKA, FL	101,522	TOTAL SHOPPING CENTERS	7,880,269
JAMESTOWN PLACE, ALTAMONTE SPRINGS, FL	96,372	Mixed-Use Properties	
KENTLANDS SQUARE I, GAITHERSBURG, MD	114,381	AVENEL BUSINESS PARK, GAITHERSBURG, MD	390,683
KENTLANDS SQUARE II, GAITHERSBURG, MD	247,783	CLARENDON CENTER – NORTH, ARLINGTON, VA	108,387
KENTLANDS PLACE, GAITHERSBURG, MD	40,648	CLARENDON CENTER – SOUTH, ARLINGTON, VA	293,565
LANSDOWNE TOWN CENTER, LEESBURG, VA	189,422	(INCLUDES 244 APARTMENTS AT 188,671 SQUARE FEET)	
LEESBURG PIKE PLAZA, BAILEYS CROSSROADS, VA	97,752	CROSTOWN BUSINESS CENTER, TULSA, OK	197,127
LUMBERTON PLAZA, LUMBERTON, NJ	193,084	601 PENNSYLVANIA AVE., WASHINGTON, DC	226,604
METRO PIKE CENTER, ROCKVILLE, MD	67,488	WASHINGTON SQUARE, ALEXANDRIA, VA	236,376
SHOPS AT MONOCACY, FREDERICK, MD	109,144	TOTAL MIXED-USE PROPERTIES	1,452,742
NORTHROCK, WARRENTON, VA	99,789	TOTAL PORTFOLIO	9,333,011
OLDE FORTE VILLAGE, FT. WASHINGTON, MD	143,577		

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SELECTED FINANCIAL DATA

<i>(In thousands, except per share data)</i>	Years Ended December 31,				
	2013	2012	2011	2010	2009
Operating Data:					
Total revenue	\$ 197,897	\$ 190,092	\$ 173,878	\$ 163,108	\$ 160,539
Total operating expenses	162,628	154,996	142,442	120,300	115,177
Operating income	35,269	35,096	31,436	42,808	45,362
Non-operating income:					
Change in fair value of derivatives	(7)	36	(1,332)	–	–
Loss on early extinguishment of debt	(497)	–	–	(5,405)	(2,210)
Gain on casualty settlements	77	219	245	2,475	329
Income from continuing operations	34,842	35,351	30,349	39,878	43,481
Discontinued operations	–	4,429	(55)	3,307	(251)
Net income	34,842	39,780	30,294	43,185	43,230
Income attributable to the noncontrolling interest	(3,970)	(6,406)	(3,561)	(6,422)	(6,517)
Net income attributable to Saul Centers, Inc.	30,872	33,374	26,733	36,763	36,713
Preferred stock redemption	(5,228)	–	–	–	–
Preferred dividends	(13,983)	(15,140)	(15,140)	(15,140)	(15,140)
Net income available to common stockholders	\$ 11,661	\$ 18,234	\$ 11,593	\$ 21,623	\$ 21,573
Per Share Data (diluted):					
Net income (loss) available to common stockholders:					
Continuing operations	\$ 0.57	\$ 0.70	\$ 0.61	\$ 1.00	\$ 1.21
Discontinued operations	–	0.23	–	0.18	(0.01)
Total	\$ 0.57	\$ 0.93	\$ 0.61	\$ 1.18	\$ 1.20
Basic and diluted shares outstanding:					
Weighted average common shares - basic	20,364	19,649	18,889	18,267	17,904
Effect of dilutive options	37	51	60	110	39
Weighted average common shares - diluted	20,401	19,700	18,949	18,377	17,943
Weighted average convertible limited partnership units	6,929	6,914	5,791	5,416	5,416
Weighted average common shares and fully converted limited partnership units - diluted	27,330	26,614	24,740	23,793	23,359
Dividends Paid:					
Cash dividends to common stockholders ⁽¹⁾	\$ 29,205	28,135	\$ 27,062	\$ 26,186	\$ 27,358
Cash dividends per share	\$ 1.44	\$ 1.44	\$ 1.44	\$ 1.44	\$ 1.50
Balance Sheet Data:					
Real estate investments (net of accumulated depreciation)	\$ 1,094,776	\$ 1,112,763	\$ 1,091,448	\$ 927,250	\$ 834,914
Total assets	1,198,675	1,207,309	1,192,569	1,013,888	925,574
Total debt, including accrued interest	823,328	831,121	835,459	713,997	639,405
Preferred stock	180,000	179,328	179,328	179,328	179,328
Total stockholders' equity	315,126	307,289	293,206	239,813	226,063
Other Data:					
Cash flow provided by (used in):					
Operating activities	\$ 73,527	\$ 78,423	\$ 55,669	\$ 62,887	\$ 68,344
Investing activities	\$ (26,034)	\$ (46,873)	\$ (201,500)	\$ (98,239)	\$ (80,469)
Financing activities	\$ (42,329)	\$ (31,740)	\$ 145,186	\$ 27,713	\$ 19,726
Funds from operations ⁽²⁾ :					
Net income	\$ 34,842	\$ 39,780	\$ 30,294	\$ 43,185	\$ 43,230
Real property depreciation and amortization	49,130	40,112	35,298	28,379	28,061
Real property depreciation - discontinued operations	–	77	102	198	203
Gain on property dispositions and casualty settlements	(77)	(4,729)	(245)	(6,066)	(329)
Funds from operations	83,895	75,240	65,449	65,696	71,165
Preferred stock redemption	(5,228)	–	–	–	–
Preferred dividends	(13,983)	(15,140)	(15,140)	(15,140)	(15,140)
Funds from operations available to common shareholders	\$ 64,684	\$ 60,100	\$ 50,309	\$ 50,556	\$ 56,025

(1) During 2013, 2012, 2011, 2010, and 2009, shareholders reinvested \$20.7 million, \$23.1 million, \$19.8 million, \$16.7 million and \$4.1 million, respectively, in newly issued common stock through the Company's dividend reinvestment plan.

(2) Funds from operations (FFO) is a non-GAAP financial measure and is defined in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Funds From Operations."

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) begins with the Company's primary business strategy to give the reader an overview of the goals of the Company's business. This is followed by a discussion of the critical accounting policies that the Company believes are important to understanding the assumptions and judgments incorporated in the Company's reported financial results. The next section, beginning on page 14, discusses the Company's results of operations for the past two years. Beginning on page 16, the Company provides an analysis of its liquidity and capital resources, including discussions of its cash flows, debt arrangements, sources of capital and financial commitments. Finally, on page 24, the Company discusses funds from operations, or FFO, which is a non-GAAP financial measure of performance of an equity REIT used by the REIT industry.

The MD&A should be read in conjunction with the other sections of this Annual Report, including the consolidated financial statements and notes thereto beginning on page 30. Historical results set forth in Selected Financial Information and the Consolidated Financial Statements should not be taken as indicative of the Company's future operations.

OVERVIEW

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

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

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

During the fourth quarter of 2012, the Company acquired two properties along the Rockville Pike corridor of Rockville, Maryland, one of which is adjacent to one of the Company's existing properties. In December 2012, the Company purchased for \$23.0 million, including acquisition costs, approximately 52,700 square feet of retail space located on the east side of Rockville Pike near the Twinbrook Metro station. The property is zoned for up to 745,000 square feet of rentable mixed-use space. The Company is actively engaged in a plan for redevelopment but has not committed to any timetable for commencement of construction.

In December 2012, the Company purchased for \$12.2 million, including acquisition costs, approximately 20,100 square feet of retail space, located on the east side of Rockville Pike near the White Flint Metro station and adjacent to 11503 Rockville Pike, which was purchased in 2010. The property, when combined with 11503 Rockville Pike, will provide zoning for up to 720,000 square feet of rentable mixed-use space. When combining these two properties with our Metro Pike shopping center on the west side of Rockville Pike, the Company's holdings at White Flint total 7.6 acres which are zoned for a development potential of up to 1.5 million square feet of mixed-use space. The Company is actively engaged in a plan for redevelopment but has not committed to any timetable for commencement of construction.

In 2011, the Company acquired three Giant Food-anchored shopping centers located in the Maryland suburbs of the Washington, D.C./Baltimore metropolitan area. The three centers, Kentlands Square II, Severna Park MarketPlace and Cranberry Square, total 636,000 square feet of leasable area. The \$170.9 million purchase price, including acquisition costs, was financed with (1) \$98.0 million of debt secured by the properties; (2) approximately \$17.1 million in cash and borrowings from the Company's revolving credit facility; and (3) \$55.8 million from the issuance of equity to a related party.

In light of the limited amount of quality properties for sale and the escalated pricing of properties that the Company has been presented with or has inquired about over the past year, management believes acquisition opportunities for investment in existing and new Shopping Center and Mixed-Use Properties in the near future is uncertain. Because of its conservative capital structure, including its cash and capacity under its revolving credit facility, management believes that the Company is positioned to take advantage of additional investment opportunities as attractive properties are located and market conditions improve. (See "Item

MANAGEMENT'S DISCUSSION AND ANALYSIS

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1. Business - Capital Policies"). It is management's view that several of the sub-markets in which the Company operates have, or are expected to have in the future, attractive supply/demand characteristics. The Company will continue to evaluate acquisition, development and redevelopment as integral parts of its overall business plan.

During the most recent downturn in the national real estate market, the effects on the office and retail markets in the metropolitan Washington, DC area, where the majority of the Company's properties are located, initially were generally less severe than in many other areas of the country. However, continued economic uncertainty in the local economies where the Company's properties are located resulting from issues facing the Federal government relating to spending cuts and budget policies may lead to increased tenant bankruptcies, increased vacancies and decreased rental rates.

While overall consumer confidence appears to have improved, retailers continue to be cautious about capital allocation when implementing store expansion. Vacancies continue to remain elevated in certain submarkets compared to pre-recession levels; however, the Company's overall leasing percentage on a comparative same property basis, which excludes the impact of properties not in operation for the entirety of the comparable periods, at December 31, 2013 increased to 93.9% from 92.6% at December 31, 2012, an increase in leased space of approximately 123,100 square feet, primarily caused by the leasing of 70,800 square feet of small shop space in the Shopping Centers and improved leasing at Avenel Business Park.

Because of the Company's conservative capital structure, its liquidity has not been significantly affected by the recent turmoil in the credit markets. The Company maintains a ratio of total debt to total asset value of under 50%, which allows the Company to obtain additional secured borrowings if necessary. As of December 31, 2013, amortizing fixed-rate mortgage debt with staggered maturities from 2015 to 2032 represented approximately 96.3% of the Company's notes payable, thus minimizing refinancing risk. The Company's variable-rate debt consists of a \$14.8 million bank term loan secured by the Northrock shopping center and a \$15.4 million bank term loan secured by the Metro Pike Center. As of December 31, 2013, the Company has loan availability of approximately \$164.2 million under its \$175.0 million unsecured revolving line of credit.

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

CRITICAL ACCOUNTING POLICIES

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

REAL ESTATE INVESTMENTS

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

The Company purchases real estate investment properties from time to time and records assets acquired and liabilities assumed, including land, buildings, and intangibles related to in-place leases and customer relationships based on their fair values. The fair value of buildings generally is determined as if the buildings were vacant upon acquisition and subsequently leased at market rental rates and considers the present value of all cash flows expected to be generated by the property including an initial lease up period. The Company determines the fair value of above and below market intangibles associated with in-place leases by assessing the net effective rent and remaining term of the in-place lease relative to market terms for similar leases at acquisition taking into consideration the remaining contractual lease period, renewal periods, and the likelihood of the tenant exercising its renewal options. The fair value of a below market lease component is recorded as deferred income and accreted as additional lease revenue over the remaining contractual lease period. If the fair value of the below market lease intangible includes fair value associated with a renewal option, such amounts are not accreted until the renewal option is exercised. If the renewal option is not exercised the value is recognized at that time. The fair value of above market lease intangibles is recorded as a deferred asset and is amortized as a reduction of lease revenue over the remaining contractual lease term. The Company determines the fair value of at-market in-place leases considering the cost of acquiring similar leases, the foregone rents associated with the lease-up period and carrying costs associated with the lease-up period. Intangible assets associated with at-market in-place leases are amortized as additional

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expense over the remaining contractual lease term. To the extent customer relationship intangibles are present in an acquisition, the fair value of the intangibles are amortized over the life of the customer relationship. From time to time the Company may purchase a property for future development purposes. The property may be improved with an existing structure that would be demolished as part of the development. In such cases, the fair value of the building may be determined based only on existing leases and not include estimated cash flows related to future leases.

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

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

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

using the straight-line method and estimated useful lives of generally between 35 and 50 years for base buildings, or a shorter period if management determines that the building has a shorter useful life, and up to 20 years for certain other improvements.

DEFERRED LEASING COSTS

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

REVENUE RECOGNITION

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS - CURRENT AND DEFERRED RECEIVABLES

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

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LEGAL CONTINGENCIES

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

RESULTS OF OPERATIONS

Same property revenue and operating income were \$194.4 million and \$147.3 million, respectively, in 2013 representing increases of \$7.8 million (4.2%) and \$6.2 million (4.4%) over 2012. Same property comparisons for 2013 and 2012 include 49 Shopping Centers and six Mixed-Use Properties which were in operation for the entirety of 2013 and 2012.

Same property revenue and operating income were \$160.1 million and \$119.7 million, respectively, in 2012 representing decreases of \$1.5 million (0.9%) and \$1.9 million (1.6%) compared to 2011. Same property comparisons for 2012 and 2011 include 46 Shopping Centers and five Mixed-Use Properties which were in operation for the entirety of 2012 and 2011.

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

REVENUE

(Dollars in thousands)	For the year ended December 31,			Percentage Change	
	2013	2012	2011	2013 from 2012	2012 from 2011
Base rent	\$ 159,898	\$ 152,777	\$ 138,486	4.7%	10.3%
Expense recoveries	30,949	30,391	28,368	1.8%	7.1%
Percentage rent	1,575	1,545	1,503	1.9%	2.8%
Other	5,475	5,379	5,521	1.8%	(2.6)%
Total revenue	\$ 197,897	\$ 190,092	\$ 173,878	4.1%	9.3%

Base rent includes \$3,035, \$3,796, and \$3,694, for the years 2013, 2012, and 2011, respectively, to recognize base rent on a straight-line basis. In addition, base rent includes \$1,692, \$1,495, and \$1,119, for the years 2013, 2012, and 2011, respectively, to recognize income from the amortization of in-place leases.

Total revenue increased 4.1% in 2013 compared to 2012 primarily due to \$7.1 million of higher base rent (a) generated by properties acquired or developed in 2012 (the "New 2012 Properties") (\$2.3 million) and (b) increases throughout the portfolio (\$6.6 million) partially offset by (c) Van Ness Square (\$2.0 million). Total revenue increased 9.3% in 2012 compared to 2011 primarily due to \$14.5 million of aggregate revenue generated by Clarendon Center and the three Shopping Center Properties acquired in 2011 (collectively, the "New 2011 Properties"). A discussion of the components of revenue follows.

BASE RENT

The \$7.1 million increase in base rent in 2013 compared to 2012 was attributable to (a) the New 2012 Properties (\$2.3 million) and (b) increases throughout the portfolio (\$6.6 million) partially offset by (c) Van Ness Square (\$2.0 million). The \$14.3 million increase in base rent in 2012 compared to 2011 was attributable to \$12.4 million of increased base rent generated by the New 2011 Properties and \$2.3 million of increased base rent in the remainder of the portfolio.

EXPENSE RECOVERIES

Expense recovery income increased \$0.6 million in 2013 compared to 2012. Expense recovery income increased \$2.0 million in 2012 compared to 2011 primarily due to \$1.7 million of increased expense recovery income generated by the New 2011 Properties.

OTHER REVENUE

Other revenue increased \$0.1 million in 2013 compared to 2012. The decline in other revenue in 2012 compared to 2011 is primarily due to the collection in 2011 of \$325,000 of past due rents from a former tenant, partially offset by increased parking income at the Mixed-Use Properties.

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OPERATING EXPENSES

<i>(Dollars in thousands)</i>	For the year ended December 31,			Percentage Change	
	2013	2012	2011	2013 from 2012	2012 from 2011
Property operating expenses	\$ 24,559	\$ 23,794	\$ 24,715	3.2%	(3.7)%
Provision for credit losses	968	1,151	1,880	(15.9)%	(38.8)%
Real estate taxes	22,415	22,325	18,435	0.4%	21.1%
Interest expense and amortization of deferred debt costs	46,589	49,544	45,324	(6.0)%	9.3%
Depreciation and amortization of deferred leasing costs	49,130	40,112	35,298	22.5%	13.6%
General and administrative	14,951	14,274	14,256	4.7%	0.1%
Acquisition related costs	106	1,129	2,534	(90.6)%	(55.4)%
Predevelopment expenses	3,910	2,667	–	46.6%	–
Total operating expenses	\$ 162,628	\$ 154,996	\$ 142,442	4.9%	8.8%

Total operating expenses increased 4.9% in 2013 compared to 2012 primarily due to \$8.0 million of additional depreciation expense and \$1.2 million of higher predevelopment expenses related to the redevelopment of Park Van Ness. Total operating expenses increased 8.8% in 2012 compared to 2011 primarily due to increased real estate taxes, interest expense, depreciation expense and predevelopment expense.

PROPERTY OPERATING EXPENSES

Property operating expenses increased \$765,000 in 2013 compared to 2012. Property operating expenses decreased \$921,000 in 2012 compared to 2011 primarily due to lower snow removal costs.

PROVISION FOR CREDIT LOSSES

The provision for credit losses represents the Company's estimate of amounts owed by tenants that may not be collectible. The \$183,000 decrease in 2013 compared to 2012 as well as the \$729,000 decrease in 2012 compared to 2011 reflects a general improvement in the retail economy and lack of significant bankruptcy losses among the Company's various tenants.

REAL ESTATE TAXES

Real estate taxes increased \$90,000 in 2013 compared to 2012. The \$3.9 million increase in real estate taxes in 2012 compared to 2011 is comprised of increased property taxes charged by the District of Columbia and taxes related to the New 2011 Properties.

INTEREST AND AMORTIZATION OF DEFERRED DEBT

Interest expense decreased \$3.0 million in 2013 compared to 2012 primarily due to a 30 basis point decrease in the average cost of debt to 5.54% from 5.84%. Interest expense increased \$4.2 million in 2012 compared to 2011 primarily due to approximately \$4.1 million of interest related to \$67.2 million of higher average debt balances and \$1.9 million of reduced capitalized interest, partially offset by \$2.1 million of lower interest resulting from lower average cost of debt.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization of deferred leasing costs increased by \$9.0 million in 2013 compared to 2012 primarily due to \$8.0 million of additional depreciation expense on the building at the former Van Ness Square as a result of the reduction of its useful life to four months effective January 1, 2013. Depreciation and amortization of deferred leasing costs increased \$4.8 million in 2012 compared to 2011 primarily due to the New 2011 Properties.

GENERAL AND ADMINISTRATIVE

General and administrative costs increased \$677,000 in 2013 compared to 2012 primarily due to (a) increased consulting expense (\$495,000) and (b) increased stock option expense (\$245,000).

ACQUISITION RELATED COSTS

Acquisition related costs in 2013 totaling approximately \$106,000 relate to the purchase of a retail pad with a 7,100 square foot restaurant located in Gaithersburg, Maryland which is contiguous with and an expansion of the Company's other Kentlands assets. Acquisition related costs in 2012 totaling approximately \$1.1 million related to the December 2012 purchases of 1500 Rockville Pike and 5541 Nicholson Lane.

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

PREDEVELOPMENT EXPENSES

Predevelopment expenses represent costs, primarily lease termination and demolition costs, incurred with the repositioning and redevelopment of Van Ness Square.

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GAIN ON CASUALTY SETTLEMENT

Gain on casualty settlement in 2013 and 2012 reflect insurance proceeds received in excess of the carrying value of assets damaged during a hail storm at French Market in 2012. Gain on casualty settlement in 2011 reflects insurance proceeds received in excess of the carrying value of assets damaged during a severe hail storm at French Market in May 2010. In each instance, the insurance proceeds funded substantially all of the restoration of the damaged property.

LOSS ON EARLY EXTINGUISHMENT OF DEBT

On September 4, 2013, the Company closed on a 15-year, non-recourse \$18.0 million mortgage loan secured by Seabreeze Plaza. The loan matures in 2028, bears interest at a fixed rate of 3.99%, requires monthly principal and interest payments totaling \$94,900 based on a 25-year amortization schedule and requires a final payment of \$9.5 million at maturity. Proceeds were used to pay off the \$13.5 million remaining balance of existing debt secured by Seabreeze Plaza which was scheduled to mature in May 2014 and the Company incurred \$497,000 of related debt extinguishment costs.

GAIN ON SALE OF PROPERTY

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

IMPACT OF INFLATION

Inflation has remained relatively low during 2013 and 2012. The impact of rising operating expenses due to inflation on the operating performance of the Company's portfolio would have been mitigated by terms in substantially all of the Company's leases which contain provisions designed to increase revenues to offset the adverse impact of inflation on the Company's results of operations. These provisions include upward periodic adjustments in base rent due from tenants, usually based on a stipulated increase and to a lesser extent on a factor of the change in the consumer price index, commonly referred to as the CPI.

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

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$17.3 million and \$12.1 million at December 31, 2013 and 2012, respectively. The changes in cash and cash equivalents during the years ended December 31, 2013 and 2012 were attributable to operating, investing and financing activities, as described below.

<i>(Dollars in thousands)</i>	Year Ended December 31,	
	2013	2012
Net cash provided by operating activities	\$ 73,527	\$ 78,423
Net cash used in investing activities	(26,034)	(46,873)
Net cash used in financing activities	(42,329)	(31,740)
Increase (decrease) in cash and cash equivalents	\$ 5,164	\$ (190)

OPERATING ACTIVITIES

Net cash provided by operating activities decreased \$4.9 million to \$73.5 million for the year ended December 31, 2013 compared to \$78.4 million for the year ended December 31, 2012. Net cash provided by operating activities represents, in each year, cash received primarily from rental income, plus other income, less property operating expenses, normal recurring general and administrative expenses and interest payments on debt outstanding.

INVESTING ACTIVITIES

Net cash used in investing activities decreased \$20.8 million to \$26.0 million for the year ended December 31, 2013 from \$46.9 million for the year ended December 31, 2012. Investing activities in 2013 primarily reflect tenant improvements and capital expenditures (\$14.0 million), the Company's development activities (\$7.3 million) and the acquisition of a retail pad in Gaithersburg, Maryland (\$5.1 million). Net cash used in investing activities decreased \$154.6 million to \$46.9 million for the year ended December 31, 2012 from \$201.5 million for the year ended December 31, 2011. Investing activities in 2012 primarily reflect (a) the purchases of 1500 Rockville Pike and 5541 Nicholson Lane (b) tenant improvements and capital expenditures and (c) Clarendon Center and Ashland Square Phase I development costs partially offset by (d) proceeds from the sales of West Park and Belvedere and (e) proceeds from casualty settlement.

Tenant improvement and property capital expenditures totaled \$14.0 million and \$12.7 million for 2013 and 2012, respectively.

FINANCING ACTIVITIES

Net cash used in financing activities was \$42.3 million and \$31.7 million for the years ended December 31, 2013 and 2012, respectively. Net cash used in financing activities in 2013 primarily reflects:

- preferred stock redemption payments totaling \$139.3 million;
- the repayment of mortgage notes payable totaling \$71.3 million;
- the repayment of amounts borrowed under the revolving credit facility totaling \$180.0 million;
- distributions to common stockholders totaling \$29.2 million;
- distributions to holders of convertible limited partnership units in the Operating Partnership totaling \$10.0 million;
- distributions made to preferred stockholders totaling \$14.6 million; and
- payments of \$3.2 million for financing costs of mortgage notes payable

which was partially offset by:

- proceeds of \$101.6 million received from mortgage notes payable;
- proceeds of \$135.2 million received from the sale of Series C preferred stock;
- proceeds of \$142.0 million received from revolving credit facility draws;
- proceeds of \$4.1 million from the issuance of limited partnership units in the Operating Partnership under the dividend reinvestment program; and
- proceeds of \$22.3 million from the issuance of common stock under the dividend reinvestment program, directors deferred plan and the exercise of stock options.

Net cash used in financing activities for the year ended December 31, 2012 primarily reflects:

- the repayment of mortgage notes payable totaling \$117.6 million;
- distributions made to common stockholders and holders of convertible limited partnership units in the Operating Partnership during the year totaling \$38.1 million;
- distributions made to preferred stockholders during the year totaling \$15.1 million;
- repayments of \$8.0 million on the revolving credit facility; and
- payments of \$2.2 million for financing costs of new mortgage loans;

which was partially offset by:

- proceeds received from one new and one modified mortgage notes payable totaling \$83.5 million;
- proceeds of \$38.0 million from the revolving credit facility; and
- \$27.8 million of proceeds received from the issuance of common stock under the dividend reinvestment program and from the exercise of stock options.

LIQUIDITY REQUIREMENTS

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

Long-term liquidity requirements consist primarily of obligations under our long-term debt and dividends paid to our preferred shareholders. We anticipate that long-term liquidity requirements will also include amounts required for property acquisitions and developments. In October 2013, the Company entered into an arrangement with a general contractor and intends to develop Park Van Ness, a primarily residential project with street-level retail. The total cost of the project, excluding predevelopment expense and land costs, is expected to be approximately \$93.0 million, a portion of which will be funded with a \$71.6 million construction-to-permanent loan that closed in October 2013 and the remainder will be funded with the Company's working capital, including its existing line of credit. The Company may also redevelop certain of the Current Portfolio Properties and may develop additional freestanding outparcels or expansions within certain of the Shopping Centers.

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

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

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

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CONTRACTUAL PAYMENT OBLIGATIONS

As of December 31, 2013, the Company had unfunded contractual payment obligations of approximately \$101.2 million, excluding operating obligations, due within the next 12 months. The table below shows the total contractual payment obligations as of December 31, 2013.

CONTRACTUAL PAYMENT OBLIGATIONS

(Dollars in thousands)	Payments Due By Period				Total
	One Year or Less	2-3 Years	4-5 Years	After 5 Years	
Notes Payable:					
Interest	\$ 44,181	\$ 82,986	\$ 75,729	\$ 167,876	\$ 370,772
Scheduled Principal	22,191	46,452	49,377	154,901	272,921
Balloon Payments	–	44,008	27,872	475,267	547,147
Subtotal	66,372	173,446	152,978	798,044	1,190,840
Ground Leases ⁽¹⁾	176	352	351	9,364	10,243
Corporate Headquarters Lease ⁽¹⁾	859	1,796	153	–	2,808
Development Obligations	26,073	38,220	–	–	64,293
Tenant Improvements	7,730	–	278	–	8,008
Total Contractual Obligations	\$ 101,210	\$ 213,814	\$ 153,760	\$ 807,408	\$ 1,276,192

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

Management believes that the Company's cash flow from operations and its capital resources, which at December 31, 2013 included cash balances of \$17.3 million and borrowing availability of approximately \$164.2 million on its revolving line of credit, will be sufficient to meet its contractual obligations for the foreseeable future.

PREFERRED STOCK ISSUES

In March 2013, the Company redeemed 60% of its then-outstanding 8% Series A Cumulative Redeemable Preferred Stock (the "Series A Stock") and all of its 9% Series B Cumulative Redeemable Preferred Stock.

The Company has outstanding 1.6 million depositary shares, each representing 1/100th of a share of Series A Stock. The depositary shares may be redeemed at the Company's option, in whole or in part from time to time, at the \$25.00 liquidation preference plus accrued but unpaid dividends. The depositary shares pay an annual dividend of \$2.00 per share, equivalent to 8% of the \$25.00 liquidation preference. The Series A Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company. Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events.

In February 2013, the Company sold, in an underwritten public offering, 5.6 million depositary shares, each representing 1/100th of a share of 6.875% Series C Cumulative Redeemable Preferred Stock (the "Series C Stock"), providing net cash proceeds of approximately \$135.2 million. The depositary shares may be redeemed at the Company's option, in whole or in part, at the \$25.00 liquidation preference plus accrued but unpaid dividends on or after February 12, 2018. The depositary shares pay an annual dividend of \$1.71875 per share, equivalent to 6.875% of the \$25.00 liquidation preference. The first dividend was paid on April 15, 2013 and covered the period from February 12, 2013 through March 31, 2013. The Series C Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company except in connection with certain changes of control or delisting events. Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events.

DIVIDEND REINVESTMENTS

In December 1995, the Company established a Dividend Reinvestment Plan (the "Plan") to allow its common stockholders and holders of limited partnership interests an opportunity to buy additional shares of common stock by reinvesting all or a portion of their dividends or distributions. The Plan provides for investing in newly issued shares of common stock at a 3% discount from market price without payment of any brokerage commissions, service charges or other expenses. All expenses of the Plan are paid by the Company. The Company issued 468,014 and 586,838 shares under the Plan at a weighted average discounted price of \$43.52 and \$38.85 per share during the years ended December 31, 2013 and 2012, respectively. The Company issued 88,309 limited partnership units under the Plan at a weighted average price of \$46.93 per unit during the year ended December 31, 2013. No limited partnership units were issued under the Plan during 2012. The Company also credited 7,148 and 8,551 shares to directors pursuant to the reinvestment of dividends specified by the Directors' Deferred Compensation Plan at a weighted average discounted price of \$43.92 and \$38.76 per share, during the years ended December 31, 2013 and 2012, respectively.

CAPITAL STRATEGY AND FINANCING ACTIVITY

As a general policy, the Company intends to maintain a ratio of its total debt to total asset value of 50% or less and to actively manage the Company's leverage and debt expense on an ongoing basis in order to maintain prudent coverage of fixed charges. Asset value is the aggregate fair market value of the Current Portfolio Properties and any subsequently acquired properties as reasonably determined by management by reference to the properties' aggregate cash flow. Given the Company's current debt level, it is management's belief that the ratio of the Company's debt to total asset value was below 50% as of December 31, 2013.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a summary of notes payable as of December 31, 2013 and 2012:

NOTES PAYABLE

<i>(Dollars in thousands)</i>	December 31,		Interest	Scheduled
	2013	2012	Rate *	Maturity *
Fixed rate mortgages:	\$ — (a)	\$ 15,750		
	— (b)	6,936		
	— (c)	13,875		
	16,128 (d)	16,798	7.45%	Jun-2015
	33,246 (e)	34,373	6.01%	Feb-2018
	36,937 (f)	38,388	5.88%	Jan-2019
	11,949 (g)	12,418	5.76%	May-2019
	16,501 (h)	17,145	5.62%	Jul-2019
	16,419 (i)	17,040	5.79%	Sep-2019
	14,610 (j)	15,176	5.22%	Jan-2020
	11,159 (k)	11,421	5.60%	May-2020
	9,921 (l)	10,288	5.30%	Jun-2020
	42,462 (m)	43,424	5.83%	Jul-2020
	8,649 (n)	8,934	5.81%	Feb-2021
	6,233 (o)	6,359	6.01%	Aug-2021
	35,981 (p)	36,699	5.62%	Jun-2022
	10,930 (q)	11,129	6.08%	Sep-2022
	11,795 (r)	11,989	6.43%	Apr-2023
	15,598 (s)	16,247	6.28%	Feb-2024
	17,123 (t)	17,469	7.35%	Jun-2024
	14,849 (u)	15,140	7.60%	Jun-2024
	26,153 (v)	26,635	7.02%	Jul-2024
	31,093 (w)	31,709	7.45%	Jul-2024
	30,894 (x)	31,490	7.30%	Jan-2025
	16,087 (y)	16,419	6.18%	Jan-2026
	118,128 (z)	120,822	5.31%	Apr-2026
	36,075 (aa)	36,986	4.30%	Oct-2026
	40,974 (bb)	41,970	4.53%	Nov-2026
	19,118 (cc)	19,569	4.70%	Dec-2026
	70,856 (dd)	72,233	5.84%	May-2027
	17,718 (ee)	—	4.04%	Apr-2028
	34,391 (ff)	—	3.51%	Jun-2028
	17,895 (gg)	—	3.99%	Sep-2028
	— (hh)	—	4.88%	Sep-2032
Total fixed rate	789,872	774,831	5.67%	10.1 Years
Variable rate loans:				
	— (ii)	38,000	LIBOR + 1.60%	May-2016
	14,802 (jj)	14,945	LIBOR + 1.65%	Feb-2016
	15,394 (kk)	—	LIBOR + 1.65%	Feb-2016
Total variable rate	30,196	52,945	LIBOR + 1.65%	2.2 Years
Total notes payable	\$ 820,068	\$ 827,776	5.53%	9.8 Years

* Interest rate and scheduled maturity data presented as of December 31, 2013. Totals computed using weighted averages.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- (a) The loan, together with a corresponding interest-rate swap, was collateralized by Metro Pike Center. On a combined basis, the loan and the swap required interest only payments of \$86,000 based upon a 25-year amortization schedule and a final payment of \$15.6 million at loan maturity. The loan was repaid in full and the swap was terminated in 2013.
- (b) The loan was collateralized by Cruse MarketPlace and required equal monthly principal and interest payments of \$56,000 based upon an amortization schedule of approximately 24 years and a final payment of \$6.8 million at loan maturity. The loan was repaid in full in 2013.
- (c) The loan was collateralized by Seabreeze Plaza and required equal monthly principal and interest payments totaling \$102,000 based upon a weighted average 26-year amortization schedule and a final payment of \$13.3 million at loan maturity. The loan was repaid in full in 2013.
- (d) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires equal monthly principal and interest payments totaling \$156,000 based upon a weighted average 23-year amortization schedule and a final payment of \$15.2 million at loan maturity. Principal of \$670,000 was amortized during 2013.
- (e) The loan is collateralized by Washington Square and requires equal monthly principal and interest payments of \$264,000 based upon a 27.5-year amortization schedule and a final payment of \$28.0 million at loan maturity. Principal of \$1.1 million was amortized during 2013.
- (f) The loan is collateralized by three shopping centers, Broadlands Village, The Glen and Kentlands Square I, and requires equal monthly principal and interest payments of \$306,000 based upon a 25-year amortization schedule and a final payment of \$28.4 million at loan maturity. Principal of \$1.5 million was amortized during 2013.
- (g) The loan is collateralized by Olde Forte Village and requires equal monthly principal and interest payments of \$98,000 based upon a 25-year amortization schedule and a final payment of \$9.0 million at loan maturity. Principal of \$469,000 was amortized during 2013.
- (h) The loan is collateralized by Countryside and requires equal monthly principal and interest payments of \$133,000 based upon a 25-year amortization schedule and a final payment of \$12.3 million at loan maturity. Principal of \$644,000 was amortized during 2013.
- (i) The loan is collateralized by Briggs Chaney MarketPlace and requires equal monthly principal and interest payments of \$133,000 based upon a 25-year amortization schedule and a final payment of \$12.2 million at loan maturity. Principal of \$621,000 was amortized during 2013.
- (j) The loan is collateralized by Shops at Monocacy and requires equal monthly principal and interest payments of \$112,000 based upon a 25-year amortization schedule and a final payment of \$10.6 million at loan maturity. Principal of \$566,000 was amortized during 2013.
- (k) The loan is collateralized by Boca Valley Plaza and requires equal monthly principal and interest payments of \$75,000 based upon a 30-year amortization schedule and a final payment of \$9.1 million at loan maturity. Principal of \$262,000 was amortized during 2013.
- (l) The loan is collateralized by Palm Springs Center and requires equal monthly principal and interest payments of \$75,000 based upon a 25-year amortization schedule and a final payment of \$7.1 million at loan maturity. Principal of \$367,000 was amortized during 2013.
- (m) The loan and a corresponding interest-rate swap closed on June 29, 2010 and are collateralized by Thruway. On a combined basis, the loan and the interest-rate swap require equal monthly principal and interest payments of \$289,000 based upon a 25-year amortization schedule and a final payment of \$34.8 million at loan maturity. Principal of \$962,000 was amortized during 2013.
- (n) The loan is collateralized by Jamestown Place and requires equal monthly principal and interest payments of \$66,000 based upon a 25-year amortization schedule and a final payment of \$6.1 million at loan maturity. Principal of \$285,000 was amortized during 2013.
- (o) The loan is collateralized by Hunt Club Corners and requires equal monthly principal and interest payments of \$42,000 based upon a 30-year amortization schedule and a final payment of \$5.0 million, at loan maturity. Principal of \$126,000 was amortized during 2013.
- (p) The loan is collateralized by Lansdowne Town Center and requires monthly principal and interest payments of \$230,000 based on a 30-year amortization schedule and a final payment of \$28.2 million at loan maturity. Principal of \$718,000 was amortized during 2013.
- (q) The loan is collateralized by Orchard Park and requires equal monthly principal and interest payments of \$73,000 based upon a 30-year amortization schedule and a final payment of \$8.6 million at loan maturity. Principal of \$199,000 was amortized during 2013.
- (r) The loan is collateralized by BJ's Wholesale and requires equal monthly principal and interest payments of \$80,000 based upon a 30-year amortization schedule and a final payment of \$9.3 million at loan maturity. Principal of \$194,000 was amortized during 2013.
- (s) The loan is collateralized by Great Falls shopping center. The loan consists of three notes which require equal monthly principal and interest payments of \$138,000 based upon a weighted average 26-year amortization schedule and a final payment of \$6.3 million at maturity. Principal of \$649,000 was amortized during 2013.
- (t) The loan is collateralized by Leesburg Pike and requires equal monthly principal and interest payments of \$135,000 based upon a 25-year amortization schedule and a final payment of \$11.5 million at loan maturity. Principal of \$346,000 was amortized during 2013.
- (u) The loan is collateralized by Village Center and requires equal monthly principal and interest payments of \$119,000 based upon a 25-year amortization schedule and a final payment of \$10.1 million at loan maturity. Principal of \$291,000 was amortized during 2013.
- (v) The loan is collateralized by White Oak and requires equal monthly principal and interest payments of \$193,000 based upon a 24.4 year weighted amortization schedule and a final payment of \$18.5 million at loan maturity. The loan was previously collateralized by Van Ness Square. During 2012, the Company substituted White Oak as the collateral and borrowed an additional \$10.5 million. Principal of \$482,000 was amortized during 2013.
- (w) The loan is collateralized by Avenel Business Park and requires equal monthly principal and interest payments of \$246,000 based upon a 25-year amortization schedule and a final payment of \$20.9 million at loan maturity. Principal of \$616,000 was amortized during 2013.
- (x) The loan is collateralized by Ashburn Village and requires equal monthly principal and interest payments of \$240,000 based upon a 25-year amortization schedule and a final payment of \$20.5 million at loan maturity. Principal of \$596,000 was amortized during 2013.
- (y) The loan is collateralized by Ravenwood and requires equal monthly principal and interest payments of \$111,000 based upon a 25-year amortization schedule and a final payment of \$10.1 million at loan maturity. Principal of \$332,000 was amortized during 2013.
- (z) The loan is collateralized by Clarendon Center and requires equal monthly principal and interest payments of \$753,000 based upon a 25-year amortization schedule and a final payment of \$70.5 million at loan maturity. Principal of \$2.7 million was amortized during 2013.
- (aa) The loan is collateralized by Severna Park MarketPlace and requires equal monthly principal and interest payments of \$207,000 based upon a 25-year amortization schedule and a final payment of \$20.3 million at loan maturity. Principal of \$911,000 was amortized during 2013.
- (bb) The loan is collateralized by Kentlands Square II and requires equal monthly principal and interest payments of \$240,000 based upon a 25-year amortization schedule and a final payment of \$23.1 million at loan maturity. Principal of \$996,000 was amortized during 2013.
- (cc) The loan is collateralized by Cranberry Square and requires equal monthly principal and interest payments of \$113,000 based upon a 25-year amortization schedule and a final payment of \$10.9 million at loan maturity. Principal of \$451,000 was amortized during 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- (dd) The loan in the original amount of \$73.0 million closed in May 2012, is collateralized by Seven Corners and requires equal monthly principal and interest payments of \$463,200 based upon a 25-year amortization schedule and a final payment of \$42.3 million at loan maturity. Principal of \$1.4 million was amortized during 2013.
- (ee) The loan is collateralized by Hampshire Langley and requires equal monthly principal and interest payments of \$95,400 based upon a 25-year amortization schedule and a final payment of \$9.5 million at loan maturity. Principal of \$282,000 was amortized in 2013.
- (ff) The loan is collateralized by Beacon Center and requires equal monthly principal and interest payments of \$203,200 based upon a 20-year amortization schedule and a final payment of \$11.4 million at loan maturity. Principal of \$609,000 was amortized in 2013.
- (gg) The loan is collateralized by Seabreeze Plaza and requires equal monthly principal and interest payments of \$94,900 based upon a 25-year amortization schedule and a final payment of \$9.5 million at loan maturity. Principal of \$105,000 was amortized in 2013.
- (hh) The loan is a \$71.6 million construction-to-permanent facility that is collateralized by and will finance a portion of the construction costs of Park Van Ness. During the construction period, interest will be funded by the loan. After conversion to a permanent loan, monthly principal and interest payments totaling \$413,500 will be required based upon a 25-year amortization schedule. A final payment of \$39.6 million will be due at maturity.
- (ii) The loan is a \$175.0 million unsecured revolving credit facility. Interest accrues at a rate equal to the sum of one-month LIBOR and 160 basis points. The line may be extended at the Company's option for one year with payment of a fee of 0.20%. Monthly payments, if required, are interest only and vary depending upon the amount outstanding and the applicable interest rate for any given month.
- (jj) The loan is collateralized by Northrock and requires monthly principal and interest payments of approximately \$47,000 and a final payment of approximately \$14.2 million at maturity. Principal of \$143,000 was amortized during 2013.
- (kk) The loan is collateralized by Metro Pike Center and requires monthly principal and interest payments of approximately \$48,000 and a final payment of \$14.8 million at loan maturity. Principal of \$206,000 was amortized during 2013.

The carrying value of properties collateralizing the mortgage notes payable totaled \$907.2 million and \$916.1 million as of December 31, 2013 and 2012, respectively. The Company's credit facility requires the Company and its subsidiaries to maintain certain financial covenants, which are summarized below. As of December 31, 2013, the Company was in compliance with all such covenants:

- maintain tangible net worth, as defined in the loan agreement, of at least \$503.3 million plus 80% of the Company's net equity proceeds received after May 2012;
- limit the amount of debt as a percentage of gross asset value, as defined in the loan agreement, to less than 60% (leverage ratio);
- limit the amount of debt so that interest coverage will exceed 2.0x on a trailing four-quarter basis (interest expense coverage);
- limit the amount of debt so that interest, scheduled principal amortization and preferred dividend coverage exceeds 1.3x on a trailing four-quarter basis (fixed charge coverage); and
- limit the amount of variable rate debt and debt with initial loan terms of less than five years to no more than 40% of total debt.

2013 FINANCING ACTIVITY

On February 27, 2013, the Company closed on a three-year \$15.6 million mortgage loan secured by Metro Pike Center. The loan matures in 2016, bears interest at a variable rate equal to the sum of one-month LIBOR and 165 basis points, requires monthly principal and interest payments based on a 25-year amortization schedule and requires a final payment of \$14.8 million at maturity. The loan may be extended for up to two years. Proceeds were used to pay-off the \$15.9 million remaining balance of existing debt secured by Metro Pike Center, and to extinguish the related swap agreement.

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

On March 19, 2013, the Company closed on a 15-year, non-recourse \$18.0 million mortgage loan secured by Hampshire Langley. The loan matures in 2028, bears interest at a fixed rate of 4.04%, requires monthly principal and interest payments totaling \$95,400 based on a 25-year amortization schedule and requires a final payment of \$9.5 million at maturity.

On April 10, 2013, the Company paid in full the \$6.9 million remaining balance on the mortgage loan secured by Cruse Marketplace.

On May 28, 2013, the Company closed on a 15-year, non-recourse \$35.0 million mortgage loan secured by Beacon Center. The loan matures in 2028, bears interest at a fixed rate of 3.51%, requires monthly principal and interest payments totaling \$203,200 based on a 20-year amortization schedule and requires a final payment of \$11.4 million at maturity.

On September 4, 2013, the Company closed on a 15-year, non-recourse \$18.0 million mortgage loan secured by Seabreeze Plaza. The loan matures in 2028, bears interest at a fixed rate of 3.99%, requires monthly principal and interest payments totaling \$94,900 based on a 25-year amortization schedule and requires a final payment of \$9.5 million at maturity. Proceeds were used to pay off the \$13.5 million remaining balance of existing debt secured by Seabreeze Plaza which was scheduled to mature in May 2014 and the Company incurred \$497,000 of related debt extinguishment costs.

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OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On October 25, 2013 the Company closed on a \$71.6 million construction-to-permanent loan which will partially finance the construction of Park Van Ness. The loan bears interest at 4.88% and during the construction period it will be fully recourse to Saul Centers and accrued interest will be funded by the loan. Following the completion of construction and lease-up, and upon achieving certain debt service coverage requirements, the loan will convert to a non-recourse, permanent mortgage at the same interest rate, with principal amortization computed based on a 25-year schedule.

2012 FINANCING ACTIVITY

On April 11, 2012, the Company closed on a 15-year non-recourse mortgage loan in the amount of \$73.0 million secured by Seven Corners shopping center. The loan matures in May 2027, bears interest at a fixed rate of 5.84%, requires equal monthly principal and interest payments totaling \$463,226 based upon a 25-year amortization schedule and a final payment of \$42.5 million at maturity. Proceeds from the loan were used to pay-off the \$63.0 million remaining balance of existing debt secured by Seven Corners and six other Shopping Center properties, which was scheduled to mature in October 2012, and to provide cash of approximately \$10 million.

On April 26, 2012, the Company substituted the White Oak shopping center for Van Ness Square as collateral for one of its existing mortgage loans which will allow the Company to analyze the feasibility of repositioning Van Ness Square. The terms of the original loan, including its 8.11% interest rate, are unchanged and, in conjunction with the collateral substitution, the Company borrowed an additional \$10.5 million, also secured by White Oak. The new borrowing requires equal monthly payments based upon a fixed 4.90% interest rate and 25-year amortization schedule, and will mature in July 2024, coterminously with the original loan. The consolidated loan requires equal monthly payments based upon a blended fixed interest rate of 7.0% and will require a final payment of \$18.5 million at maturity.

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

2011 FINANCING ACTIVITY

On March 23, 2011, the Company closed on a 15-year non-recourse mortgage loan in the amount of \$125.0 million, secured by Clarendon Center. The loan matures April 5, 2026, bears interest at a fixed rate of 5.31%, requires equal monthly principal and interest payments of \$753,000, based upon a 25-year amortization schedule, and requires a final principal payment of approximately \$70.8 million at maturity. Proceeds from the loan were used to repay \$104.2 million outstanding on the Clarendon Center construction loan.

On September 23, 2011, the Company closed on a 15-year non-recourse mortgage loan in the amount of \$38.0 million, secured by Severna Park MarketPlace. The loan matures October 1, 2026, bears interest at a fixed rate of 4.30%, requires equal monthly principal and interest payments of \$207,000, based upon a 25-year amortization schedule, and requires a final principal payment of approximately \$20.4 million at maturity. Proceeds from the loan were used to purchase Severna Park MarketPlace.

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

On October 5, 2011, the Company closed on a new 15-year non-recourse mortgage loan in the amount of \$43.0 million, secured by Kentlands Square II. The loan matures November 5, 2026, bears an interest at a fixed rate of 4.53%, requires equal monthly principal and interest payments of \$240,000, based upon a 25-year principal amortization, and requires a final principal payment of approximately \$23.3 million at maturity. Proceeds from the loan were used to repay the \$40.0 million bridge financing used to acquire Kentlands Square II.

On November 6, 2011, the Company closed on a new 15-year non-recourse mortgage loan in the amount of \$20.0 million, secured by Cranberry Square. The loan matures December 1, 2026, bears interest at a fixed rate of 4.70%, requires equal monthly principal and interest payments of \$113,000, based upon a 25-year principal amortization, and requires a final principal payment of approximately \$11.0 million at maturity. Proceeds from the loan were used to repay the \$20.0 million bridge financing used to acquire Cranberry Square.

OFF-BALANCE SHEET ARRANGEMENTS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FUNDS FROM OPERATIONS

In 2013, the Company reported Funds From Operations (FFO)¹ available to common shareholders (common stockholders and limited partner unitholders) of \$64.7 million, a 7.6% increase from 2012 FFO available to common shareholders of \$60.1 million. The following table presents a reconciliation from net income to FFO available to common shareholders for the periods indicated:

FUNDS FROM OPERATIONS					
For the Year Ended December 31,					
(Dollars in thousands)	2013	2012	2011	2010	2009
Net income	\$ 34,842	\$ 39,780	\$ 30,294	\$ 43,185	\$ 43,230
Subtract:					
Gain on property sales	–	(4,510)	–	(3,591)	–
Gain on casualty settlement	(77)	(219)	(245)	(2,475)	(329)
Add:					
Real estate depreciation – discontinued operations	–	77	102	198	203
Real estate depreciation and amortization	49,130	40,112	35,298	28,379	28,061
FFO	83,895	75,240	65,449	65,696	71,165
Subtract:					
Preferred dividends	(13,983)	(15,140)	(15,140)	(15,140)	(15,140)
Preferred stock redemption	(5,228)	–	–	–	–
FFO available to common shareholders	\$ 64,684	\$ 60,100	\$ 50,309	\$ 50,556	\$ 56,025
Average shares and units used to compute FFO per share	27,330	26,614	24,740	23,793	23,359
FFP per share	\$ 2.37	\$ 2.26	\$ 2.03	\$ 2.12	\$ 2.40

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

ACQUISITIONS, REDEVELOPMENTS AND RENOVATIONS

Management anticipates that during the coming year the Company will continue activities related to the redevelopment of Van Ness Square and the adjacent 4469 Connecticut Avenue and may develop additional freestanding outparcels or expansions within certain of the Shopping Centers. Although not currently planned, it is possible that the Company may redevelop additional Current Portfolio Properties and may develop expansions within certain

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

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OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company has been selectively involved in acquisition, development, redevelopment and renovation activities. It continues to evaluate the acquisition of land parcels for retail and office development and acquisitions of operating properties for opportunities to enhance operating income and cash flow growth. The following describes the acquisitions, developments, redevelopments and renovations which affected the Company's financial position and results of operations in 2013, 2012, and 2011.

ASHLAND SQUARE PHASE I

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

KENTLANDS SQUARE II

In September 2011, the Company purchased for \$74.5 million Kentlands Square II, and incurred acquisition costs of \$1.1 million. Kentlands Square II is a 241,000 square foot neighborhood shopping center located in Gaithersburg, Maryland, in Montgomery County, the state's most populous and affluent county. The center is anchored by a 61,000 square foot Giant Food supermarket and a 104,000 square foot Kmart. The property is adjacent to the Company's Kentlands Square I, which is anchored by Lowe's Home Improvement, and Kentlands Place.

SEVERNA PARK MARKETPLACE

In September 2011, the Company purchased for \$61.0 million Severna Park Marketplace, and incurred acquisition costs of \$0.8 million. Severna Park Marketplace is a 254,000 square foot neighborhood shopping center located in Severna Park, Maryland, in Anne Arundel County. The center is anchored by a 63,000 square foot Giant Food supermarket and a 92,000 square foot Kohl's.

CRANBERRY SQUARE

In September 2011, the Company purchased for \$33.0 million Cranberry Square, and incurred acquisition costs of \$0.5 million. Cranberry Square is a 141,000 square foot neighborhood shopping center located in Westminster, Maryland, in Carroll County which is anchored by a 56,000 square foot Giant Food supermarket and a 24,000 square foot Staples.

1500 ROCKVILLE PIKE

In December 2012, the Company purchased for \$23.0 million, including acquisition costs, approximately 52,700 square feet of retail space located on the east side of Rockville Pike near the Twinbrook Metro station. The property is zoned for up to 745,000 square feet of rentable mixed-use space. The Company is actively engaged in a plan for redevelopment but has not committed to any timetable for commencement of construction.

5541 NICHOLSON LANE

In December 2012, the Company purchased for \$12.2 million, including acquisition costs, approximately 20,100 square feet of retail space, located on the east side of Rockville Pike near the White Flint Metro station and adjacent to 11503 Rockville Pike, which was purchased in 2010. The property, when combined with 11503 Rockville Pike, will provide zoning for up to 720,000 square feet of mixed-use space. When combining these two properties with our Metro Pike Center on the west side of Rockville Pike, the Company's holdings at White Flint total 7.6 acres which are zoned for a development potential of up to 1.5 million square feet of mixed-use space. The Company is actively engaged in a plan for redevelopment but has not committed to any timetable for commencement of construction.

PARK VAN NESS (FORMERLY VAN NESS SQUARE)

The Company has entered into an arrangement with a general contractor and intends to develop a 271-unit residential project with approximately 9,000 square feet of street-level retail, below street-level structured parking, and amenities including a community room, landscaped courtyards, a fitness room and a rooftop pool and deck. During the fourth quarter of 2013, demolition of the existing structure commenced. In connection with such demolition, approximately \$580,000 of predevelopment expenses were recognized in 2013 and approximately \$510,000 of additional predevelopment expenses will be recognized as demolition progresses and is completed in the first quarter of 2014. Construction is projected to be completed by late 2015. The total cost of the project, excluding predevelopment expense and land (which the Company has owned), is expected to be approximately \$93.0 million, a portion of which will be financed with a recently-closed construction-to-permanent loan.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PROPERTY SALES

WEST PARK

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

BELVEDERE

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

PORTFOLIO LEASING STATUS

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

As of December 31,	Total Properties		Total Square Footage		Percentage Leased	
	Shopping Centers	Mixed-Use	Shopping Centers	Mixed-Use	Shopping Centers	Mixed-Use
2013	50	6	7,880,269	1,452,742	94.5%	90.5%
2012	50	7	7,877,200	1,612,200	93.4%	82.8%
2011	51	7	7,930,000	1,610,400	90.8%	85.8%

There were no changes from the prior year in the properties that comprise the 2013 Shopping Centers percentage leased. The 2013 Mixed-Use percentage leased excludes Park Van Ness, which was taken out of service in March 2013 and is currently being redeveloped. The Clarendon Center residential component was 99.2% leased at December 31, 2013. On a same property basis, which excludes the impact of properties not in operation for the entirety of the comparable periods, Shopping Center leasing percentages increased to 94.5% from 93.4% and Mixed-Use leasing percentages increased to 90.5% from 87.7%. The overall portfolio lease percentage, on a comparative same property basis, ended the year at 93.9%, an increase from 92.6% at year end 2012. The 2013 Shopping Centers percentage leased was impacted by a net increase of 88,600 square feet, 70,800 square feet of which resulted from improved leasing of small shop space (spaces totaling 10,000 square feet or less) throughout the portfolio. The 2013 Mixed-Use percentage leased was impacted by a net increase of 34,500 square feet, the majority of which resulted from improved leasing at Avenel Business Park.

The 2012 Shopping Centers percentage leased include 1500 Rockville Pike and 5541 Nicholson Lane, which were acquired in December 2012, and exclude West Park and Belvedere, which were sold during 2012. The 2012 Mixed-Use percentage leased includes Clarendon Center commercial area, which was 97.9% leased at December 31, 2012. The Clarendon Center residential component was 100% leased at December 31, 2012. On a same property basis, Shopping Centers percentage leased increased to 93.5% from 91.6% and Mixed-Use percentage leased decreased to 82.5% from 85.8%. The overall portfolio percentage leased, on a comparative same center

basis, ended the year at 91.9%, an increase from 90.7% at year end 2011. The 2012 Shopping Center percentage leased was impacted by a net increase of approximately 151,000 square feet of leased space, the majority of which resulted from the leasing of space vacated by major tenants during 2011. The 2012 Mixed-Use percentage leased was adversely impacted by a net decrease of approximately 44,000 square feet of leased space, the majority of which resulted from the early termination of leases at Van Ness Square in preparation for redevelopment.

The 2011 Shopping Centers leased percentage include three centers acquired September 23, 2011, Kentlands Square II (100% leased), Severna Park MarketPlace (100% leased) and Cranberry Square (91% leased). The 2011 Mixed-Use leased percentage includes the Clarendon Center commercial area, which was 92.4% leased at December 31, 2011. The Clarendon Center residential component was 100% leased at December 31, 2011. On a same property basis, the Shopping Centers percentage leased decreased to 90.2% from 92.0% and the Mixed-Use percentage leased decreased to 84.9% from 85.5%. The overall portfolio percentage leased, on a comparative same center basis, ended 2011 at 89.4%, a decrease from 91.1% at year end 2010. The 2011 Mixed-Use percentage leased was adversely impacted by a net decrease of approximately 140,000 square feet of leased space, of which approximately 98,000 square feet was caused by the Syms, SuperFresh and Borders Books bankruptcies and the balance resulting from the early lease termination of a local grocer.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following table shows selected data for leases executed in the indicated periods. The information is based on executed leases without adjustment for the timing of occupancy, tenant defaults, or landlord concessions. The base rent for an expiring lease is the annualized contractual base rent, on a cash basis, as of the expiration date of the lease. The base rent for a new or renewed lease is the annualized contractual base rent, on a cash basis, as of the

expected rent commencement date. Because tenants that execute leases may not ultimately take possession of their space or pay all of their contractual rent, the changes presented in the table provide information only about trends in market rental rates. The actual changes in rental income received by the Company may be different.

Year Ended December 31,	Square Feet	Number of Leases	Base Rent per Square Foot	
			New/Renewed Leases	Expiring Leases
2013	1,471,000	276	\$ 19.56	\$ 19.75
2012	1,579,000	256	16.39	16.30
2011	1,178,000	245	15.21	16.41

During 2013, the Company entered into 228 new or renewed apartment leases. The monthly rent per square foot for these leases increased to \$3.37 from \$3.24. During 2012, the Company entered into 216 new or renewed apartment leases. The monthly rent per square foot for these leases increased to \$3.31 from \$3.11.

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 may, where appropriate, employ derivative instruments, such as interest rate swaps, to mitigate the risk of interest rate fluctuations. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes. On June 29, 2010, the Company entered into an interest rate swap agreement with a \$45.6 million notional amount to manage the

interest rate risk associated with \$45.6 million of variable-rate mortgage debt. The swap agreement was effective July 1, 2010, terminates on July 1, 2020 and effectively fixes the interest rate on the mortgage debt at 5.83%. The aggregate fair value of the swap at December 31, 2013 was approximately \$2.7 million and is reflected in accounts payable, accrued expenses and other liabilities in the consolidated balance sheet.

The Company is exposed to interest rate fluctuations which will affect the amount of interest expense of its variable rate debt and the fair value of its fixed rate debt. As of December 31, 2013, the Company had variable rate indebtedness totaling \$30.2 million. If the interest rates on the Company's variable rate debt instruments outstanding at December 31, 2013 had been one percent higher, our annual interest expense relating to these debt instruments would have increased by \$301,960, based on those balances. As of December 31, 2013, the Company had fixed-rate indebtedness totaling \$789.9 million with a weighted average interest rate of 5.67%. If interest rates on the Company's fixed-rate debt instruments at December 31, 2013 had been one percent higher, the fair value of those debt instruments on that date would have decreased by approximately \$48.1 million.

MANAGEMENT'S REPORT on Internal Control Over Financial Reporting

ASSESSMENT OF EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (1992 Framework) to assess the effectiveness of the Company's internal control over financial reporting. Based upon the assessments, the Company's man-

agement has concluded that, as of December 31, 2013, the Company's internal control over financial reporting was effective. The Company's independent registered public accounting firm has issued a report on the effectiveness of the Company's internal control over financial reporting, which appears on page 29 in this Annual Report.

REPORT

OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of Saul Centers, Inc.

We have audited the accompanying consolidated balance sheets of Saul Centers, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saul Centers, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Saul Centers, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 10, 2014 expressed an unqualified opinion thereon.

Ernst & Young LLP
McLean, Virginia
March 10, 2014

Board of Directors and Stockholders of Saul Centers, Inc.

We have audited Saul Centers, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Saul Centers, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Assessment of Effectiveness of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions

are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Saul Centers, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Saul Centers, Inc. as of December 31, 2013 and 2012 and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 of Saul Centers, Inc. and our report dated March 10, 2014 expressed an unqualified opinion thereon.

Ernst & Young LLP
McLean, Virginia
March 10, 2014

CONSOLIDATED BALANCE SHEETS

<i>(Dollars in thousands, except per share amounts)</i>	December 31, 2013	December 31, 2012
Assets		
Real estate investments		
Land	\$ 354,967	\$ 353,890
Buildings and equipment	1,094,605	1,109,911
Construction in progress	9,867	2,267
	1,459,439	1,466,068
Accumulated depreciation	(364,663)	(353,305)
	1,094,776	1,112,763
Cash and cash equivalents	17,297	12,133
Accounts receivable and accrued income, net	43,884	41,406
Deferred leasing costs, net	26,052	26,102
Prepaid expenses, net	4,047	3,895
Deferred debt costs, net	9,675	7,713
Other assets	2,944	3,297
Total assets	\$ 1,198,675	\$ 1,207,309
Liabilities		
Mortgage notes payable	\$ 820,068	\$ 789,776
Revolving credit facility payable	–	38,000
Dividends and distributions payable	13,135	13,490
Accounts payable, accrued expenses and other liabilities	20,141	27,434
Deferred income	30,205	31,320
Total liabilities	883,549	900,020
Stockholders' equity		
Preferred stock, 1,000,000 shares authorized:		
Series A Cumulative Redeemable, 16,000 and 40,000 shares issued and outstanding, respectively	40,000	100,000
Series B Cumulative Redeemable, 31,731 shares issued and outstanding in 2012	–	79,328
Series C Cumulative Redeemable, 56,000 shares issued and outstanding in 2013	140,000	–
Common stock, \$0.01 par value, 30,000,000 shares authorized, 20,576,616 and 20,045,542 shares issued and outstanding, respectively	206	201
Additional paid-in capital	270,428	246,557
Accumulated deficit	(172,564)	(154,830)
Accumulated other comprehensive loss	(1,392)	(3,553)
Total Saul Centers, Inc. stockholders' equity	276,678	267,703
Noncontrolling interest	38,448	39,586
Total stockholders' equity	315,126	307,289
Total liabilities and stockholders' equity	\$ 1,198,675	\$ 1,207,309

The Notes to Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

For The Year Ended December 31,

(Dollars in thousands, except per share amounts)

2013 2012 2011

Revenue			
Base rent	\$ 159,898	\$ 152,777	\$ 138,486
Expense recoveries	30,949	30,391	28,368
Percentage rent	1,575	1,545	1,503
Other	5,475	5,379	5,521
Total revenue	197,897	190,092	173,878
Operating expenses			
Property operating expenses	24,559	23,794	24,715
Provision for credit losses	968	1,151	1,880
Real estate taxes	22,415	22,325	18,435
Interest expense and amortization of deferred debt costs	46,589	49,544	45,324
Depreciation and amortization of deferred leasing costs	49,130	40,112	35,298
General and administrative	14,951	14,274	14,256
Acquisition related costs	106	1,129	2,534
Predevelopment expenses	3,910	2,667	–
Total operating expenses	162,628	154,996	142,442
Operating income	35,269	35,096	31,436
Change in fair value of derivatives	(7)	36	(1,332)
Loss on early extinguishment of debt	(497)	–	–
Gain on casualty settlement	77	219	245
Income from continuing operations	34,842	35,351	30,349
Discontinued Operations			
Loss from operations of properties sold	–	(81)	(55)
Gain on sales of properties	–	4,510	–
Income (loss) from discontinued operations	–	4,429	(55)
Net income	34,842	39,780	30,294
Noncontrolling interest			
Income from continuing operations attributable to noncontrolling interests	(3,970)	(5,693)	(3,561)
Income from discontinued operations attributable to noncontrolling interests	–	(713)	–
Income attributable to noncontrolling interests	(3,970)	(6,406)	(3,561)
Net income attributable to Saul Centers, Inc.	30,872	33,374	26,733
Preferred stock redemption	(5,228)	–	–
Preferred dividends	(13,983)	(15,140)	(15,140)
Net income available to common stockholders	\$ 11,661	\$ 18,234	\$ 11,593
Per share net income available to common stockholders			
Basic and diluted:			
Continuing operations	\$ 0.57	\$ 0.70	\$ 0.61
Discontinued operations	–	0.23	–
	\$ 0.57	\$ 0.93	\$ 0.61

The Notes to Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(Dollars in thousands)</i>	For The Year Ended December 31,		
	2013	2012	2011
Net income	\$ 34,842	\$ 39,780	\$ 30,294
Other comprehensive income			
Unrealized gain (loss) on cash flow hedge	2,897	(932)	(3,195)
Total comprehensive income	37,739	38,848	27,099
Comprehensive income (loss) attributable to noncontrolling interests	(4,706)	(6,164)	(2,811)
Total comprehensive income attributable to Saul Centers, Inc.	33,033	32,684	24,288
Preferred stock redemption	(5,228)	-	-
Preferred dividends	(13,983)	(15,140)	(15,140)
Total comprehensive income available to common stockholders	\$ 13,822	\$ 17,544	\$ 9,148

The Notes to Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<i>(Dollars in thousands, except per share amounts)</i>	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss)	Total Saul Centers, Inc.	Noncontrolling Interest	Total
Balance, December 31, 2010	\$ 179,328	\$ 186	\$ 189,787	\$(128,926)	\$(419)	\$ 239,956	\$ (143)	\$ 239,813
Issuance of 734,786 shares of common stock:								
186,968 restricted shares	–	2	6,159	–	–	6,161	–	6,161
498,248 shares pursuant to dividend reinvestment plan	–	3	19,751	–	–	19,754	–	19,754
49,570 shares due to exercise of employee stock options and issuance of directors' deferred stock	–	2	2,132	–	–	2,134	–	2,134
Issuance of 1,497,814 partnership units	–	–	–	–	–	–	49,589	49,589
Net income	–	–	–	26,733	–	26,733	3,561	30,294
Change in unrealized loss on cash flow hedge	–	–	–	–	(2,444)	(2,444)	(751)	(3,195)
Preferred stock distributions:								
Series A	–	–	–	(6,000)	–	(6,000)	–	(6,000)
Series B	–	–	–	(5,355)	–	(5,355)	–	(5,355)
Common stock distributions	–	–	–	(20,381)	–	(20,381)	(6,389)	(26,770)
Distributions payable preferred stock:								
Series A, \$50.00 per share	–	–	–	(2,000)	–	(2,000)	–	(2,000)
Series B, \$56.25 per share	–	–	–	(1,785)	–	(1,785)	–	(1,785)
Distributions payable common stock (\$0.36/share) and distributions payable partnership units (\$0.36/unit)	–	–	–	(6,945)	–	(6,945)	(2,489)	(9,434)
Balance, December 31, 2011	179,328	193	217,829	(144,659)	(2,863)	249,828	43,378	293,206
Issuance of 753,607 shares of common stock:								
595,388 shares pursuant to dividend reinvestment plan	–	6	23,124	–	–	23,130	–	23,130
158,219 shares due to exercise of employee stock options and issuance of directors' deferred stock	–	2	5,604	–	–	5,606	–	5,606
Net income	–	–	–	33,374	–	33,374	6,406	39,780
Change in unrealized loss on cash flow hedge	–	–	–	–	(690)	(690)	(242)	(932)
Preferred stock distributions:								
Series A	–	–	–	(6,000)	–	(6,000)	–	(6,000)
Series B	–	–	–	(5,355)	–	(5,355)	–	(5,355)
Common stock distributions	–	–	–	(21,189)	–	(21,189)	(7,467)	(28,656)
Distributions payable preferred stock:								
Series A, \$50.00 per share	–	–	–	(2,000)	–	(2,000)	–	(2,000)
Series B, \$56.25 per share	–	–	–	(1,785)	–	(1,785)	–	(1,785)
Distributions payable common stock (\$0.36/share) and distributions payable partnership units (\$0.36/unit)	–	–	–	(7,216)	–	(7,216)	(2,489)	(9,705)
Balance, December 31, 2012	179,328	201	246,557	(154,830)	(3,553)	267,703	39,586	307,289
Issuance of 56,000 shares of Series C Cumulative preferred stock	140,000	–	(4,807)	–	–	135,193	–	135,193
Partial redemption of 24,000 shares of Series A Cumulative preferred stock	(60,000)	–	2,212	(2,216)	–	(60,004)	–	(60,004)
Full redemption of 31,731 shares of Series B Cumulative preferred stock	(79,328)	–	3,007	(3,012)	–	(79,333)	–	(79,333)
Issuance of 531,164 shares of common stock:								
475,161 shares pursuant to dividend reinvestment plan	–	5	20,667	–	–	20,672	–	20,672
56,003 shares due to exercise of employee stock options and issuance of directors' deferred stock	–	–	2,792	–	–	2,792	–	2,792
Issuance of 88,309 partnership units	–	–	–	–	–	–	4,144	4,144
Net income	–	–	–	30,872	–	30,872	3,970	34,842
Change in unrealized loss on cash flow hedge	–	–	–	–	2,161	2,161	736	2,897
Preferred stock distributions:								
Series A	–	–	–	(3,213)	–	(3,213)	–	(3,213)
Series B	–	–	–	(1,468)	–	(1,468)	–	(1,468)
Series C	–	–	–	(6,095)	–	(6,095)	–	(6,095)
Common stock distributions	–	–	–	(21,988)	–	(21,988)	(7,467)	(29,455)
Distributions payable preferred stock:								
Series A, \$50.00 per share	–	–	–	(800)	–	(800)	–	(800)
Series C, \$42.97 per share	–	–	–	(2,406)	–	(2,406)	–	(2,406)
Distributions payable common stock (\$0.36/share) and distributions payable partnership units (\$0.36/unit)	–	–	–	(7,408)	–	(7,408)	(2,521)	(9,929)
Balance, December 31, 2013	\$ 180,000	\$ 206	\$ 270,428	\$(172,564)	\$(1,392)	\$ 276,678	\$ 38,448	\$ 315,126

The Notes to Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Dollars in thousands)</i>	For the Year Ended December 31,		
	2013	2012	2011
Cash flows from operating activities:			
Net income	\$ 34,842	\$ 39,780	\$ 30,294
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in fair value of derivatives	7	(36)	1,332
Gain on sale of property, discontinued operations	–	(4,510)	–
Gain on casualty settlement, continuing operations	(77)	(219)	(245)
Depreciation and amortization of deferred leasing costs	49,130	40,189	35,400
Amortization of deferred debt costs	1,257	1,576	1,547
Non cash compensation costs of stock grants and options	1,145	952	948
Provision for credit losses	968	1,151	1,883
(Increase) decrease in accounts receivable and accrued income	(3,669)	(3,240)	(5,291)
Additions to deferred leasing costs	(5,876)	(5,362)	(6,257)
(Increase) decrease in prepaid expenses	(152)	(54)	(844)
(Increase) decrease in other assets	353	9,573	(3,668)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(3,286)	(930)	1,478
Decrease in deferred income	(1,115)	(447)	(908)
Net cash provided by operating activities	73,527	78,423	55,669
Cash flows from investing activities:			
Acquisitions of real estate investments	(5,124)	(34,050)	(170,100)
Additions to real estate investments	(13,999)	(12,680)	(11,624)
Additions to development and redevelopment projects	(7,316)	(7,913)	(20,780)
Proceeds from sale of properties	–	5,818	–
Proceeds from casualty settlement	405	1,952	1,004
Net cash used in investing activities	(26,034)	(46,873)	(201,500)
Cash flows from financing activities:			
Proceeds from mortgage notes payable	101,600	83,500	286,000
Repayments on mortgage notes payable	(71,308)	(117,595)	(82,685)
Proceeds from construction loans payable	–	–	13,410
Repayments on construction loans payable	–	–	(104,243)
Proceeds from revolving credit facility	142,000	38,000	16,000
Repayments on revolving credit facility	(180,000)	(8,000)	(8,000)
Additions to deferred debt costs	(3,219)	(2,199)	(1,445)
Proceeds from the issuance of:			
Common stock	22,292	27,784	27,101
Partnership units	4,144	–	49,589
Series C preferred stock	135,221	–	–
Preferred stock redemption payments:			
Series A preferred	(60,000)	–	–
Series B preferred	(79,328)	–	–
Preferred stock redemption costs	(9)	–	–
Distributions to:			
Series A preferred stockholders	(5,213)	(8,000)	(8,000)
Series B preferred stockholders	(3,253)	(7,140)	(7,140)
Series C preferred stockholders	(6,095)	–	–
Common stockholders	(29,205)	(28,135)	(27,062)
Noncontrolling interest	(9,956)	(9,955)	(8,339)
Net cash provided by (used in) financing activities	(42,329)	(31,740)	145,186
Net increase (decrease) in cash and cash equivalents	5,164	(190)	(645)
Cash and cash equivalents, beginning of year	12,133	12,323	12,968
Cash and cash equivalents, end of year	\$ 17,297	\$ 12,133	\$ 12,323
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 45,743	\$ 48,302	\$ 42,948

The Notes to Financial Statements are an integral part of these statements.

1. ORGANIZATION, FORMATION, AND BASIS OF PRESENTATION

ORGANIZATION

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

FORMATION AND STRUCTURE OF COMPANY

Saul Centers was formed to continue and expand the shopping center business previously owned and conducted by the B. F. Saul Real Estate Investment Trust, the B. F. Saul Company and certain other affiliated entities, each of which is controlled by B. Francis Saul II and his family members (collectively, the “Saul Organization”). On August 26, 1993, members of the Saul Organization transferred to Saul Holdings Limited Partnership, a newly formed Maryland limited partnership (the “Operating Partnership”), and two newly formed subsidiary limited partnerships (the “Subsidiary Partnerships,” and collectively with the Operating Partnership, the “Partnerships”), shopping center and mixed-used properties, and the management functions related to the transferred properties. Since its formation, the Company has developed and purchased additional properties.

The following table lists the properties acquired, developed and/or disposed of by the Company since January 1, 2011.

Name of Property	Location	Type	Year of Acquisition/ Development/Disposal
ACQUISITIONS			
4469 Connecticut Avenue	Washington, DC	Shopping Center	February 2011
Kentlands Square II	Gaithersburg, Maryland	Shopping Center	September 2011
Severna Park MarketPlace	Severna Park, Maryland	Shopping Center	September 2011
Cranberry Square	Westminster, Maryland	Shopping Center	September 2011
1500 Rockville Pike	Rockville, Maryland	Shopping Center	December 2012
5541 Nicholson Lane	Rockville, Maryland	Shopping Center	December 2012
DEVELOPMENTS			
Clarendon Center North	Arlington, VA	Mixed-Use	2010/2011
Clarendon Center South	Arlington, VA	Mixed-Use	2010/2011
DISPOSITIONS			
West Park	Oklahoma City, Oklahoma	Shopping Center	July 2012
Belvedere	Baltimore, Maryland	Shopping Center	December 2012

As of December 31, 2013, the Company’s properties (the “Current Portfolio Properties”) consisted of 50 shopping center properties (the “Shopping Centers”), six mixed-use properties which are comprised of office, retail and multi-family residential uses (the “Mixed-Use Properties”) and three (non-operating) development properties.

BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**NATURE OF OPERATIONS**

The Company, which conducts all of its activities through its subsidiaries, the Operating Partnership and Subsidiary Partnerships, engages in the ownership, operation, management, leasing, acquisition, renovation, expansion, development and financing of community and neighborhood shopping centers and mixed-used properties, primarily in the Washington, DC/Baltimore metropolitan area. Because the properties are located primarily in the Washington, DC/Baltimore metropolitan area, a disproportionate economic downturn in the local economy would have a greater negative impact on our overall financial performance than on the overall financial performance of a company with a portfolio that is more geographically diverse. A majority of the Shopping Centers are anchored by several major tenants. As of December 31, 2013, 32 of the Shopping Centers were anchored by a grocery store and offer primarily day-to-day necessities and services. Two retail tenants, Giant Food (4.8%), a tenant at ten Shopping Centers, and Safeway (2.6%), a tenant at eight Shopping Centers, individually accounted for more than 2.5% of the Company's total revenue for the year ended December 31, 2013.

PRINCIPLES OF CONSOLIDATION

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

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

REAL ESTATE INVESTMENT PROPERTIES

The Company purchases real estate investment properties from time to time and records assets acquired and liabilities assumed, including land, buildings, and intangibles related to in-place leases and customer relationships, based on their fair values. The fair value of buildings generally is determined as if the buildings were vacant upon acquisition and then subsequently leased at market rental rates and considers the present value of all cash flows expected to be generated by the property including an initial lease up period. From time to time the Company may purchase a property for future development purposes. The property may be improved with an existing structure that would be demolished as part of the development. In such cases, the fair value of the building may be determined based only on existing leases and not include estimated cash flows related to future leases. In certain circumstances, such as if the building is vacant and the Company intends to demolish the building in the near term, the entire purchase price will be allocated to land.

The Company determines the fair value of above and below market intangibles associated with in-place leases by assessing the net effective rent and remaining term of the lease relative to market terms for similar leases at acquisition taking into consideration the remaining contractual lease period, renewal periods, and the likelihood of the tenant exercising its renewal options. The fair value of a below market lease component is recorded as deferred income and accreted as additional lease revenue over the remaining contractual lease period. If the fair value of the below market lease intangible includes fair value associated with a renewal option, such amounts are not accreted until the renewal option is exercised. If the renewal option is not exercised the value is recognized at that time. The fair value of above market lease intangibles is recorded as a deferred asset and is amortized as a reduction of lease revenue over the remaining contractual lease term. The Company determines the fair value of at-market in-place leases considering the cost of acquiring similar leases, the foregone rents associated with the lease-up period and carrying costs associated with the lease-up period. Intangible assets associated with at-market in-place leases are amortized as additional expense over the remaining contractual lease term. To the extent customer relationship intangibles are present in an acquisition, the fair values of the intangibles are amortized over the lives of the customer relationships. The Company has never recorded a customer relationship intangible asset. Acquisition-related transaction costs are either (a) expensed as incurred when related to business combinations or (b) capitalized to land and/or building when related to asset acquisitions.

If there is an event or change in circumstance that indicates a potential impairment in the value of a real estate investment property, the Company prepares an analysis to determine whether the carrying value of the real estate investment property exceeds its estimated fair value. The Company considers both quantitative and qualitative factors including recurring operating losses, significant decreases in occupancy, and significant adverse changes in legal factors and business climate. If impairment indicators are present, the Company compares the projected cash flows of the property over its remaining useful life, on an undiscounted basis, to the carrying value of that property. The Company assesses its undiscounted projected cash flows based upon estimated capitalization rates, historic operating results and market conditions that may affect the property. If the carrying value is greater than the undiscounted projected cash flows, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its then estimated fair value. The fair value of any property is sensitive to the actual results of any of the aforementioned estimated factors, either individually or taken as a whole. Should the actual results differ from management's projections, the valuation could be negatively or positively affected. The Company did not recognize an impairment loss on any of its real estate in 2013, 2012, or 2011.

Interest, real estate taxes, development related salary costs and other carrying costs are capitalized on projects under development and construction. Once construction is substantially completed and the assets are placed in service, their rental income, real estate tax expense, property operating expenses (consisting of payroll, repairs and maintenance, utilities, insurance and other property related expenses) and depreciation are included in current operations. Property operating expenses are charged to operations as incurred. Interest expense capitalized totaled \$170,000, \$42,300, and \$1.9 million during 2013, 2012, and 2011, respectively. Commercial development projects are 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. Multi-family residential development projects are considered substantially complete and available for occupancy upon receipt of the certificate of occupancy from the appropriate licensing authority. Substantially completed portions of a project are accounted for as separate projects.

Depreciation is calculated using the straight-line method and estimated useful lives of generally between 35 and 50 years for base buildings, or a shorter period if management determines that the building has a shorter useful life, and up to 20 years for certain other improvements that extend the useful lives. Leasehold improvements expenditures are capitalized when certain criteria are

met, including when the Company supervises construction and will own the improvements. Tenant improvements are amortized, over the shorter of the lives of the related leases or the useful life of the improvement, using the straight-line method. Depreciation expense and amortization of leasehold improvements, which is included in Depreciation and amortization of deferred leasing costs in the Consolidated Statements of Operations, for the years ended December 31, 2013, 2012, and 2011, was \$43.2 million, \$34.6 million, and \$30.6 million, respectively. Repairs and maintenance expense totaled \$10.3 million, \$9.9 million, and \$10.9 million for 2013, 2012, and 2011, respectively, and is included in property operating expenses in the accompanying consolidated financial statements.

DEFERRED LEASING COSTS

Deferred leasing costs consist of commissions paid to third-party leasing agents, internal direct costs such as employee compensation and payroll-related fringe benefits directly related to time spent performing leasing-related activities for successful commercial leases and amounts attributed to in place leases associated with acquired properties and are amortized, using the straight-line method, over the term of the lease or the remaining term of an acquired lease. Leasing related activities include evaluating the prospective tenant's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating lease terms, preparing lease documents and closing the transaction. Unamortized deferred costs are charged to expense if the applicable lease is terminated prior to expiration of the initial lease term. Collectively, deferred leasing costs totaled \$26.1 million and \$26.1 million, net of accumulated amortization of approximately \$16.6 million and \$16.2 million, as of December 31, 2013 and 2012, respectively. Amortization expense, which is included in Depreciation and amortization of deferred leasing costs in the Consolidated Statements of Operations, totaled approximately \$5.9 million, \$5.5 million, and \$4.7 million, for the years ended December 31, 2013, 2012, and 2011, respectively.

CONSTRUCTION IN PROGRESS

Construction in progress includes preconstruction and development costs of active projects. Preconstruction costs include legal, zoning and permitting costs and other project carrying costs incurred prior to the commencement of construction. Development costs include direct construction costs and indirect costs incurred subsequent to the start of construction such as architectural, engineering, construction management and carrying costs consisting of interest, real estate taxes and insurance. Construction in progress totaled \$9.9 million, of which \$7.9 million relates to Park Van Ness, and \$2.3 million, respectively, as of December 31, 2013 and 2012.

ACCOUNTS RECEIVABLE AND ACCRUED INCOME

Accounts receivable primarily represent amounts currently due from tenants in accordance with the terms of the respective leases. Receivables are reviewed monthly and reserves are established with a charge to current period operations when, in the opinion of management, collection of the receivable is doubtful. Accounts receivable in the accompanying consolidated financial statements are shown net of an allowance for doubtful accounts of \$0.6 million and \$1.2 million, at December 31, 2013 and 2012, respectively.

ALLOWANCE FOR DOUBTFUL ACCOUNTS			
For the Year Ended			
December 31,			
<i>(In thousands)</i>	2013	2012	2011
Beginning Balance	\$ 1,208	\$ 671	\$ 898
Provision for Credit Losses	968	1,160	1,883
Charge-offs	(1,604)	(623)	(2,110)
Ending Balance	\$ 572	\$ 1,208	\$ 671

In addition to rents due currently, accounts receivable also includes \$37.2 million and \$34.4 million, at December 31, 2013 and 2012, respectively, net of allowance for doubtful accounts totaling \$0.5 million and \$92,000, respectively, representing minimum rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include short-term investments. Short-term investments include money market accounts and other investments which generally mature within three months, measured from the acquisition date, and/or are readily convertible to cash. Substantially all of the Company's cash balances at December 31, 2013 are held in non-interest bearing accounts at various banks. From time to time the Company may maintain deposits with financial institutions in amounts in excess of federally insured limits. The Company has not experienced any losses on such deposits and believes it is not exposed to any significant credit risk on those deposits.

DEFERRED DEBT COSTS

Deferred debt costs consist of fees and costs incurred to obtain long-term financing, construction financing and the revolving line of credit. These fees and costs are being amortized on a straight-line basis over the terms of the respective loans or agreements, which approximates the effective interest method. Deferred debt costs totaled \$9.7 million and \$7.7 million, net of accumulated amortization of \$4.5 million and \$3.8 million at December 31, 2013 and 2012, respectively.

DEFERRED INCOME

Deferred income consists of payments received from tenants prior to the time they are earned and recognized by the Company as revenue, including tenant prepayment of rent for future periods, real estate taxes when the taxing jurisdiction has a fiscal year differing from the calendar year reimbursements specified in the lease agreement and tenant construction work provided by the Company. In addition, deferred income includes the fair value of certain below market leases.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company may, when appropriate, employ derivative instruments, such as interest-rate swaps, to mitigate the risk of interest rate fluctuations. The Company does not enter into derivative or other financial instruments for trading or speculative purposes. Derivative financial instruments are carried at fair value as either assets or liabilities on the consolidated balance sheets. For those derivative instruments that qualify, the Company may designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge or a cash flow hedge. Derivative instruments that are designated as a hedge are evaluated to ensure they continue to qualify for hedge accounting. The effective portion of any gain or loss on the hedge instruments is reported as a component of accumulated other comprehensive income (loss) and recognized in earnings within the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of the change in fair value of a derivative instrument is immediately recognized in earnings. For derivative instruments that do not meet the criteria for hedge accounting, or that qualify and are not designated, changes in fair value are immediately recognized in earnings.

DISCONTINUED OPERATIONS

During 2012, the Company sold its West Park and Belvedere properties for \$2.0 million and \$4.0 million and recognized gains of \$1.1 million and \$3.4 million, respectively. The results of operations of West Park and Belvedere for the years ended December 31, 2012 and 2011 are included in the statements of operations as "Loss from operations of properties sold." The Company has no other discontinued operations.

REVENUE RECOGNITION

Rental and interest income are accrued as earned except when doubt exists as to collectability, in which case the accrual is discontinued. Recognition of rental income commences when control of the space has been given to the tenant. When rental payments due under leases vary from a straight-line basis because of free rent periods or stepped increases, income is recognized on a straight-line basis. 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 in which the expenses are incurred. Rental income based on a tenant's

revenue ("percentage rent") is accrued when a tenant reports sales that exceed a specified breakpoint, pursuant to the terms of their respective leases.

INCOME TAXES

The Company made an election to be treated, and intends to continue operating so as to qualify, as a REIT under the Code, commencing with its taxable year ended December 31, 1993. A REIT generally will not be subject to federal income taxation, provided that distributions to its stockholders equal or exceed its REIT taxable income and complies with certain other requirements. Therefore, no provision has been made for federal income taxes in the accompanying consolidated financial statements.

As of December 31, 2013, the Company had no material unrecognized tax benefits and there exist no potentially significant unrecognized tax benefits which are reasonably expected to occur within the next twelve months. The Company recognizes penalties and interest accrued related to unrecognized tax benefits, if any, as general and administrative expense. No penalties and interest have been accrued in years 2013, 2012, and 2011. The tax basis of the Company's real estate investments was approximately \$1.1 billion as of each of December 31, 2013 and 2012. With few exceptions, the Company is no longer subject to U.S. federal, state, and local tax examinations by tax authorities for years before 2007.

STOCK BASED EMPLOYEE COMPENSATION, DEFERRED COMPENSATION AND STOCK PLAN FOR DIRECTORS

The Company uses the fair value method to value and account for employee stock options. The fair value of options granted is determined at the time of each award using the Black-Scholes model, a widely used method for valuing stock based employee compensation, and the following assumptions: (1) Expected Volatility determined using the most recent trading history of the Company's common stock (month-end closing prices) corresponding to the average expected term of the options; (2) Average Expected Term of the options is based on prior exercise history, scheduled vesting and the expiration date; (3) Expected Dividend Yield determined by management after considering the Company's current and historic dividend yield rates, the Company's yield in relation to other retail REITs and the Company's market yield at the grant date; and (4) a Risk-free Interest Rate based upon the market yields of US Treasury obligations with maturities corresponding to the average expected term of the options at the grant date. The Company amortizes the value of options granted ratably over the vesting period and includes the amounts as compensation in general and administrative expenses.

The Company has a stock plan, which was originally approved in 2004, amended in 2008 and 2013 and which expires in 2023, for the purpose of attracting and retaining executive officers, directors and other key personnel (the "Stock Plan"). Pursuant to the

Stock Plan, the Compensation Committee established a Deferred Compensation Plan for Directors for the benefit of its directors and their beneficiaries, which replaced a previous Deferred Compensation and Stock Plan for Directors. A director may make an annual election 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 separation from the Board. If the director elects to have fees paid in stock, fees earned during a calendar quarter are aggregated and divided by the common stock's closing market price on the first trading day of the following quarter to determine the number of shares to be allocated to the director. As of December 31, 2013, the directors' deferred fee accounts comprise 226,996 shares.

The Compensation Committee has also approved an annual award of shares of the Company's common stock as additional compensation to each director serving on the Board of Directors as of the record date for the Annual Meeting of Stockholders. The shares are awarded as of each Annual Meeting of Shareholders, and their issuance may not be deferred. Each director was issued 200 shares for each of the years ended December 31, 2013, 2012, and 2011. The shares were valued at the closing stock price on the dates the shares were awarded and included in general and administrative expenses in the total amounts of \$124,400, \$110,000, and \$109,000, for the years ended December 31, 2013, 2012, and 2011, respectively.

NONCONTROLLING INTEREST

Saul Centers is the sole general partner of the Operating Partnership, owning a 74.6% common interest as of December 31, 2013. Noncontrolling interest in the Operating Partnership is comprised of limited partnership units owned by the Saul Organization. Noncontrolling interest reflected on the accompanying consolidated balance sheets is increased for earnings allocated to limited partnership interests and distributions reinvested in additional units, and is decreased for limited partner distributions. Noncontrolling interest reflected on the consolidated statements of operations represents earnings allocated to limited partnership interests held by the Saul Organization.

PER SHARE DATA

Per share data for net income (basic and diluted) is computed using weighted average shares of common stock. Convertible limited partnership units and employee stock options are the Company's potentially dilutive securities. For all periods presented, the convertible limited partnership units are anti-dilutive. For the years ended December 31, 2013, 2012, and 2011, options totaling 112,500, 117,500, and 427,500, respectively, are not dilutive because the average share price of the Company's common stock was less than the exercise prices. The treasury stock method was used to measure the effect of the dilution.

BASIC AND DILUTED SHARES OUTSTANDING

December 31

<i>(In thousands)</i>	2013	2012	2011
Weighted average common shares outstanding – Basic	20,364	19,649	18,889
Effect of dilutive options	37	51	60
Weighted average common shares outstanding – Diluted	20,401	19,700	18,949
Average Share Price	\$ 45.44	\$ 40.94	\$ 39.39

LEGAL CONTINGENCIES

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business, which are generally covered by insurance. Upon determination that a loss is probable to occur and can be reasonably estimated, the estimated amount of the loss is recorded in the financial statements.

RECLASSIFICATIONS

Certain reclassifications have been made to prior years to conform to the presentation used for the three-months and year ended December 31, 2013. Acquisition related costs for 2012 and 2011 are now presented as a component of operating expenses in the accompanying Consolidated Statements of Operations.

3. REAL ESTATE ACQUIRED

4469 CONNECTICUT AVENUE

In February 2011, the Company purchased for \$1.6 million 4469 Connecticut Avenue, a vacant one space retail property, located adjacent to Van Ness Square in northwest Washington, DC and incurred acquisition costs of \$74,000.

KENTLANDS SQUARE II

In September 2011, the Company purchased for \$74.5 million Kentlands Square II, a retail property located adjacent to the Company's Kentlands Square I and Kentlands Place shopping centers in Gaithersburg, Maryland, and incurred acquisition costs of \$1.1 million.

SEVERNA PARK MARKETPLACE

In September 2011, the Company purchased for \$61.0 million Severna Park Marketplace, a retail property located in Severna Park, Maryland, and incurred acquisition costs of \$0.8 million.

CRANBERRY SQUARE

In September 2011, the Company purchased for \$33.0 million Cranberry Square, a retail property located in Westminster, Maryland, and incurred acquisition costs of \$0.5 million.

1500 ROCKVILLE PIKE

In December 2012, the Company purchased for \$22.4 million 1500 Rockville Pike, a retail property located in Rockville, Maryland, and incurred acquisition costs of \$0.6 million.

5541 NICHOLSON LANE

In December 2012, the Company purchased for \$11.7 million 5541 Nicholson Lane, a retail property located in Rockville, Maryland, and incurred acquisition costs of \$0.5 million.

KENTLANDS PAD

In August 2013, the Company purchased for \$4.3 million, a retail pad with a 7,100 square feet restaurant located in Gaithersburg, Maryland, which is contiguous with and an expansion of the Company's other Kentlands assets, and incurred acquisition costs of \$106,000.

HUNT CLUB PAD

In December 2013, the Company purchased for \$0.8 million, including acquisition costs, a retail pad with a 5,500 square foot vacant building located in Apopka, Florida, which is contiguous with and an expansion of the Company's other Hunt Club asset.

ALLOCATION OF PURCHASE PRICE OF REAL ESTATE ACQUIRED

The Company allocates the purchase price of real estate investment properties to various components, such as land, buildings and intangibles related to in-place leases and customer relationships, based on their fair values. See Note 2. Summary of Significant Accounting Policies-Real Estate Investment Properties.

During 2013, the Company purchased one property at a cost of \$4.3 million and incurred acquisition costs of \$106,000. Of the total purchase price, \$2.0 million was allocated to buildings and \$2.3 million was allocated to land. No amounts were allocated to in-place, above-market, or below-market leases.

During 2012, the Company purchased two properties at an aggregate cost of \$34.1 million and incurred acquisition costs of \$1.1 million. Of the total purchase price, \$3.8 million was allocated to buildings, \$30.4 million was allocated to land, and \$0.5 million was allocated to in-place leases and \$0.7 million was allocated to below market leases which is included in deferred income and is being accreted to income over the lives of the underlying leases, which is approximately 3.1 years.

During 2011, the Company purchased four properties at an aggregate cost of \$170.1 million, and incurred acquisition costs of \$2.5 million. Of the total purchase price, \$5.5 million was allocated to below market leases which is included in deferred income and is being accreted to income over the lives of the underlying leases, or approximately 10.9 years, and \$28,000 was allocated to above market leases, which is included as a deferred asset in accounts receivable and is being amortized against income over the lives of the underlying leases, which is approximately 4.1 years.

The allocation of the purchase prices for Severna Park MarketPlace, Kentlands Square II, and Cranberry Square to the acquired assets and liabilities based on their fair values was as follows:

<i>(In thousands)</i>	Kentlands Square II	Severna Park MarketPlace	Cranberry Square	Three Property Total
Land	\$ 20,500	\$ 12,700	\$ 6,700	\$ 39,900
Buildings	51,973	50,554	24,878	127,405
In-Place Leases	2,697	2,433	1,499	6,629
Above Market Rents	6	4	18	28
Below Market Rents	(676)	(4,691)	(95)	(5,462)
Total Purchase Price	\$ 74,500	\$ 61,000	\$ 33,000	\$ 168,500

The gross carrying amount of lease intangible assets included in deferred leasing costs as of December 31, 2013 and 2012 was \$21.9 million and \$21.9 million, respectively, and accumulated amortization was \$16.7 million and \$14.7 million, respectively. Amortization expense totaled \$2.0 million, \$2.0 million and \$1.3 million, for the years ended December 31, 2013, 2012, and 2011, respectively. The gross carrying amount of below market lease intangible liabilities included in deferred income as of December 31, 2013 and 2012 was \$24.8 million and \$24.8 million, respectively, and accumulated amortization was \$10.0 million and \$8.3 million, respectively. Accretion income totaled \$1.7 million, \$1.6 million, and \$1.2 million, for the years ended December 31, 2013, 2012, and 2011, respectively. The gross carrying amount of above market lease intangible assets included in accounts receivable as of December 31, 2013 and 2012 was \$1.0 million and \$1.0 million, respectively, and accumulated amortization was \$974,100 and \$929,100, respectively. Amortization expense totaled \$45,000, \$60,000 and \$62,000, for the years ended December 31, 2013, 2012 and 2011, respectively.

As of December 31, 2013, scheduled amortization of intangible assets and deferred income related to in place leases is as follows:

AMORTIZATION OF INTANGIBLE ASSETS AND DEFERRED INCOME RELATED TO IN-PLACE LEASES

<i>(In thousands)</i>	Lease acquisition costs	Above market leases	Below market leases
2014	\$ 1,066	\$ 21	\$ 1,458
2015	721	3	1,203
2016	566	1	1,095
2017	517	1	1,072
2018	480	1	1,044
Thereafter	1,926	–	8,893
Total	\$ 5,276	\$ 28	\$ 14,765

4. NONCONTROLLING INTEREST - HOLDERS OF CONVERTIBLE LIMITED PARTNERSHIP UNITS IN THE OPERATING PARTNERSHIP

The Saul Organization holds a 25.4% limited partnership interest in the Operating Partnership represented by 7,002,538 limited partnership units, as of December 31, 2013. The units are convertible into shares of Saul Centers' common stock, at the option of the unit holder, on a one-for-one basis provided that, in accordance with the Saul Centers, Inc. Articles of Incorporation, the rights may not be exercised at any time that the Saul Organization beneficially owns, directly or indirectly, in the aggregate more than 39.9% of the value of the outstanding common stock and preferred stock of Saul Centers (the "Equity Securities"). As of December 31, 2013, 720,000 units were eligible for conversion.

The impact of the Saul Organization's 25.4% limited partnership interest in the Operating Partnership is reflected as Noncontrolling Interest in the accompanying consolidated financial statements. Fully converted partnership units and diluted weighted average shares outstanding for the years ended December 31, 2013, 2012, and 2011, were 27,330,100, 26,613,900, and 24,739,700, respectively.

5. MORTGAGE NOTES PAYABLE, REVOLVING CREDIT FACILITY, INTEREST EXPENSE AND AMORTIZATION OF DEFERRED DEBT COSTS

At December 31, 2013, outstanding debt totaled \$820.1 million, of which \$789.9 million was fixed rate debt and \$30.2 million was variable rate debt. The Company's outstanding debt totaled \$827.8 million at December 31, 2012, of which \$774.8 million was fixed rate debt and \$53.0 million was variable rate debt. At December 31, 2013, the Company had a \$175.0 million unsecured revolving credit facility, which can be used for working capital, property acquisitions or development projects. The revolving credit facility matures on May 20, 2016, and may be extended by the Company for one additional year subject to the Company's satisfaction of certain conditions. Saul Centers and certain consolidated subsidiaries of the Operating Partnership have guaranteed the payment obligations of the Operating Partnership under the revolving credit facility. Letters of credit may be issued under the revolving credit facility. On December 31, 2013, based on the value of the Company's unencumbered properties, approximately \$164.2 million was available under the line, no borrowings were outstanding and approximately \$628,229 was committed for letters of credit. The interest rate under the facility is variable and equals the sum of one-month LIBOR and a margin that is based on the Company's leverage ratio and which can range from 160 basis points to 250 basis points. As of December 31, 2013, the margin was 160 basis points.

Saul Centers is a guarantor of the revolving credit facility, of which the Operating Partnership is the borrower. Saul Centers is also the guarantor of 50% of the Northrock bank term loan (approximately \$7.4 million of the \$14.8 million outstanding at December 31, 2013) and the Metro Pike Center bank loan (approximately \$7.7 million of the \$15.4 million outstanding at December 31, 2013). The fixed-rate notes payable are all non-recourse.

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

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

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

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

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

On April 11, 2012, the Company closed on a 15-year non-recourse mortgage loan in the amount of \$73.0 million secured by Seven Corners shopping center. The loan matures in 2027, bears interest at a fixed rate of 5.84%, requires equal monthly principal and interest payments totaling \$463,200 based upon a 25-year amortization schedule and a final payment of \$42.3 million at maturity. Proceeds from the loan were used to pay-off the \$63 million remaining balance of existing debt secured by Seven Corners and six other shopping center properties, and to provide cash of approximately \$10 million.

On April 26, 2012, the Company substituted the White Oak shopping center for Van Ness Square as collateral for one of its existing mortgage loans. The terms of the original loan, including its 8.11% interest rate, are unchanged and, in conjunction with the collateral substitution, the Company borrowed an additional \$10.5 million, also secured by White Oak. The new borrowing requires equal monthly payments based upon a fixed 4.90% interest rate and 25-year amortization schedule, and will mature in 2024, coterminously with the original loan. The consolidated loan requires equal monthly payments based upon a blended fixed interest rate of 7.0% and will require a final payment of \$18.5 million at maturity.

On May 21, 2012, the Company replaced its existing unsecured revolving credit facility with a new \$175.0 million facility that expires on May 20, 2016. The facility, which provides working capital and funds for acquisitions, certain developments, redevelopments and letters of credit, may be extended for one year, at the Company's option, subject to the satisfaction of certain conditions. Loans under the facility bear interest at a rate equal to the sum of one-month LIBOR and a margin, based on the Company's leverage ratio, ranging from 160 basis points to 250 basis points. Based on the leverage ratio of December 31, 2013, the margin was 160 basis points.

On February 27, 2013, the Company closed on a three-year \$15.6 million mortgage loan secured by Metro Pike Center. The loan matures in 2016, bears interest at a variable rate equal to the sum of one-month LIBOR and 165 basis points, requires monthly principal and interest payments based on a 25-year amortization schedule and requires a final payment of \$14.8 million at maturity. The loan may be extended for up to two years. Proceeds were used to pay-off the \$15.9 million remaining balance of existing debt secured by Metro Pike Center, and to extinguish the related swap agreement.

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

On March 19, 2013, the Company closed on a 15-year, non-recourse \$18.0 million mortgage loan secured by Hampshire Langley. The loan matures in 2028, bears interest at a fixed rate of 4.04%, requires monthly principal and interest payments totaling \$95,400 based on a 25-year amortization schedule and requires a final payment of \$9.5 million at maturity.

On April 10, 2013, the Company paid in full the \$6.9 million remaining balance on the mortgage loan secured by Cruse Marketplace.

On May 28, 2013, the Company closed on a 15-year, non-recourse \$35.0 million mortgage loan secured by Beacon Center. The loan matures in 2028, bears interest at a fixed rate of 3.51%, requires monthly principal and interest payments totaling \$203,200 based on a 20-year amortization schedule and requires a final payment of \$11.4 million at maturity.

On September 4, 2013, the Company closed on a 15-year, non-recourse \$18.0 million mortgage loan secured by Seabreeze Plaza. The loan matures in 2028, bears interest at a fixed rate of 3.99%, requires monthly principal and interest payments totaling \$94,900 based on a 25-year amortization schedule and requires a final payment of \$9.5 million at maturity. Proceeds were used to pay off the \$13.5 million remaining balance of existing debt secured by Seabreeze Plaza which was scheduled to mature in May 2014 and the Company incurred \$497,000 of related debt extinguishment costs.

On October 25, 2013 the Company closed on a \$71.6 million construction-to-permanent loan which will partially finance the construction of Park Van Ness. The loan bears interest at 4.88% and during the construction period it will be fully recourse to Saul Centers and accrued interest will be funded by the loan. Following the completion of construction and lease-up, and upon achieving certain debt service coverage requirements, the loan will convert to a non-recourse, permanent mortgage at the same interest rate, with principal amortization computed based on a 25-year schedule.

The following is a summary of notes payable as of December 31, 2013 and 2012:

NOTES PAYABLE

<i>(Dollars in thousands)</i>	December 31,		Interest	Scheduled
	2013	2012	Rate *	Maturity *
Fixed rate mortgages:	\$ — (a)	\$ 15,750		
	— (b)	6,936		
	— (c)	13,875		
	16,128 (d)	16,798	7.45%	Jun-2015
	33,246 (e)	34,373	6.01%	Feb-2018
	36,937 (f)	38,388	5.88%	Jan-2019
	11,949 (g)	12,418	5.76%	May-2019
	16,501 (h)	17,145	5.62%	Jul-2019
	16,419 (i)	17,040	5.79%	Sep-2019
	14,610 (j)	15,176	5.22%	Jan-2020
	11,159 (k)	11,421	5.60%	May-2020
	9,921 (l)	10,288	5.30%	Jun-2020
	42,462 (m)	43,424	5.83%	Jul-2020
	8,649 (n)	8,934	5.81%	Feb-2021
	6,233 (o)	6,359	6.01%	Aug-2021
	35,981 (p)	36,699	5.62%	Jun-2022
	10,930 (q)	11,129	6.08%	Sep-2022
	11,795 (r)	11,989	6.43%	Apr-2023
	15,598 (s)	16,247	6.28%	Feb-2024
	17,123 (t)	17,469	7.35%	Jun-2024
	14,849 (u)	15,140	7.60%	Jun-2024
	26,153 (v)	26,635	7.02%	Jul-2024
	31,093 (w)	31,709	7.45%	Jul-2024
	30,894 (x)	31,490	7.30%	Jan-2025
	16,087 (y)	16,419	6.18%	Jan-2026
	118,128 (z)	120,822	5.31%	Apr-2026
	36,075 (aa)	36,986	4.30%	Oct-2026
	40,974 (bb)	41,970	4.53%	Nov-2026
	19,118 (cc)	19,569	4.70%	Dec-2026
	70,856 (dd)	72,233	5.84%	May-2027
	17,718 (ee)	—	4.04%	Apr-2028
	34,391 (ff)	—	3.51%	Jun-2028
	17,895 (gg)	—	3.99%	Sep-2028
	— (hh)	—	4.88%	Sep-2032
Total fixed rate	789,872	774,831	5.67%	10.1 Years
Variable rate loans:				
	— (ii)	38,000	LIBOR + 1.60%	May-2016
	14,802 (jj)	14,945	LIBOR + 1.65%	Feb-2016
	15,394 (kk)	—	LIBOR + 1.65%	Feb-2016
Total variable rate	30,196	52,945	LIBOR + 1.65%	2.2 Years
Total notes payable	\$ 820,068	\$ 827,776	5.53%	9.8 Years

* Interest rate and scheduled maturity data presented as of December 31, 2013. Totals computed using weighted averages.

- (a) The loan, together with a corresponding interest-rate swap, was collateralized by Metro Pike Center. On a combined basis, the loan and the swap required interest only payments of \$86,000 based upon a 25-year amortization schedule and a final payment of \$15.6 million at loan maturity. The loan was repaid in full and the swap was terminated in 2013.
- (b) The loan was collateralized by Cruse MarketPlace and required equal monthly principal and interest payments of \$56,000 based upon an amortization schedule of approximately 24 years and a final payment of \$6.8 million at loan maturity. The loan was repaid in full in 2013.
- (c) The loan was collateralized by Seabreeze Plaza and required equal monthly principal and interest payments totaling \$102,000 based upon a weighted average 26-year amortization schedule and a final payment of \$13.3 million at loan maturity. The loan was repaid in full in 2013.
- (d) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires equal monthly principal and interest payments totaling \$156,000 based upon a weighted average 23-year amortization schedule and a final payment of \$15.2 million at loan maturity. Principal of \$670,000 was amortized during 2013.
- (e) The loan is collateralized by Washington Square and requires equal monthly principal and interest payments of \$264,000 based upon a 27.5-year amortization schedule and a final payment of \$28.0 million at loan maturity. Principal of \$1.1 million was amortized during 2013.
- (f) The loan is collateralized by three shopping centers, Broadlands Village, The Glen and Kentlands Square I, and requires equal monthly principal and interest payments of \$306,000 based upon a 25-year amortization schedule and a final payment of \$28.4 million at loan maturity. Principal of \$1.5 million was amortized during 2013.
- (g) The loan is collateralized by Olde Forte Village and requires equal monthly principal and interest payments of \$98,000 based upon a 25-year amortization schedule and a final payment of \$9.0 million at loan maturity. Principal of \$469,000 was amortized during 2013.
- (h) The loan is collateralized by Countryside and requires equal monthly principal and interest payments of \$133,000 based upon a 25-year amortization schedule and a final payment of \$12.3 million at loan maturity. Principal of \$644,000 was amortized during 2013.
- (i) The loan is collateralized by Briggs Chaney MarketPlace and requires equal monthly principal and interest payments of \$133,000 based upon a 25-year amortization schedule and a final payment of \$12.2 million at loan maturity. Principal of \$621,000 was amortized during 2013.
- (j) The loan is collateralized by Shops at Monocacy and requires equal monthly principal and interest payments of \$112,000 based upon a 25-year amortization schedule and a final payment of \$10.6 million at loan maturity. Principal of \$566,000 was amortized during 2013.
- (k) The loan is collateralized by Boca Valley Plaza and requires equal monthly principal and interest payments of \$75,000 based upon a 30-year amortization schedule and a final payment of \$9.1 million at loan maturity. Principal of \$262,000 was amortized during 2013.
- (l) The loan is collateralized by Palm Springs Center and requires equal monthly principal and interest payments of \$75,000 based upon a 25-year amortization schedule and a final payment of \$7.1 million at loan maturity. Principal of \$367,000 was amortized during 2013.
- (m) The loan and a corresponding interest-rate swap closed on June 29, 2010 and are collateralized by Thruway. On a combined basis, the loan and the interest-rate swap require equal monthly principal and interest payments of \$289,000 based upon a 25-year amortization schedule and a final payment of \$34.8 million at loan maturity. Principal of \$962,000 was amortized during 2013.
- (n) The loan is collateralized by Jamestown Place and requires equal monthly principal and interest payments of \$66,000 based upon a 25-year amortization schedule and a final payment of \$6.1 million at loan maturity. Principal of \$285,000 was amortized during 2013.
- (o) The loan is collateralized by Hunt Club Corners and requires equal monthly principal and interest payments of \$42,000 based upon a 30-year amortization schedule and a final payment of \$5.0 million, at loan maturity. Principal of \$126,000 was amortized during 2013.
- (p) The loan is collateralized by Lansdowne Town Center and requires monthly principal and interest payments of \$230,000 based on a 30-year amortization schedule and a final payment of \$28.2 million at loan maturity. Principal of \$718,000 was amortized during 2013.
- (q) The loan is collateralized by Orchard Park and requires equal monthly principal and interest payments of \$73,000 based upon a 30-year amortization schedule and a final payment of \$8.6 million at loan maturity. Principal of \$199,000 was amortized during 2013.
- (r) The loan is collateralized by BJ's Wholesale and requires equal monthly principal and interest payments of \$80,000 based upon a 30-year amortization schedule and a final payment of \$9.3 million at loan maturity. Principal of \$194,000 was amortized during 2013.
- (s) The loan is collateralized by Great Falls shopping center. The loan consists of three notes which require equal monthly principal and interest payments of \$138,000 based upon a weighted average 26-year amortization schedule and a final payment of \$6.3 million at maturity. Principal of \$649,000 was amortized during 2013.
- (t) The loan is collateralized by Leesburg Pike and requires equal monthly principal and interest payments of \$135,000 based upon a 25-year amortization schedule and a final payment of \$11.5 million at loan maturity. Principal of \$346,000 was amortized during 2013.
- (u) The loan is collateralized by Village Center and requires equal monthly principal and interest payments of \$119,000 based upon a 25-year amortization schedule and a final payment of \$10.1 million at loan maturity. Principal of \$291,000 was amortized during 2013.
- (v) The loan is collateralized by White Oak and requires equal monthly principal and interest payments of \$193,000 based upon a 24.4 year weighted amortization schedule and a final payment of \$18.5 million at loan maturity. The loan was previously collateralized by Van Ness Square. During 2012, the Company substituted White Oak as the collateral and borrowed an additional \$10.5 million. Principal of \$482,000 was amortized during 2013.
- (w) The loan is collateralized by Avenel Business Park and requires equal monthly principal and interest payments of \$246,000 based upon a 25-year amortization schedule and a final payment of \$20.9 million at loan maturity. Principal of \$616,000 was amortized during 2013.
- (x) The loan is collateralized by Ashburn Village and requires equal monthly principal and interest payments of \$240,000 based upon a 25-year amortization schedule and a final payment of \$20.5 million at loan maturity. Principal of \$596,000 was amortized during 2013.
- (y) The loan is collateralized by Ravenwood and requires equal monthly principal and interest payments of \$111,000 based upon a 25-year amortization schedule and a final payment of \$10.1 million at loan maturity. Principal of \$332,000 was amortized during 2013.
- (z) The loan is collateralized by Clarendon Center and requires equal monthly principal and interest payments of \$753,000 based upon a 25-year amortization schedule and a final payment of \$70.5 million at loan maturity. Principal of \$2.7 million was amortized during 2013.
- (aa) The loan is collateralized by Severna Park MarketPlace and requires equal monthly principal and interest payments of \$207,000 based upon a 25-year amortization schedule and a final payment of \$20.3 million at loan maturity. Principal of \$911,000 was amortized during 2013.
- (bb) The loan is collateralized by Kentlands Square II and requires equal monthly principal and interest payments of \$240,000 based upon a 25-year amortization schedule and a final payment of \$23.1 million at loan maturity. Principal of \$996,000 was amortized during 2013.
- (cc) The loan is collateralized by Cranberry Square and requires equal monthly principal and interest payments of \$113,000 based upon a 25-year amortization schedule and a final payment of \$10.9 million at loan maturity. Principal of \$451,000 was amortized during 2013.

- (dd) The loan in the original amount of \$73.0 million closed in May 2012, is collateralized by Seven Corners and requires equal monthly principal and interest payments of \$463,200 based upon a 25-year amortization schedule and a final payment of \$42.3 million at loan maturity. Principal of \$1.4 million was amortized during 2013.
- (ee) The loan is collateralized by Hampshire Langley and requires equal monthly principal and interest payments of \$95,400 based upon a 25-year amortization schedule and a final payment of \$9.5 million at loan maturity. Principal of \$282,000 was amortized in 2013.
- (ff) The loan is collateralized by Beacon Center and requires equal monthly principal and interest payments of \$203,200 based upon a 20-year amortization schedule and a final payment of \$11.4 million at loan maturity. Principal of \$609,000 was amortized in 2013.
- (gg) The loan is collateralized by Seabreeze Plaza and requires equal monthly principal and interest payments of \$94,900 based upon a 25-year amortization schedule and a final payment of \$9.5 million at loan maturity. Principal of \$105,000 was amortized in 2013.
- (hh) The loan is a \$71.6 million construction-to-permanent facility that is collateralized by and will finance a portion of the construction costs of Park Van Ness. During the construction period, interest will be funded by the loan. After conversion to a permanent loan, monthly principal and interest payments totaling \$413,500 will be required based upon a 25-year amortization schedule. A final payment of \$39.6 million will be due at maturity.
- (ii) The loan is a \$175.0 million unsecured revolving credit facility. Interest accrues at a rate equal to the sum of one-month LIBOR and 160 basis points. The line may be extended at the Company's option for one year with payment of a fee of 0.20%. Monthly payments, if required, are interest only and vary depending upon the amount outstanding and the applicable interest rate for any given month.
- (jj) The loan is collateralized by Northrock and requires monthly principal and interest payments of approximately \$47,000 and a final payment of approximately \$14.2 million at maturity. Principal of \$143,000 was amortized during 2013.
- (kk) The loan is collateralized by Metro Pike Center and requires monthly principal and interest payments of approximately \$48,000 and a final payment of \$14.8 million at loan maturity. Principal of \$206,000 was amortized during 2013.

The carrying value of the properties collateralizing the mortgage notes payable totaled \$907.2 million and \$916.1 million, as of December 31, 2013 and 2012, respectively. The Company's credit facility requires the Company and its subsidiaries to maintain certain financial covenants, which are summarized below. The Company was in compliance as of December 31, 2013.

- maintain tangible net worth, as defined in the loan agreement, of at least \$503.3 million plus 80% of the Company's net equity proceeds received after May 2012.
- limit the amount of debt as a percentage of gross asset value, as defined in the loan agreement, to less than 60% (leverage ratio);
- limit the amount of debt so that interest coverage will exceed 2.0x on a trailing four-quarter basis (interest expense coverage);
- limit the amount of debt so that interest, scheduled principal amortization and preferred dividend coverage exceeds 1.3x on a trailing four-quarter basis (fixed charge coverage); and
- limit the amount of variable rate debt and debt with initial loan terms of less than 5 years to no more than 40% of total debt.

Mortgage notes payable at each of December 31, 2013 and 2012, totaling \$51.0 million, are guaranteed by members of the Saul Organization. As of December 31, 2013, the scheduled maturities of all debt including scheduled principal amortization for years ended December 31 are as follows:

DEBT MATURITY SCHEDULE

(In thousands)	Scheduled		
	Balloon Payments	Principal Amortization	Total
2014	\$ -	\$ 22,191	\$ 22,191
2015	15,077	23,008	38,085
2016	28,931	23,444	52,375
2017	-	24,681	24,681
2018	27,872	24,696	52,568
Thereafter	475,267	154,901	630,168
	\$ 547,147	\$ 272,921	\$ 820,068

The components of interest expense are set forth below.

INTEREST EXPENSE AND AMORTIZATION OF DEFERRED DEBT COSTS

(In thousands)	Year ended December 31,		
	2013	2012	2011
Interest incurred	\$ 45,502	\$ 48,010	\$ 45,673
Amortization of deferred debt costs	1,257	1,576	1,547
Capitalized interest	(170)	(42)	(1,896)
Total	\$ 46,589	\$ 49,544	\$ 45,324

Deferred debt costs capitalized during the years ending December 31, 2013, 2012 and 2011 totaled \$3.2 million, \$2.2 million and \$1.4 million, respectively.

6. LEASE AGREEMENTS

Lease income includes primarily base rent arising from noncancelable leases. Base rent (including straight-line rent) for the years ended December 31, 2013, 2012, and 2011, amounted to \$159.9 million, \$152.8 million, and \$138.5 million, respectively. Future contractual payments under noncancelable leases for years ended December 31 (which exclude the effect of straight-line rents), are as follows:

FUTURE CONTRACTUAL PAYMENTS	
<i>(In thousands)</i>	
2014	\$ 149,101
2015	131,724
2016	114,123
2017	95,157
2018	77,542
Thereafter	306,980
	<u>\$ 874,627</u>

The majority of the leases provide for rental increases and expense recoveries based on fixed annual increases or increases in the Consumer Price Index and increases in operating expenses. The expense recoveries generally are payable in equal installments throughout the year based on estimates, with adjustments made in the succeeding year. Expense recoveries for the years ended December 31, 2013, 2012, and 2011, amounted to \$30.9 million, \$30.4 million, and \$28.4 million, respectively. In addition, certain retail leases provide for percentage rent based on sales in excess of the minimum specified in the tenant's lease. Percentage rent amounted to \$1.6 million, \$1.5 million, and \$1.5 million, for the years ended December 31, 2013, 2012, and 2011, respectively.

7. LONG-TERM LEASE OBLIGATIONS

Certain properties are subject to noncancelable long-term leases which apply to land underlying the Shopping Centers. Certain of the leases provide for periodic adjustments of the base annual rent and require the payment of real estate taxes on the underlying land. The leases will expire between 2058 and 2068. Reflected

in the accompanying consolidated financial statements is minimum ground rent expense of \$176,000, \$176,000, and \$173,000, for the years ended December 31, 2013, 2012, and 2011, respectively. The future minimum rental commitments under these ground leases are as follows:

<i>(In thousands)</i>	GROUND LEASE RENTAL COMMITMENTS						Total
	Year ending December 31,						
	2014	2015	2016	2017	2018	Thereafter	
Beacon Center	\$ 60	\$ 60	\$ 60	\$ 60	\$ 60	\$ 2,601	\$ 2,901
Olney	56	56	56	56	56	3,817	4,097
Southdale	60	60	60	60	60	2,945	3,245
Total	\$ 176	\$ 176	\$ 176	\$ 176	\$ 176	\$ 9,363	\$ 10,243

In addition to the above, Flagship Center consists of two developed out parcels that are part of a larger adjacent community shopping center formerly owned by the Saul Organization and sold to an affiliate of a tenant in 1991. The Company has a 90-year ground leasehold interest which commenced in September 1991 with a minimum rent of one dollar per year. Countryside shopping center was acquired in February 2004. Because of certain land use considerations, approximately 3.4% of the underlying land is held under a 99-year ground lease. The lease requires the Company to pay minimum rent of one dollar per year as well as its pro-rata share of the real estate taxes.

The Company's corporate headquarters space is leased by a member of the Saul Organization. The lease commenced in March 2002 was extended in 2012 for five years, and provides for base rent increases of 3% per year, with payment of a pro-rata share of operating expenses over a base year amount. The Company and the Saul Organization entered into a Shared Services Agreement whereby each party pays an allocation of total rental payments based on a percentage proportionate to the number of employees employed by each party. The Company's rent expense for the years ended December 31, 2013, 2012, and 2011 was \$850,600, \$850,000, and \$945,000, respectively. Expenses arising from the lease are included in general and administrative expense (see Note 9 – Related Party Transactions).

8. STOCKHOLDERS' EQUITY AND NONCONTROLLING INTEREST

The Consolidated Statements of Operations for the years ended December 31, 2013, 2012, and 2011 reflect noncontrolling interest of \$4.0 million, \$6.4 million, and \$3.6 million, respectively, representing the Saul Organization's share of the net income for the year.

In November 2003, the Company sold 4,000,000 depositary shares, each representing 1/100th of a share of 8% Series A Cumulative Redeemable Preferred Stock (the "Series A Stock"). The depositary shares are redeemable, in whole or in part at the Company's option, from time to time, at \$25.00 per share. The depositary shares pay an annual dividend of \$2.00 per share, equivalent to 8% of the \$25.00 per share liquidation preference. The Series A preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company. Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events. In March 2013, the Company redeemed 60% of its then-outstanding Series A Stock. Costs associated with the redemption were charged against accumulated deficit.

In March 2008, the Company sold 3,173,115 depositary shares, each representing 1/100th of a share of 9% Series B Cumulative Redeemable Preferred Stock (the "Series B Stock"). The depositary shares may be redeemed at the Company's option, on or after March 15, 2013, in whole or in part, at \$25.00 per share. The depositary shares pay an annual dividend of \$2.25 per share, equivalent to 9% of the \$25.00 per share liquidation preference. The Series B preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company. Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events. In March 2013, the Company redeemed all of its Series B Stock. Costs associated with the redemption were charged against accumulated deficit.

On February 12, 2013, the Company sold, in an underwritten public offering, 5.6 million depositary shares, each representing 1/100th of a share of 6.875% Series C Cumulative Redeemable Preferred Stock, and received net cash proceeds of approximately \$135.2 million. The depositary shares may be redeemed on or after February 12, 2018 at the Company's option, in whole or in part, at the \$25.00 liquidation preference plus accrued but unpaid dividends. The depositary shares pay an annual dividend of \$1.71875 per share, equivalent to 6.875% of the \$25.00 liquidation preference. The first dividend was paid on April 15, 2013 and covered the period from February 12, 2013 through March 31, 2013. The Series C preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company except in connection with certain changes of control or delisting events.

Investors in the depositary shares generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters (whether or not declared or consecutive) and in certain other events.

In September 2011, in connection with the acquisition of three shopping centers, the Company and the Operating Partnership issued to members of the Saul Organization 186,968 shares of the Company's common stock, par value \$0.01 per share ("Shares") and 1,497,814 units of limited partnership interests in the Operating Partnership ("Units") with an aggregate value of \$55.8 million. The price of the Shares and Units was equal to the average closing prices of the Company's common stock listed on the New York Stock Exchange for the five trading days ending with the trading day immediately preceding the date of closing of the property acquisition.

9. RELATED PARTY TRANSACTIONS

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

The Company participates in a multiemployer 401K plan with entities in the Saul Organization which covers those full-time employees who meet the requirements as specified in the plan. Company contributions, which are included in general and administrative expense or property operating expenses in the consolidated statements of operations, at the discretionary amount of up to six percent of the employee's cash compensation, subject to certain limits, were \$369,000, \$379,000, and \$378,000, for 2013, 2012, and 2011, respectively. All amounts deferred by employees and contributed by the Company are fully vested.

The Company also participates in a multiemployer nonqualified deferred compensation plan with entities in the Saul Organization which covers those full-time employees who meet the requirements as specified in the plan. According to the plan, which can be modified or discontinued at any time, participating employees defer 2% of their compensation in excess of a specified amount. For the years ended December 31, 2013, 2012, and 2011, the Company contributed three times the amount deferred by employees. The Company's expense, included in general and administrative expense, totaled \$191,300, \$238,000, and \$231,000, for the years ended December 31, 2013, 2012, and 2011, respectively. All amounts deferred by employees and the Company are fully vested. The cumulative unfunded liability under this plan was \$1.6 million and \$2.2 million, at December 31, 2013 and 2012, respectively, and is included in accounts payable, accrued expenses and other liabilities in the consolidated balance sheets.

The Company has entered into a shared services agreement (the “Agreement”) with the Saul Organization that provides for the sharing of certain personnel and ancillary functions such as computer hardware, software, and support services and certain direct and indirect administrative personnel. The method for determining the cost of the shared services is provided for in the Agreement and is based upon head count, estimates of usage or estimates of time incurred, as applicable. Senior management has determined that the final allocations of shared costs are reasonable. The terms of the Agreement and the payments made thereunder are reviewed annually by the Audit Committee of the Board of Directors, which consists entirely of independent directors. Billings by the Saul Organization for the Company’s share of these ancillary costs and expenses for the years ended December 31, 2013, 2012, and 2011, which included rental expense for the Company’s headquarters lease (see Note 7. Long Term Lease Obligations), totaled \$6.3 million, \$6.0 million, and \$6.1 million, respectively. The amounts are expensed when incurred and are primarily reported as general and administrative expenses or capitalized to specific development projects in these consolidated financial statements. As of each of December 31, 2013 and 2012, accounts payable, accrued expenses and other liabilities included \$499,000, representing billings due to the Saul Organization for the Company’s share of these ancillary costs and expenses.

The B. F. Saul Insurance Agency of Maryland, Inc., a subsidiary of the B. F. Saul Company and a member of the Saul Organization, is a general insurance agency that receives commissions and counter-signature fees in connection with the Company’s insurance program. Such commissions and fees amounted to approximately \$447,300, \$372,000, and \$341,000, for the years ended December 31, 2013, 2012, and 2011, respectively.

Effective as of September 4, 2012, the Company entered into a consulting agreement with B. F. Saul III, the Company’s former president, whereby Mr. Saul III will provide certain consulting services to the Company as an independent contractor. Under the consulting agreement, Mr. Saul III will be paid at a rate of \$60,000 per month. The consulting agreement includes certain noncompete, nonsolicitation and nondisclosure covenants, and has a term of up to two years, although the consulting agreement is terminable by the Company at any time. During 2013 and 2012, such consulting fees totaled \$720,000 and \$225,000, respectively.

10. STOCK OPTION PLAN

The Company established a stock option plan in 1993 (the “1993 Plan”) for the purpose of attracting and retaining executive officers and other key personnel. The 1993 Plan provides for grants of options to purchase up to 400,000 shares of common stock. The 1993 Plan authorizes the Compensation Committee of the Board of Directors to grant options at an exercise price which may not be less than the market value of the common stock on the date the option is granted.

At the annual meeting of the Company’s stockholders in 2004, the stockholders approved the adoption of the 2004 stock plan for the purpose of attracting and retaining executive officers, directors and other key personnel. The 2004 stock plan was subsequently amended by the Company’s stockholders at the 2008 Annual Meeting and further amended at the 2013 Annual Meeting (the “Amended 2004 Plan”). The Amended 2004 Plan, which terminates in 2023, provides for grants of options to purchase up to 2,000,000 shares of common stock as well as grants of up to 200,000 shares of common stock to directors. The Amended 2004 Plan authorizes the Compensation Committee of the Board of Directors to grant options at an exercise price which may not be less than the market value of the common stock on the date the option is granted.

Effective April 26, 2004, the Compensation Committee granted options to purchase 152,500 shares (27,500 incentive stock options and 125,000 shares of nonqualified stock options) to eleven Company officers and to the twelve Company directors (the “2004 Options”), which expire on April 25, 2014. The officers’ 2004 Options vested 25% per year over four years and are subject to early expiration upon termination of employment. The directors’ options were immediately exercisable. The exercise price of \$25.78 per share was the closing market price of the Company’s common stock on the date of the award. Using the Black-Scholes model, the Company determined the total fair value of the 2004 Options to be \$359,375, of which \$292,775 and \$66,600 were the values assigned to the officer options and director options, respectively. Because the directors’ options vested immediately, the entire \$66,600 was expensed as of the date of grant. The expense of the officers’ options was recognized as compensation expense monthly during the four years the options vested.

Effective May 6, 2005, the Compensation Committee granted options to purchase 162,500 shares (35,500 incentive stock options and 127,000 nonqualified stock options) to twelve Company officers and to twelve Company directors (the “2005 Options”), which expire on May 5, 2015. The officers’ 2005 Options vested 25% per year over four years and are subject to early expiration upon termination of employment. The directors’ options were immediately exercisable. The exercise price of \$33.22 per share was the closing market price of the Company’s common stock on the date of the award. Using the Black-Scholes model, the Company determined the total fair value of the 2005 Options to be \$484,500, of which \$413,400 and \$71,100 were the values assigned to the officer options and director options, respectively. Because the directors’ options vested immediately, the entire \$71,100 was expensed as of the date of grant. The expense of the officers’ options was recognized as compensation expense monthly during the four years the options vested.

Effective May 1, 2006, the Compensation Committee granted options to purchase 30,000 shares (all nonqualified stock options) to twelve Company directors (the “2006 Options”), which were immediately exercisable and expire on April 30, 2016. The exercise price of \$40.35 per share was the closing market price of the

Company's common stock on the date of the award. Using the Black-Scholes model, the Company determined the total fair value of the 2006 Options to be \$143,400. Because the directors' options vested immediately, the entire \$143,400 was expensed as of the date of grant. No options were granted to the Company's officers in 2006.

Effective April 27, 2007, the Compensation Committee granted options to purchase 165,000 shares (27,560 incentive stock options and 137,440 nonqualified stock options) to thirteen Company officers and twelve Company Directors (the "2007 options"), which expire on April 26, 2017. The officers' 2007 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' options were immediately exercisable. The exercise price of \$54.17 per share was the closing market price of the Company's common stock on the date of award. Using the Black-Scholes model, the Company determined the total fair value of the 2007 Options to be \$1.5 million, of which \$1.3 million and \$285,300 were the values assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$285,300 was expensed as of the date of grant. The expense for the officers' options was recognized as compensation expense monthly during the four years the options vested.

Effective April 25, 2008, the Compensation Committee granted options to purchase 30,000 shares (all nonqualified stock options) to twelve Company directors (the "2008 Options"), which were immediately exercisable and expire on April 24, 2018. The exercise price of \$50.15 per share was the closing market price of the Company's common stock on the date of the award. Using the Black-Scholes model, the Company determined the total fair value of the 2008 Options to be \$254,700. Because the directors' options vest immediately, the entire \$254,700 was expensed as of the date of grant. No options were granted to the Company's officers in 2008.

Effective April 24, 2009, the Compensation Committee granted options to purchase 32,500 shares (all nonqualified stock options) to thirteen Company directors (the "2009 Options"), which were immediately exercisable and expire on April 23, 2019. The exercise price of \$32.68 per share was the closing market price of the Company's common stock on the date of the award. Using the Black-Scholes model, the Company determined the total fair value of the 2009 Options to be \$222,950. Because the directors' options vested immediately, the entire \$222,950 was expensed as of the date of grant. No options were granted to the Company's officers in 2009.

Effective May 7, 2010, the Compensation Committee granted options to purchase 32,500 shares (all nonqualified stock options) to thirteen Company directors (the "2010 Options"), which were immediately exercisable and expire on May 6, 2020. The exercise price of \$38.76 per share was the closing market price of the Company's common stock on the date of the award. Using the Black-Scholes model, the Company determined the total fair value of the 2010 Options to be \$287,950. Because the directors' options vested immediately, the entire \$287,950 was expensed as of the date of grant.

No options were granted to the Company's officers in 2010.

Effective May 13, 2011, the Compensation Committee granted options to purchase 195,000 shares (65,300 incentive stock options and 129,700 nonqualified stock options) to fifteen Company officers and thirteen Company Directors (the "2011 options"), which expire on May 12, 2021. The officers' 2011 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2011 options were immediately exercisable. The exercise price of \$41.82 per share was the closing market price of the Company's common stock on the date of award. Using the Black-Scholes model, the Company determined the total fair value of the 2011 Options to be \$1.6 million, of which \$1.3 million and \$297,375 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$297,375 was expensed as of the date of grant. The expense for the officers' options is being recognized as compensation expense monthly during the four years the options vest.

Effective May 4, 2012, the Compensation Committee granted options to purchase 277,500 shares (26,157 incentive stock options and 251,343 nonqualified stock options) to fifteen Company officers and fourteen Company Directors (the "2012 options"), which expire on May 3, 2022. The officers' 2012 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2012 Options were immediately exercisable. The exercise price of \$39.29 per share was the closing market price of the Company's common stock on the date of award. Using the Black-Scholes model, the Company determined the total fair value of the 2012 Options to be \$1.7 million, of which \$1.4 million and \$244,388 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$244,388 was expensed as of the date of grant. The expense for the officers' options is being recognized as compensation expense monthly during the four years the options vest.

Effective May 10, 2013, the Compensation Committee granted options to purchase 237,500 shares (35,592 incentive stock options and 201,908 nonqualified stock options) to fifteen Company officers and fourteen Company Directors (the "2013 options"), which expire on May 10, 2023. The officers' 2013 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2013 options were immediately exercisable. The exercise price of \$44.42 per share was the closing market price of the Company's common stock on the date of award. Using the Black-Scholes model, the Company determined the total fair value of the 2013 Options to be \$1.5 million, of which \$1.3 million and \$0.3 million were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$0.3 million was expensed as of the date of grant. The expense for the officers' options is being recognized as compensation expense monthly during the four years the option was vested.

The following table summarizes the amount and activity of each grant, the total value and variables used in the computation and the amount expensed and included in general and administrative expense in the Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011:

STOCK OPTIONS ISSUED TO DIRECTORS

Grant date	4/26/2004	5/6/2005	5/1/2006	4/27/2007	4/25/2008	4/24/2009	5/7/2010	5/13/2011	5/4/2012	5/10/2013	Subtotals
Total grant	30,000	30,000	30,000	30,000	30,000	32,500	32,500	32,500	35,000	35,000	317,500
Vested	30,000	30,000	30,000	30,000	30,000	32,500	32,500	32,500	35,000	35,000	317,500
Exercised	25,000	22,500	5,000	–	–	17,500	5,000	5,000	5,000	2,500	87,500
Forfeited	–	–	2,500	7,500	7,500	–	2,500	2,500	–	–	22,500
Exercisable at											
December 31, 2013	5,000	7,500	22,500	22,500	22,500	15,000	25,000	25,000	30,000	32,500	207,500
Remaining unexercised	5,000	7,500	22,500	22,500	22,500	15,000	25,000	25,000	30,000	32,500	207,500
Exercise price	\$ 25.78	\$ 33.22	\$ 40.35	\$ 54.17	\$ 50.15	\$ 32.68	\$ 38.76	\$ 41.82	\$ 39.29	\$ 44.42	
Volatility	0.183	0.198	0.206	0.225	0.237	0.344	0.369	0.358	0.348	0.333	
Expected life (years)	5.0	10.0	9.0	8.0	7.0	6.0	5.0	5.0	5.0	5.0	
Assumed yield	5.75%	6.91%	5.93%	4.39%	4.09%	4.54%	4.23%	4.16%	4.61%	4.53%	
Risk-free rate	3.57%	4.28%	5.11%	4.65%	3.49%	2.19%	2.17%	1.86%	0.78%	0.82%	
Total value at											
grant date	\$ 66,600	\$ 71,100	\$ 143,400	\$ 285,300	\$ 254,700	\$ 222,950	\$ 287,950	\$ 297,375	\$ 244,388	\$ 262,946	\$ 2,136,709
Forfeited options	–	–	–	–	–	–	–	–	–	–	–
Expensed in											
previous years	66,600	71,100	143,400	285,300	254,700	222,950	287,950	–	–	–	1,332,000
Expensed in 2011	–	–	–	–	–	–	–	297,375	–	–	297,375
Expensed in 2012	–	–	–	–	–	–	–	–	244,388	–	244,388
Expensed in 2013	–	–	–	–	–	–	–	–	–	262,946	262,946
Future expense	–	–	–	–	–	–	–	–	–	–	–

STOCK OPTIONS ISSUED TO OFFICERS AND GRAND TOTALS

Grant date	04/26/2004	05/06/2005	04/27/2007	05/13/2011	5/4/2012	5/10/2013	Subtotals	Grand Totals
Total grant	122,500	132,500	135,000	162,500	242,500	202,500	997,500	1,315,000
Vested	115,000	118,750	67,500	67,500	28,125	–	396,875	714,375
Exercised	103,750	69,500	–	16,250	1,875	–	191,375	278,875
Forfeited	7,500	13,750	67,500	41,250	130,000	–	260,000	282,500
Exercisable at								
December 31, 2013	11,250	49,250	67,500	51,250	26,250	–	205,500	413,000
Remaining unexercised	11,250	49,250	67,500	105,000	110,625	202,500	546,125	753,625
Exercise price	\$ 25.78	\$ 33.22	\$ 54.17	\$ 41.82	\$ 39.29	\$ 44.42		
Volatility	0.183	0.207	0.233	0.330	0.315	0.304		
Expected life (years)	7.0	8.0	6.5	8.0	8.0	8.0		
Assumed yield	5.75%	6.37%	4.13%	4.81%	5.28%	5.12%		
Risk-free rate	4.05%	4.15%	4.61%	2.75%	1.49%	1.49%		
Total value at								
grant date	\$ 292,775	\$ 413,400	\$ 1,258,848	\$ 1,277,794	\$ 1,442,148	\$ 1,254,164	\$ 5,939,129	\$ 8,075,838
Forfeited options	17,925	35,100	–	252,300	813,800	–	1,119,125	1,119,125
Expensed in								
previous years	274,850	378,300	1,153,957	–	–	–	1,807,107	3,139,107
Expensed in 2011	–	–	104,891	186,347	–	–	291,238	588,613
Expensed in 2012	–	–	–	270,391	104,724	–	375,115	619,503
Expensed in 2013	–	–	–	235,350	157,083	209,027	601,460	864,406
Future expense	–	–	–	333,406	366,541	1,045,137	1,745,084	1,745,084
Remaining weighted								
average term of								
future expense			2.8 years					

The table below summarizes the option activity for the years 2013, 2012, and 2011:

	2013		2012		2011	
	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding at January 1	570,840	\$ 41.04	674,585	\$ 40.40	532,881	\$ 39.12
Granted	237,500	44.42	277,500	39.29	195,000	41.82
Exercised	(49,715)	33.15	(149,995)	31.03	(40,796)	29.03
Expired/Forfeited	(50,000)	52.16	(231,250)	43.56	(12,500)	45.05
Outstanding December 31	<u>753,625</u>	42.55	<u>570,840</u>	41.04	<u>674,585</u>	40.40
Exercisable at December 31	<u>413,000</u>	42.42	<u>377,715</u>	41.41	<u>512,085</u>	39.96

The intrinsic value of options exercised in 2013, 2012, and 2011, was \$0.6 million, \$1.6 million, and \$0.7 million, respectively. The intrinsic value of options outstanding and exercisable at year end 2013 was \$4.5 million and \$2.8 million, respectively. The intrinsic value measures the difference between the options' exercise price and the closing share price quoted by the New York Stock Exchange as of the date of measurement. The date of exercise was the measurement date for shares exercised during the period. At December 31, 2013, the final trading day of calendar 2013, the closing price of \$47.73 per share was used for the calculation of aggregate intrinsic value of options outstanding and exercisable at that date. Options having an exercise price in excess of the December 31, 2013 closing price have no intrinsic value. The weighted average remaining contractual life of the Company's exercisable and outstanding options at December 31, 2013 are 5.1 and 6.8 years, respectively.

11. NON-OPERATING ITEMS

Gain on casualty settlement in 2013 and 2012 reflect insurance proceeds received in excess of the carrying value of assets damaged during a hail storm at French Market in 2012. Gain on casualty settlement in 2011 reflects the excess of insurance proceeds over the carrying value of assets damaged during a severe hail storm at French Market. The insurance proceeds funded substantially all of the restoration of the damaged property.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair value. The aggregate fair value of the notes payable with fixed-rate payment terms was determined using Level 3 data in a discounted cash flow approach, which is based upon management's estimate of borrowing rates and loan terms currently available to the Company for fixed rate financing, and assuming long term interest rates of approximately 4.85% and 4.00%, would be approximately \$828.7 million and \$848.1 million, as of December 31, 2013 and 2012, respectively, compared to the carrying value of

\$789.9 million and \$774.8 million at December 31, 2013 and 2012, respectively. A change in any of the significant inputs may lead to a change in the Company's fair value measurement of its debt.

Effective June 30, 2011, the Company determined that one of its interest-rate swap arrangements was a highly effective hedge of the cash flows under one of its variable-rate mortgage loans and designated the swap as a cash flow hedge of that mortgage. The swap is carried at fair value with changes in fair value recognized either in income or comprehensive income depending on the effectiveness of the swap. The following chart summarizes the changes in fair value of the Company's swaps for the indicated periods.

(In thousands)	Year Ended December 31,		
	2013	2012	2011
Increase (decrease) in fair value:			
Recognized in earnings	\$ (7)	\$ 36	\$(1,332)
Recognized in other comprehensive income	2,897	(932)	(3,195)
Total	\$ 2,890	\$ (896)	\$(4,527)

The Company carries its interest rate swaps at fair value. The Company has determined the majority of the inputs used to value its derivative fall within Level 2 of the fair value hierarchy with the exception of the impact of counter-party risk, which was determined using Level 3 inputs and are not significant. Derivative instruments are classified within Level 2 of the fair value hierarchy because their values are determined using third-party pricing models which contain inputs that are derived from observable market data. Where possible, the values produced by the pricing models are verified by the market prices. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit spreads, measure of volatility, and correlations of such inputs. The swap agreement terminates on July 1, 2020. As of December 31,

2013, the fair value of the interest-rate swap was approximately \$2.7 million and is included in "Accounts payable, accrued expenses and other liabilities" in the consolidated balance sheets. The decrease in value from inception of the swap designated as a cash flow hedge is reflected in "Other Comprehensive Income" in the Consolidated Statements of Comprehensive Income.

13. COMMITMENTS AND CONTINGENCIES

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

14. DISTRIBUTIONS

In December 1995, the Company established a Dividend Reinvestment and Stock Purchase Plan (the "Plan"), to allow its stockholders and holders of limited partnership interests an opportunity to buy

additional shares of common stock by reinvesting all or a portion of their dividends or distributions. The Plan provides for investing in newly issued shares of common stock at a 3% discount from market price without payment of any brokerage commissions, service charges or other expenses. All expenses of the Plan are paid by the Company. The Operating Partnership also maintains a similar dividend reinvestment plan that mirrors the Plan, which allows holders of limited partnership interests the opportunity to buy either additional limited partnership units or common stock shares of the Company.

The Company paid common stock distributions of \$1.44 per share, during each of 2013, 2012, and 2011, and Series A preferred stock dividends of \$2.00 per depositary share during each of 2013, 2012 and 2011, Series B preferred stock dividends of \$0.99, \$2.25 and \$2.25 per share during 2013, 2012 and 2011, respectively, and Series C preferred stock dividends of \$1.09 per depositary share during 2013. Of the common stock dividends paid, \$0.96 per share, \$0.95 per share, and \$0.72 per share, represented ordinary dividend income and \$0.48 per share, \$0.49 per share, and \$0.72 per share represented return of capital to the shareholders. All of the preferred stock dividends paid were considered ordinary dividend income.

The following summarizes distributions paid during the years ended December 31, 2013, 2012, and 2011, and includes activity in the Plan as well as limited partnership units issued from the reinvestment of unit distributions:

<i>(Dollars in thousands, except per share amounts)</i>	Total Distributions to			Dividend Reinvestments			
	Preferred Stockholders	Common Stockholders	Limited Partnership Unitholders	Common Stock Shares Issued	Discounted Share Price	Limited Partnership Units Issued	Average Unit Price
Distributions during 2013							
October 31	\$ 3,206	\$ 7,388	\$ 2,489	48,836	\$ 46.27	88,309	\$ 46.93
July 31	3,206	7,327	2,489	138,019	45.21		
April 30	4,364	7,272	2,489	142,839	42.85		
January 31	3,785	7,218	2,489	145,468	41.67		
Total 2013	\$ 14,561	\$ 29,205	\$ 9,956	475,162		88,309	
Distributions during 2012							
October 31	\$ 3,785	\$ 7,120	\$ 2,489	141,960	\$ 42.23		
July 31	3,785	7,063	2,489	144,881	40.43		
April 30	3,785	7,005	2,489	145,118	38.93		
January 31	3,785	6,947	2,489	163,429	34.44		
Total 2012	\$ 15,140	\$ 28,135	\$ 9,956	595,388			
Distributions during 2011							
October 31	\$ 3,785	\$ 6,867	\$ 2,489	160,589	\$ 34.82		
July 31	3,785	6,772	1,950	125,973	38.30		
April 30	3,785	6,730	1,950	111,592	42.49		
January 31	3,785	6,693	1,950	100,094	45.92		
Total 2011	\$ 15,140	\$ 27,062	\$ 8,339	498,248			

In December 2013, the Board of Directors of the Company authorized a distribution of \$0.36 per common share payable in January 2014, to holders of record on January 17, 2014. As a result, \$7.4 million was paid to common shareholders on January 31, 2014. Also, \$2.5 million was paid to limited partnership unitholders on January 31, 2014 (\$0.36 per Operating Partnership unit). The Board of Directors authorized preferred stock dividends of \$0.50 per Series A depositary share, to holders of record on January 7, 2014 and \$0.4297 per Series C depositary share to holders of record on January 7, 2014.

As a result, \$3.2 million was paid to preferred shareholders on January 15, 2014. These amounts are reflected as a reduction of stockholders' equity in the case of common stock and preferred stock dividends and noncontrolling interest deductions in the case of limited partner distributions and are included in dividends and distributions payable in the accompanying consolidated financial statements.

15. INTERIM RESULTS (UNAUDITED)

The following summary presents the results of operations of the Company for the quarterly periods of calendar years 2013 and 2012.

(In thousands, except per share amounts)

	2013			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	\$ 49,186	\$ 48,809	\$ 49,756	\$ 50,146
Operating income before loss on early extinguishment of debt, gain on casualty settlement, discontinued operations and noncontrolling interest	3,388	7,711	11,959	12,211
Net income attributable to Saul Centers, Inc.	4,984	6,594	9,398	9,896
Net income (loss) available to common shareholders	(4,608)	3,387	6,192	6,690
Net income (loss) available to common shareholders per diluted share	(0.23)	0.17	0.30	0.33
	2012			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	\$ 46,989	\$ 47,373	\$ 47,443	\$ 48,287
Operating income before loss on early extinguishment of debt, gain on casualty settlement, discontinued operations and noncontrolling interest	9,318	9,598	8,160	8,020
Gain on sales of properties	-	-	1,057	3,453
Net income attributable to Saul Centers, Inc.	7,864	8,079	7,948	9,483
Net income available to common shareholders	4,079	4,294	4,163	5,698
Net income available to common shareholders per diluted share	0.21	0.22	0.21	0.29

16. BUSINESS SEGMENTS

The Company has two reportable business segments: Shopping Centers and Mixed-Use Properties. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2). The Company evaluates performance based upon income and cash flows from real estate for the combined properties in each segment. All of our properties within each segment generate similar types of revenues and expenses related to tenant rent, reimbursements and operating expenses. Although services are provided to a range of tenants, the types of services provided to them are similar within each segment. The properties in each portfolio have similar economic characteristics and the nature of the products and services provided to our tenants and the method to distribute such services are consistent throughout the portfolio. Certain reclassifications have been made to prior year information to conform to the 2013 presentation.

<i>(In thousands)</i>	Shopping Centers	Mixed-Use Properties	Corporate and Other	Consolidated Totals
As of or for the year ended December 31, 2013				
Real estate rental operations:				
Revenue	\$ 145,219	\$ 52,609	\$ 69	\$ 197,897
Expenses	(30,729)	(17,213)	—	(47,942)
Income from real estate	114,490	35,396	69	149,955
Interest expense and amortization of deferred debt costs	—	—	(46,589)	(46,589)
General and administrative	—	—	(14,951)	(14,951)
Subtotal	114,490	35,396	(61,471)	88,415
Depreciation and amortization of deferred leasing costs	(27,340)	(21,790)	—	(49,130)
Acquisition related costs	(106)	—	—	(106)
Predevelopment expenses	—	(3,910)	—	(3,910)
Change in fair value of derivatives	—	—	(7)	(7)
Loss on early extinguishment of debt	—	—	(497)	(497)
Gain on casualty settlement	77	—	—	77
Net income (loss)	\$ 87,121	\$ 9,696	\$ (61,975)	\$ 34,842
Capital investment	\$ 18,232	\$ 8,207	\$ —	\$ 26,439
Total assets	\$ 888,109	\$ 293,512	\$ 17,054	\$ 1,198,675
As of or for the year ended December 31, 2012				
Real estate rental operations:				
Revenue	\$ 137,647	\$ 52,309	\$ 136	\$ 190,092
Expenses	(30,139)	(17,131)	—	(47,270)
Income from real estate	107,508	35,178	136	142,822
Interest expense and amortization of deferred debt costs	—	—	(49,544)	(49,544)
General and administrative	—	—	(14,274)	(14,274)
Subtotal	107,508	35,178	(63,682)	79,004
Depreciation and amortization of deferred leasing costs	(25,667)	(14,445)	—	(40,112)
Acquisition related costs	(1,129)	—	—	(1,129)
Predevelopment expenses	—	(2,667)	—	(2,667)
Change in fair value of derivatives	—	—	36	36
Gain on sales of properties	4,510	—	—	4,510
Loss from operations of property sold	(81)	—	—	(81)
Gain on casualty settlement	219	—	—	219
Net income (loss)	\$ 85,360	\$ 18,066	\$ (63,646)	\$ 39,780
Capital investment	\$ 46,353	\$ 8,290	\$ —	\$ 54,643
Total assets	\$ 894,027	\$ 301,355	\$ 11,927	\$ 1,207,309

16. BUSINESS SEGMENTS (CONTINUED)

<i>(In thousands)</i>	Shopping Centers	Mixed-Use Properties	Corporate and Other	Consolidated Totals
As of or for the year ended December 31, 2011				
Real estate rental operations:				
Revenue	\$ 127,767	\$ 46,035	\$ 76	\$ 173,878
Expenses	(30,372)	(14,658)	—	(45,030)
Income from real estate	97,395	31,377	76	128,848
Interest expense and amortization of deferred debt costs	—	—	(45,324)	(45,324)
General and administrative	—	—	(14,256)	(14,256)
Subtotal	97,395	31,377	(59,504)	69,268
Depreciation and amortization of deferred leasing costs	(23,077)	(12,221)	—	(35,298)
Acquisition related costs	(2,534)	—	—	(2,534)
Change in fair value of derivatives	—	—	(1,332)	(1,332)
Gain on casualty settlement	245	—	—	245
Loss from operations of property sold	(55)	—	—	(55)
Net income (loss)	\$ 71,974	\$ 19,156	\$ (60,836)	\$ 30,294
Capital investment	\$ 177,958	\$ 24,546	\$ —	\$ 202,504
Total assets	\$ 871,409	\$ 308,053	\$ 13,107	\$ 1,192,569

17. SUBSEQUENT EVENTS

In February 2014, the Company terminated a 50,000 square foot lease at the Seven Corners shopping center and received a lease termination fee of \$1.85 million which will be recognized as revenue in the first quarter. The space was previously occupied by a furniture store that had vacated during 2013 and the lease was scheduled to expire in early 2016. A short term lease for the entire space has been executed with another furniture store while the Company is working on re-tenanting the space under a long term lease.

DIVIDEND REINVESTMENT PLAN

Saul Centers, Inc. offers a dividend reinvestment plan which enables its shareholders to automatically invest some of or all dividends in additional shares. The plan provides shareholders with a convenient and cost-free way to increase their investment in Saul Centers. Shares purchased under the dividend reinvestment plan are issued at a 3% discount from the average price of the stock on the dividend payment date. The Plan's prospectus is available for review in the Shareholders Information section of the Company's web site.

To receive more information please call the plan administrator at (800) 509-5586 and request to speak with a service representative or write:

Continental Stock Transfer and Trust Company
Attention: Saul Centers, Inc.
Dividend Reinvestment Plan
17 Battery Place
New York, NY 10004

DIVIDENDS AND DISTRIBUTIONS

Under the Code, REITs are subject to numerous organizational and operating requirements, including the requirement to distribute at least 90% of REIT taxable income. The Company distributed amounts greater than the required amount in 2013 and 2012. Distributions by the Company to common stockholders and holders of limited partnership units in the Operating Partnership were \$39.2 million and \$38.1 million in 2013 and 2012, respectively. Distributions to preferred stockholders were \$14.6 million and \$15.1 million in 2013 and 2012, respectively. See Notes to Consolidated Financial Statements, No. 14, "Distributions." The Company may or may not elect to distribute in excess of 90% of REIT taxable income in future years.

The Company's estimate of cash flow available for distributions is believed to be based on reasonable assumptions and represents a reasonable basis for setting distributions. However, the actual results of operations of the Company will be affected by a variety of factors, including but not limited to actual rental revenue,

operating expenses of the Company, interest expense, general economic conditions, federal, state and local taxes (if any), unanticipated capital expenditures, the adequacy of reserves and preferred dividends. While the Company intends to continue paying regular quarterly distributions, any future payments will be determined solely by the Board of Directors and will depend on a number of factors, including cash flow of the Company, its financial condition and capital requirements, the annual distribution amounts required to maintain its status as a REIT under the Code, and such other factors as the Board of Directors deems relevant. We are obligated to pay regular quarterly distributions to holders of depositary shares of Series A preferred stock, 60% of which was redeemed on March 2, 2013, at the rate of \$2.00 per annum per depositary share, and to holders of depositary shares of Series C preferred stock at the rate of \$1.71875 per annum per depositary share beginning February 12, 2013, prior to distributions on the common stock.

The Company paid four quarterly distributions totaling \$1.44 per common share during each of the years in the three-year period ended December 31, 2013. The annual distribution amounts paid by the Company exceed the distribution amounts required for tax purposes. Distributions to the extent of our current and accumulated earnings and profits for federal income tax purposes generally will be taxable to a stockholder as ordinary dividend income. Distributions in excess of current and accumulated earnings and profits will be treated as a nontaxable reduction of the stockholder's basis in such stockholder's shares, to the extent thereof, and thereafter as taxable gain. Distributions that are treated as a reduction of the stockholder's basis in its shares will have the effect of deferring taxation until the sale of the stockholder's shares. Of the \$1.44 per common share dividend paid in 2013, 67% was treated as a taxable dividend and 33% was treated as a return of capital. Of the \$1.44 per common share dividend paid in 2012, 66% was treated as a taxable dividend income and 34% was treated as a return of capital. Of the \$1.44 per common share dividend paid in 2011, 50% was taxable dividend income and 50% was considered return of capital. No assurance can be given regarding what portion, if any, of distributions in 2014 or subsequent years will constitute a return of capital for federal income tax purposes. All of the preferred stock dividends paid are treated as ordinary dividend income.

MARKET INFORMATION

Shares of Saul Centers common stock are listed on the New York Stock Exchange under the symbol "BFS". The composite high and low closing sale prices for the shares of common stock were reported by the New York Stock Exchange for each quarter of 2013 and 2012 as follows:

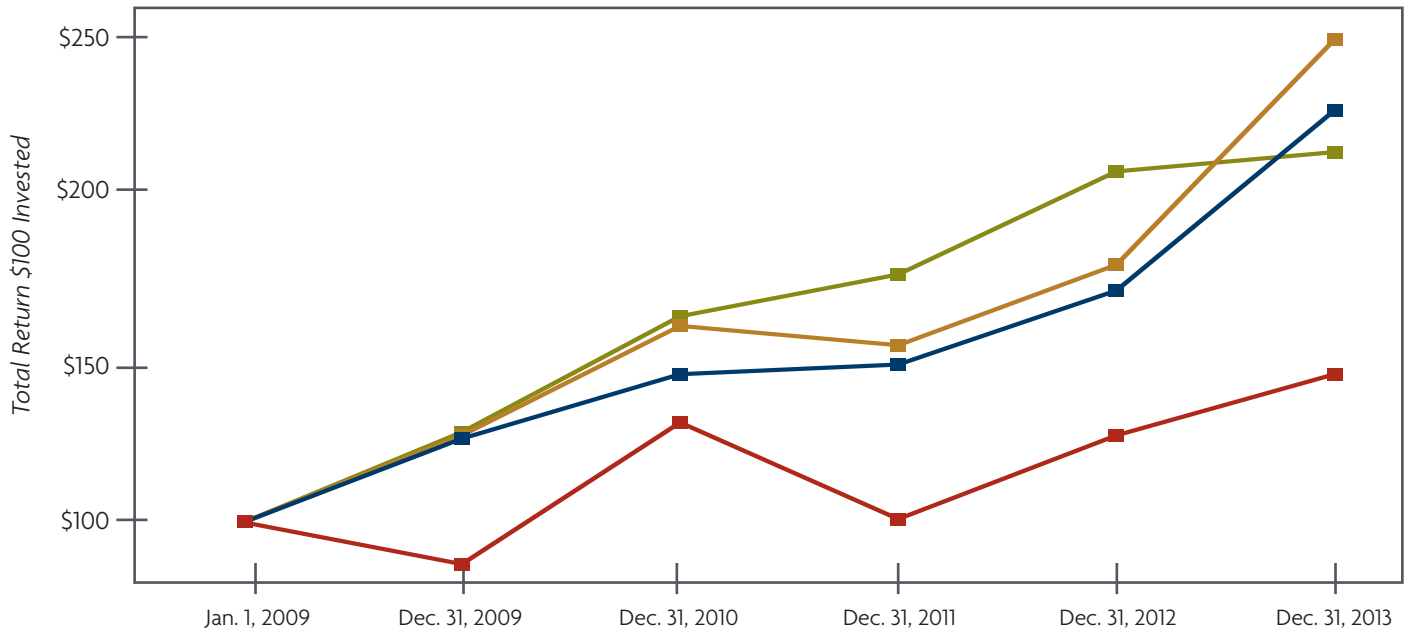
COMMON STOCK PRICES		
Period	Share Price	
	High	Low
October 1, 2013 – December 31, 2013	\$49.19	\$45.86
July 1, 2013 – September 30, 2013	\$48.49	\$43.10
April 1, 2013 – June 30, 2013	\$47.83	\$42.66
January 1, 2013– March 31, 2013	\$44.94	\$41.43
October 1, 2012 – December 31, 2012	\$45.34	\$40.81
July 1, 2012 – September 30, 2012	\$45.83	\$40.59
April 1, 2012 – June 30, 2012	\$43.32	\$39.01
January 1, 2012 – March 31, 2012	\$40.62	\$33.44

On March 3, 2014, the closing price was \$46.33 per share.
The approximate number of holders of record of the common stock was 210 as of March 3, 2014.

PERFORMANCE GRAPH

Rules promulgated under the Exchange Act require the Company to present a graph comparing the cumulative total stockholder return on its Common Stock with the cumulative total stockholder return of (i) a broad equity market index, and (ii) a published industry index or peer group. The following graph compares the cumulative total stockholder return of the Company's common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the National Association of Real Estate Investment Trust Equity Index ("NAREIT Equity"), the S&P 500 Index ("S&P 500") and the Russell 2000 Index ("Russell 2000"). The graph assumes the investment of \$100 on January 1, 2009.

COMPARISON OF CUMULATIVE TOTAL RETURN



	Jan. 1, 2009	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2013
■ Saul Centers	\$100	\$87	\$131	\$101	\$127	\$146
■ S&P 500	\$100	\$126	\$146	\$149	\$172	\$228
■ Russell 2000	\$100	\$127	\$161	\$155	\$180	\$250
■ NAREIT Equity	\$100	\$128	\$164	\$177	\$209	\$215

DIRECTORS

B. Francis Saul II

Chairman and Chief
Executive Officer

Thomas H. McCormick

President and Chief Operating Officer

Philip D. Caraci

Vice Chairman

The Honorable

John E. Chapoton

Partner, Brown Investment Advisory

George P. Clancy, Jr.

Executive Vice President, Emeritus
Chevy Chase Bank

Gilbert M. Grosvenor

Chairman Emeritus of
the Board of Trustees,
National Geographic Society

Philip C. Jackson, Jr.

Adjunct Professor Emeritus,
Birmingham-Southern College

Charles R. Longworth

Chairman Emeritus, Colonial
Williamsburg Foundation

Patrick F. Noonan

Founder/Chairman Emeritus,
The Conservation Fund

H. Gregory Platts

Senior Vice President and
Treasurer, Emeritus,
National Geographic Society

Mark Sullivan III

Financial and Legal Consultant

The Honorable

James W. Symington

Of Counsel, O'Connor and Hannan,
Attorneys at Law

John R. Whitmore

Financial Consultant

EXECUTIVE OFFICERS

B. Francis Saul II

Chairman and Chief
Executive Officer

Thomas H. McCormick

President and Chief Operating Officer

J. Page Lansdale

Executive Vice President,
Real Estate

Scott V. Schneider

Senior Vice President,
Chief Financial Officer,
Treasurer and Secretary

Debra Stencel

Senior Vice President and
General Counsel

Joel A. Friedman

Senior Vice President,
Chief Accounting Officer

Christopher H. Netter

Senior Vice President, Leasing

John F. Collich

Senior Vice President,
Acquisitions and Development

Charles W. Sherren, Jr.

Senior Vice President, Management

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst and Young LLP
McLean, Virginia 22102

WEB SITE

www.saulcenters.com

EXCHANGE LISTING

New York Stock
Exchange (NYSE) Symbol:
Common Stock: BFS
Preferred Stock: BFS.PrA
BFS.PrC

TRANSFER AGENT

Continental Stock Transfer and
Trust Company
17 Battery Place
New York, NY 10004
(800) 509-5586

INVESTOR RELATIONS

A copy of the Saul Centers, Inc. annual report to the Securities and Exchange Commission on Form 10-K, which includes as exhibits the Chief Executive Officer and Chief Financial Officer Certifications required by Section 302 of the Sarbanes-Oxley Act, may be printed from the Company's web site or obtained at no cost to stockholders by writing to the address below or calling (301) 986-6016. In 2013, the Company filed with the NYSE the Certification of its Chief Executive Officer confirming that he was not aware of any violation by the Company of the NYSE's corporate governance listing standards.

HEADQUARTERS

7501 Wisconsin Ave.
Suite 1500E
Bethesda, MD 20814-6522
Phone: (301) 986-6200



Great Falls Center (recently renovated), Great Falls, VA

Annual Meeting of Stockholders

The Annual Meeting of Stockholders will be held at 11:00 a.m., local time, on May 9, 2014, at the Hyatt Regency Bethesda, One Bethesda Metro Center, Bethesda, MD (at the southwest corner of the Wisconsin Avenue and Old Georgetown Road intersection, adjacent to the Bethesda Metro Stop on the Metro Red Line.)

Saul Centers

7501 Wisconsin Avenue, Suite 1500E

Bethesda, MD 20814-6522

Phone: (301) 986-6200

Website: www.saulcenters.com