

Saul Centers

2015



Annual Report
to Shareholders



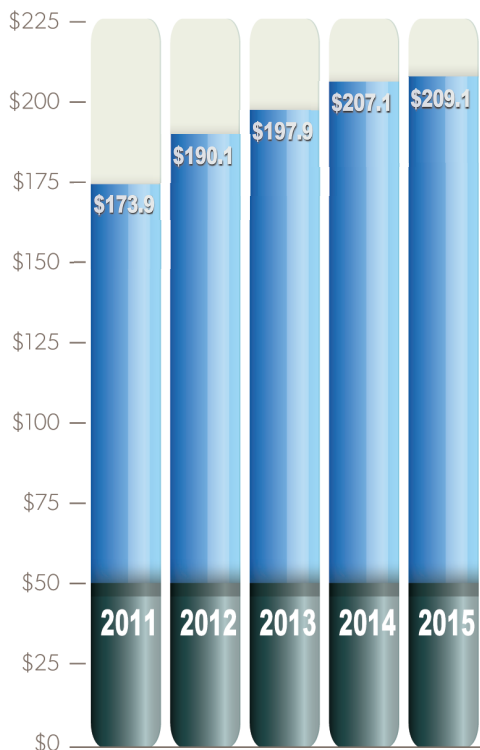
Ashburn Village, Ashburn, VA



Saul Centers, Inc. is a self-managed, self-administered equity Real Estate Investment Trust (REIT) headquartered in Bethesda, Maryland. Saul Centers operates and manages a real estate portfolio comprised of 59 properties including (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. Approximately 85% of the Company's property operating income is generated by properties in the metropolitan Washington, DC/Baltimore area.

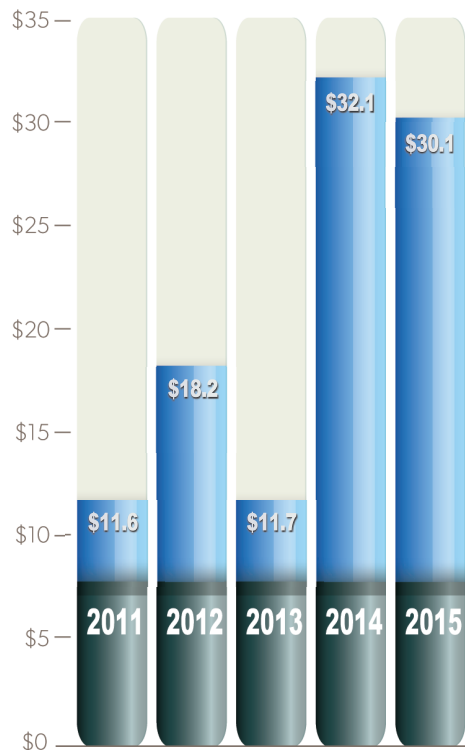
TOTAL REVENUE

(In millions)



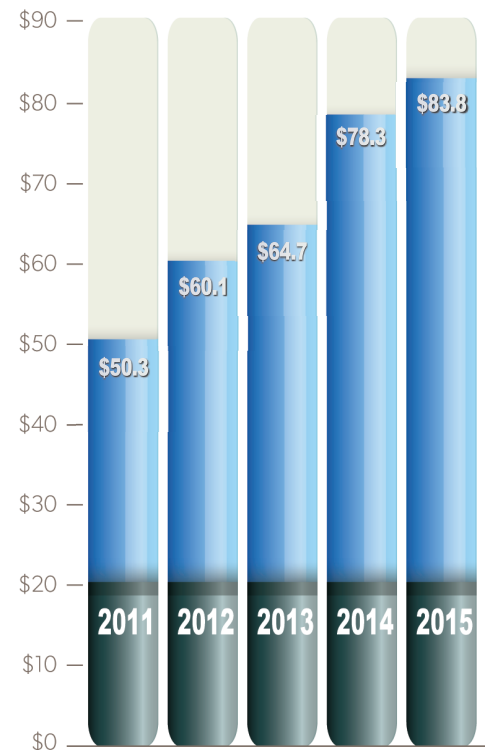
NET INCOME

Available to Common Stockholders
(In millions)



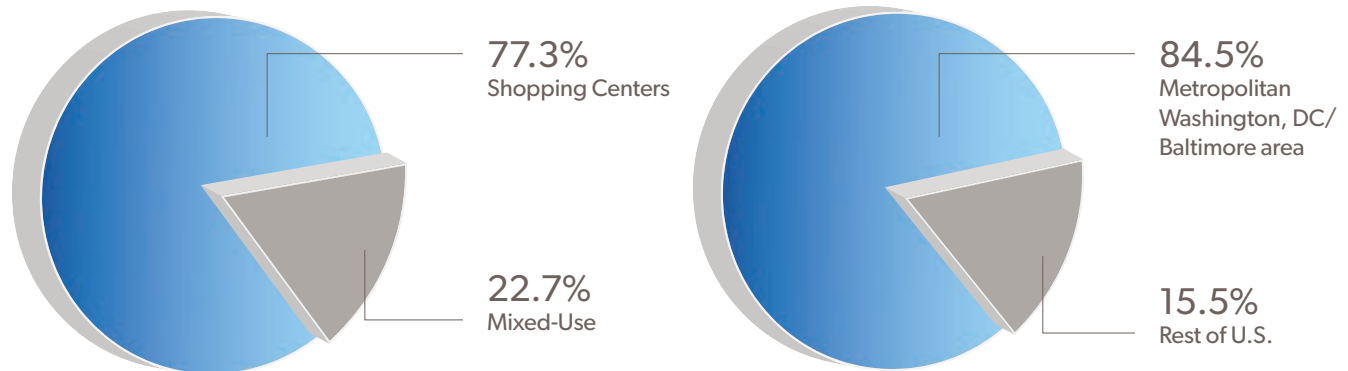
FUNDS FROM OPERATIONS

Available to Common Shareholders*
(In millions)



* Funds From Operations (FFO) is a non-GAAP financial measure. The term Common Shareholders means common stockholders and noncontrolling interests. See page 25 for a definition of FFO and reconciliation from Net Income.

Portfolio Composition BASED ON 2015 PROPERTY OPERATING INCOME



	Year ended December 31,				
	2015	2014	2013	2012	2011
Summary Financial Data					
Total Revenue	\$209,077,000	\$207,092,000	\$197,897,000	\$190,092,000	\$173,878,000
Net Income Available to Common Stockholders	\$30,093,000	\$32,102,000	\$11,661,000	\$18,234,000	\$11,593,000
FFO Available to Common Shareholders	\$83,815,000	\$78,281,000	\$64,684,000	\$60,100,000	\$50,309,000
Weighted Average Common Stock Outstanding (Diluted)	21,196,000	20,821,000	20,401,000	19,700,000	18,949,000
Weighted Average Common Stock and Units Outstanding	28,449,000	27,977,000	27,330,000	26,614,000	24,740,000
Net Income Per Share Available to Common Stockholders (Diluted)	\$1.42	\$1.54	\$0.57	\$0.93	\$0.61
FFO Per Share Available to Common Shareholders (Diluted)	\$2.95	\$2.80	\$2.37	\$2.26	\$2.03
Common Dividend as a Percentage of FFO	57%	56%	61%	64%	71%
Interest Expense Coverage ^a	3.24x	3.15x	2.98x	2.68x	2.62x
Property Data					
Number of Operating Properties ^b	56	56	56	57	58
Total Portfolio Square Feet	9,350,000	9,339,000	9,333,000	9,489,000	9,543,000
Shopping Center Square Feet	7,897,000	7,886,000	7,880,000	7,877,000	7,933,000
Mixed-Use Square Feet	1,453,000	1,453,000	1,453,000	1,612,000	1,610,000
Average Percentage Leased ^c	95%	94%	93%	91%	90%
<p>(a) Interest expense coverage equals (i) operating income before the sum of interest expense and amortization of deferred debt costs, predevelopment expenses, acquisition related costs, and depreciation and amortization of deferred leasing costs divided by (ii) interest expense.</p> <p>(b) Excludes development parcels (Ashland Square Phase II and New Market in 2011 and 2012 and Ashland Square Phase II, New Market and Park Van Ness in 2013, 2014 and 2015).</p> <p>(c) Average percentage leased for 2015, 2014, 2013, 2012 and 2011 excludes Clarendon Center residential, which averaged 98%, 98%, 98%, 98% and 97% leased, respectively.</p>					

Message to Shareholders



FFO PER SHARE HAS
GROWN AT A
COMPOUNDED ANNUAL
9.8% OVER THE FOUR
YEARS SINCE 2011.

2015 was the fourth consecutive year of improved Funds From Operations (FFO), portfolio occupancy, and same property operating income since the lows of 2011. FFO per share has grown at a compounded annual 9.8% as the average leasing percentage grew from 90% to 95% and same property operating income increased by an annual average of 2.5% over this period. We supplemented this same property growth with selective acquisitions and developments, improving total property operating income by 22% from \$129.0 million in 2011 to \$157.9 million in 2015. During this period, we invested \$284 million to acquire new properties funded primarily by internally generated cash and a \$120 million increase in debt, excluding the current outstanding balance on our Park Van Ness construction loan. Attractive loan pricing for refinancings and acquisition debt held interest expense and deferred debt costs at \$45 million, flat from 2011 levels. As a result, interest expense coverage has improved from 2.62x in 2011 to 3.24x in 2015 and leverage, as measured by debt to total capitalization, decreased from 35.2% entering 2011 to 34.8% at December 31, 2015.

Hunt Club Corners, Apopka, FL



2015 FINANCIAL RESULTS

Total revenue increased to \$209.1 million in 2015 from \$207.1 million in 2014, and operating income increased to \$52.9 million from \$51.9 million. Net income available to common stockholders was \$30.1 million in 2015 compared to \$32.1 million in 2014, decreasing as a result of a \$6.1 million gain on property sale in 2014.

During 2015, overall same property revenue increased 0.4% and same property operating income decreased 0.5%. Same property results exclude the results of properties not in operation for the entirety of the comparable reporting periods.

Same property operating income was positively impacted by

- higher shopping center base rent of \$2.8 million, and
- higher shopping center property operating expense and real estate tax recoveries of \$0.5 million, offset by
- lower other revenue of \$1.3 million, primarily due to higher 2014 lease termination fees,
- a \$1.6 million 2014 bankruptcy collection from a former tenant at Seven Corners, and
- higher mixed-use property operating expenses and real estate taxes, net of expense recoveries, totaling \$1.4 million.

FFO available to common shareholders (after deducting preferred stock dividends) increased 7.1% to \$83.8 million (\$2.95 per diluted share) in 2015 from \$78.3 million (\$2.80 per diluted share) in 2014. FFO increased primarily as a result of (a) higher overall property operating income (\$2.0 million), exclusive of the below Seven Corners item, (b) lower preferred stock redemption costs (\$1.5 million), (c) lower preferred stock dividends (\$1.0 million), (d) lower interest expense (\$0.9 million), (e) lower acquisition related costs (\$0.9 million), and (f) lower general and administrative expenses (\$0.6 million), partially offset by (g) the 2014 bankruptcy settlement and collection related to a former tenant at Seven Corners (\$1.6 million).

Village Center, Centreville, VA



Great Falls Center, Great Falls, VA



Message to Shareholders



SHOPPING CENTER SAME
PROPERTY OPERATING
INCOME HAS GROWN AT
AN AVERAGE ANNUAL RATE
OF 2.9% SINCE 2011.

SHOPPING CENTER HIGHLIGHTS

Solid 2015 shopping center financial results were driven by successful leasing activities. A total of 236 new and renewal retail leases were executed in 2015, compared to an average of 225 per year over the five preceding years. During 2015, the percentage of leased retail space improved to 95.4% from 95.0% and significantly increased from 92.9% at year-end 2010. Overall leasing percentage has improved largely due to increases in small shop leasing. Small shops, defined as in-line spaces less than 10,000 square feet, currently total approximately 2.4 million square feet of the shopping center portfolio. Although small shops comprise only 30% of our retail square footage, they contribute 48% of our monthly base rent. Small shop leasing has improved from 84% entering 2011, our low point, to 91.2% as of December 31, 2015. Our peak of 94% was achieved in pre-recession 2006, indicating there remains room for improvement looking into 2016.



Clarendon Center, Arlington, VA



Broadlands Village, Ashburn, VA

MIXED-USE PERFORMANCE

Our mixed-use portfolio consists of 244 apartments and 1.3 million square feet of commercial space. A total of 1.1 million square feet of the commercial space is located in the Washington, DC metropolitan area, 1.0 million of which is office space, with the balance being retail. Mixed-use property operating income in 2015 was 23% of total property operating income. The office markets have experienced very weak demand since the 2008 recession, and our buildings have experienced an unprecedented period of elevated vacancy and rental rate roll-down. From 2011 through 2015, our commercial mixed-use space averaged 89% leased, and same space new and renewal rental rates declined an average of 7% compared to expiring rents. The decreased rents resulted in a 1% average annual decline in same property operating income over this period. Current commercial mixed-use leasing percentage is 91.0%, but demand continues to be weak. Mitigating the impact of the soft office leasing environment, only 83,500 square feet of our Washington, DC metropolitan area space was vacant at December 31, 2015, and a total of only 95,000 square feet of space in this market is scheduled to expire over the next 24 months.

On a same space basis, rental rate changes compared to expiring rents on new and renewal leases decreased during the recession, beginning in 2009. Rental rates decreased an average of 5% from 2009 through 2011, and turned positive in 2012. Rental rate growth averaged 2% annually during the period 2012 through 2014, and further improved to a healthy 4.5% on 1.5 million square feet of new and renewal leases in 2015.

The percentage of retail tenants renewing leases, as measured by expiring base rents, was 74% in 2015, consistent with the average of the previous three years, and significantly better than the low of 60% in 2011. All of these factors contributed to our shopping center same property operating income growth averaging 2.9% per year since 2011.

Message to Shareholders

Park Van Ness, Washington, DC



There are indications that the Washington, DC metropolitan area office leasing market may improve. Recent 2015 defense budget increases and improved job growth of over 65,000 in 2015, compared to approximately 30,000 in 2014, should provide a better environment for increased office demand. Education, healthcare and other professional service sectors are also expected to generate increased office space demand.

DEVELOPMENT & PRE-DEVELOPMENT

In April 2016, we will deliver our Park Van Ness development, comprised of 271 luxury apartment units and approximately 9,000 square feet of street-level retail, conveniently located on Connecticut Avenue at the Van Ness Metro Station. Park Van Ness offers a combination of urban convenience and exceptional views of Rock Creek Park, with amenities including a fitness center, roof-top pool, and spacious community room. Residential tenants will be attracted by the two street-level retail tenants, Soapstone Market, a 6,000 square foot speciality grocery and gourmet market and Sfogolina, an Italian fine dining establishment by one of Washington, DC's best chefs.

This \$93 million development will be Saul Centers' second urban Metro oriented project, following the highly successful Clarendon Center project completed in late 2010. The 244 apartments at Clarendon Center have averaged over 98% leased since lease-up was completed in mid-2011.

Pre-development activities continue at our premiere location at the intersection of N. Glebe Road and Wilson Boulevard, our recently acquired land near the Ballston Metro Station in Arlington, Virginia. Zoning and site plan approvals are underway for a mixed-use building comprised of 475 luxury apartments and over 60,000 square feet of street-level retail space. We also continue to work on approvals for mixed-use developments at the White Flint and Twinbrook Metro Stations in Montgomery County, Maryland. These projects will provide up to 2.8 million square feet of space, with construction to be phased as market conditions are deemed favorable. A timetable for these future construction starts has yet to be determined, but these projects are expected to substantially enhance our core property cash flow growth over the next 10 years and beyond.



BALANCE SHEET

We enter 2016 with a leverage ratio of 34.8%, as measured by debt to total capitalization. This prudent leverage, when combined with unused credit line capacity of approximately \$245 million and internally generated cash flow, provides capacity to fuel future acquisition and development growth.

Since 2011, our dividend has increased from \$1.44 per share to an annualized \$1.88 per share, based on our most recently declared dividend, a compounded annual increase of 6.9% over the past 4 years. Despite these increases, our dividend to FFO payout ratio has remained steady at a conservative level of approximately 60%. When combining this dividend increase with the stock price appreciation, we are very proud that since our inception in August 1993, our common stock has generated a compounded annual total return of 11.1%.

While current local and global political and economic conditions continue to be challenging and volatile, we believe our local metropolitan Washington, DC real estate operating and development focus will serve our shareholders well. We are confident that, through the continued efforts of our loyal and dedicated staff of professionals, Saul Centers will produce growth in cash flow from its core assets, supplemented by portfolio additions through successful development.

For the Board

A handwritten signature in black ink, appearing to read "B. Francis Saul II".

B. Francis Saul II
March 14, 2016



As of December 31, 2015, 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 85% 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	221,585	Olde Forte Village, Ft. Washington, MD	143,577
Ashland Square Phase I, Dumfries, VA	23,120	Olney, Olney, MD	53,765
Beacon Center, Alexandria, VA	358,071	Orchard Park, Dunwoody, GA	87,365
BJ's Wholesale Club, Alexandria, VA	115,660	Palm Springs Center, Altamonte Springs, FL	126,446
Boca Valley Plaza, Boca Raton, FL	121,269	Ravenwood, Baltimore, MD	93,328
Boulevard, Fairfax, VA	49,140	11503 Rockville Pk / 5541 Nicholson Ln, Rockville, MD	40,249
Briggs Chaney MarketPlace, Silver Spring, MD	194,347	1500/1580/1582/1584 Rockville Pike, Rockville, MD	110,128
Broadlands Village, Ashburn, VA	174,734	Seabreeze Plaza, Palm Harbor, FL	146,673
Countryside Marketplace, Sterling, VA	138,229	Marketplace at Sea Colony, Bethany Beach, DE	21,677
Cranberry Square, Westminster, MD	141,450	Seven Corners, Falls Church, VA	573,481
Cruse MarketPlace, Cumming, GA	78,686	Severna Park Marketplace, Severna Park, MD	254,174
Flagship Center, Rockville, MD	21,500	Shops at Fairfax, Fairfax, VA	68,762
French Market, Oklahoma City, OK	244,718	Smallwood Village Center, Waldorf, MD	174,749
Germantown, Germantown, MD	18,982	Southdale, Glen Burnie, MD	484,035
726/730/750 N. Glebe Rd., Arlington, VA	23,688	Southside Plaza, Richmond, VA	371,761
The Glen, Woodbridge, VA	136,440	South Dekalb Plaza, Atlanta, GA	163,418
Great Eastern, District Heights, MD	255,398	Thruway, Winston-Salem, NC	362,456
Great Falls Center, Great Falls, VA	91,666	Village Center, Centreville, VA	146,032
Hampshire Langley, Takoma Park, MD	131,700	Westview Village, Frederick, MD	97,145
Hunt Club Corners, Apopka, FL	101,522	White Oak, Silver Spring, MD	480,676
Jamestown Place, Altamonte Springs, FL	96,341	TOTAL SHOPPING CENTERS	7,896,499
Kentlands Square I, Gaithersburg, MD	114,381	Mixed-Use Properties	
Kentlands Square II, Gaithersburg, MD	246,965	Avenel Business Park, Gaithersburg, MD	390,683
Kentlands Place, Gaithersburg, MD	40,697	Clarendon Center – North, Arlington, VA	108,387
Lansdowne Town Center, Leesburg, VA	189,422	Clarendon Center – South, Arlington, VA	293,565
Leesburg Pike Plaza, Baileys Crossroads, VA	97,752	(includes 244 apartments comprising 188,671 square feet)	
Lumberton Plaza, Lumberton, NJ	192,718	Crosstown Business Center, Tulsa, OK	197,127
Metro Pike Center, Rockville, MD	67,488	601 Pennsylvania Ave., Washington, DC	227,021
Shops at Monocacy, Frederick, MD	109,144	Washington Square, Alexandria, VA	236,376
Northrock, Warrenton, VA	99,789	TOTAL MIXED-USE PROPERTIES	1,453,159
		TOTAL PORTFOLIO	9,349,658

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SELECTED FINANCIAL DATA

<i>(In thousands, except per share data)</i>	Years Ended December 31,				
	2015	2014	2013	2012	2011
Operating Data:					
Total revenue	\$ 209,077	\$ 207,092	\$ 197,897	\$ 190,092	\$ 173,878
Total operating expenses	156,147	155,163	162,628	154,996	142,442
Operating income	52,930	51,929	35,269	35,096	31,436
Non-operating income:					
Change in fair value of derivatives	(10)	(10)	(7)	36	(1,332)
Loss on early extinguishment of debt	—	—	(497)	—	—
Gain on sale of property	11	6,069	—	—	—
Gain on casualty settlements	—	—	77	219	245
Income from continuing operations	52,931	57,988	34,842	35,351	30,349
Discontinued operations	—	—	—	4,429	(55)
Net income	52,931	57,988	34,842	39,780	30,294
Income attributable to the noncontrolling interests	(10,463)	(11,045)	(3,970)	(6,406)	(3,561)
Net income attributable to Saul Centers, Inc.	42,468	46,943	30,872	33,374	26,733
Preferred stock redemption	—	(1,480)	(5,228)	—	—
Preferred dividends	(12,375)	(13,361)	(13,983)	(15,140)	(15,140)
Net income available to common stockholders	\$ 30,093	\$ 32,102	\$ 11,661	\$ 18,234	\$ 11,593
Per Share Data (diluted):					
Net income available to common stockholders:					
Continuing operations	\$ 1.42	\$ 1.54	\$ 0.57	\$ 0.70	\$ 0.61
Discontinued operations	—	—	—	0.23	—
Total	\$ 1.42	\$ 1.54	\$ 0.57	\$ 0.93	\$ 0.61
Basic and diluted shares outstanding:					
Weighted average common shares - basic	21,127	20,772	20,364	19,649	18,889
Effect of dilutive options	69	49	37	51	60
Weighted average common shares - diluted	21,196	20,821	20,401	19,700	18,949
Weighted average convertible limited partnership units	7,253	7,156	6,929	6,914	5,791
Weighted average common shares and fully converted limited partnership units - diluted	28,449	27,977	27,330	26,614	24,740
Dividends Paid:					
Cash dividends to common stockholders ⁽¹⁾	\$ 35,645	\$ 32,346	\$ 29,205	28,135	\$ 27,062
Cash dividends per share	\$ 1.69	\$ 1.56	\$ 1.44	\$ 1.44	\$ 1.44
Balance Sheet Data:					
Real estate investments (net of accumulated depreciation)	\$ 1,197,340	\$ 1,163,542	\$ 1,094,776	\$ 1,112,763	\$1,091,448
Total assets	1,304,145	1,266,987	1,198,675	1,207,309	1,192,569
Total debt, including accrued interest	878,389	860,601	823,328	831,121	835,459
Preferred stock	180,000	180,000	180,000	179,328	179,328
Total stockholders' equity	353,727	339,257	315,126	307,289	293,206
Other Data:					
Cash flow provided by (used in):					
Operating activities	\$ 88,896	\$ 86,568	\$ 73,527	\$ 78,423	\$ 55,669
Investing activities	(69,587)	(83,589)	(26,034)	(46,873)	(201,500)
Financing activities	(21,434)	(8,148)	(42,329)	(31,740)	145,186
Funds from operations ⁽²⁾ :					
Net income	52,931	57,988	34,842	39,780	30,294
Real property depreciation and amortization	43,270	41,203	49,130	40,112	35,298
Real property depreciation - discontinued operations	—	—	—	77	102
Gain on property dispositions and casualty settlements	(11)	(6,069)	(77)	(4,729)	(245)
Funds from operations	96,190	93,122	83,895	75,240	65,449
Preferred stock redemption	—	(1,480)	(5,228)	—	—
Preferred dividends	(12,375)	(13,361)	(13,983)	(15,140)	(15,140)
Funds from operations available to common shareholders	\$ 83,815	\$ 78,281	\$ 64,684	\$ 60,100	\$ 50,309

(1) During 2015, 2014, 2013, 2012, and 2011, shareholders reinvested \$10.6 million, \$9.3 million, \$20.7 million, \$23.1 million and \$19.8 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 (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 17, 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 25, 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 32. 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 below-market-rent leases 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 acquisitions, redevelopments and renovations.

In 2014, in separate transactions, the Company purchased three properties, with approximately 57,400 square feet of retail space, for an aggregate \$25.2 million. The three properties are adjacent to an existing property on the east side of Rockville Pike near the Twinbrook Metro station. Combined, the four properties total 10.3 acres and are zoned for up to 1.2 million 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.

The Company owns properties on the east and west sides of Rockville Pike near the White Flint Metro station which combined total 7.6 acres which are zoned for a development potential of up to 1.6 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.

During 2013, the Company completed negotiation of lease termination agreements with the tenants of Van Ness Square. Costs incurred related to those termination arrangements were amortized to expense using the straight-line method over the remaining terms of the leases, are included in "Predevelopment Expenses" in the Consolidated Statements of Operations, and totaled \$3.3 million in 2013. The Company is in the process of developing a primarily residential project with street-level retail. In connection with the demolition of the existing structure, approximately \$580,000 and \$503,000 of predevelopment expenses were recognized in 2013 and 2014, respectively.

In 2014, in separate transactions, the Company purchased two adjacent properties, with approximately 18,900 square feet of retail space, on North Glebe Road in Arlington, Virginia, for an aggregate \$42.8 million. In September 2015, the Company purchased an additional property on North Glebe Road, which is adjacent to the two properties acquired in 2014, for \$4.0 million. Combined, the properties total 2.5 acres and are zoned for up to 550,000 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.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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. 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, which began in 2008, the effects on the office and retail markets in the metropolitan Washington, D.C. area, where the majority of the Company's properties are located, were initially less severe than in many other areas of the country. Even though economic conditions in the local economies, where the majority of the Company's properties are located, have improved over recent years, issues facing the Federal government relating to spending cuts and budget policies have resulted in continued elevated vacancy rates in many sub-markets, thus pressuring rental rate growth. While overall consumer confidence appears to have improved, retailers continue to be cautious about new store openings. 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, continues to improve and increased to 94.7% at December 31, 2015, from 94.4% at December 31, 2014.

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, 2015, amortizing fixed-rate mortgage debt with staggered maturities from 2018 to 2034 represented approximately 95.1% 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 Metro Pike Center and \$28.0 million outstanding under the unsecured revolving line of credit. As of December 31, 2015, the Company has loan availability of approximately \$246.6 million under its \$275.0 million unsecured revolving line of credit.

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

CRITICAL ACCOUNTING POLICIES

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

REAL ESTATE INVESTMENTS

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

The Company purchases real estate investment properties from time to time and records assets acquired and liabilities assumed, including land, buildings, and intangibles related to in-place leases and customer relationships based on their fair values. The fair value of buildings generally is determined as if the buildings were vacant upon acquisition and subsequently leased at market rental rates and considers the present value of all cash flows expected to be generated by the property including an initial lease up period. The Company determines the fair value of above and below market intangibles associated with in-place leases by assessing the net effective rent and remaining term of the in-place lease relative to market terms for similar leases at acquisition taking into consideration the remaining contractual lease period, renewal periods, and the likelihood of the tenant exercising its renewal options. The fair value of a below market lease component is recorded as deferred

income and accreted as additional lease revenue over the remaining contractual lease period. 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 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.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ALLOWANCE FOR DOUBTFUL ACCOUNTS - CURRENT AND DEFERRED RECEIVABLES

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

LEGAL CONTINGENCIES

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

RESULTS OF OPERATIONS

Same property revenue and same property operating income are non-GAAP financial measures of performance and improve the comparability of these measures by excluding the results of properties which were not in operation for the entirety of the comparable reporting periods.

We define same property revenue as total revenue minus the sum of interest income and revenue of properties not in operation for the entirety of the comparable reporting periods, and we define same property operating income as net income plus the sum of interest expense and amortization of deferred debt costs, depreciation and amortization, general and administrative expense, loss on the early extinguishment of debt (if any), predevelopment expense and acquisition related costs, minus the sum of interest income, the change in the fair value of derivatives, gains on property dispositions (if any) and the results of properties which were not in operation for the entirety of the comparable periods.

Other REITs may use different methodologies for calculating same property revenue and same property operating income. Accordingly, our same property revenue and same property operating income may not be comparable to those of other REITs.

Same property revenue and same property operating income are used by management to evaluate and compare the operating performance of our properties, and to determine trends in earnings, because these measures are not affected by the cost of our funding, the impact of depreciation and amortization expenses, gains or losses from the acquisition and sale of operating real estate assets, general and administrative expenses or other gains and losses that relate to ownership of our properties. We believe the exclusion of these items from revenue and operating income is useful because the resulting measures capture the actual revenue generated and actual expenses incurred by operating our properties.

Same property revenue and same property operating income are measures of the operating performance of our properties but do not measure our performance as a whole. Such measures are therefore not substitutes for total revenue, net income or operating income as computed in accordance with GAAP.

The tables below provide reconciliations of total revenue and operating income under GAAP to same property revenue and operating income for the indicated periods. The same property results include 49 Shopping Centers and six Mixed-Use properties for each period.

<i>(In thousands)</i>	SAME PROPERTY REVENUE	
	Year ended December 31,	
	2015	2014
Total revenue	\$ 209,077	\$ 207,092
Less: Interest income	(51)	(75)
Less: Acquisitions, dispositions and development properties	(2,572)	(1,320)
Total same property revenue	\$ 206,454	\$ 205,697
Shopping centers	\$ 153,538	\$ 153,065
Mixed-Use properties	52,916	52,632
Total same property revenue	\$ 206,454	\$ 205,697

The \$0.8 million increase in same property revenue for 2015 compared to 2014 was primarily due to (a) a \$0.23 per square foot increase in base rent (\$2.0 million), (b) a 48,863 square foot increase in leased space (\$0.9 million), and (c) increased expense recovery income (\$0.8 million), partially offset by (d) the 2014 bankruptcy settlement and collection related to a former tenant at Seven Corners (\$1.6 million) and (e) the 2014 impact of a lease termination fee at Seven Corners (\$1.9 million).

SAME PROPERTY OPERATING INCOME

<i>(In thousands)</i>	Year Ended December 31,	
	2015	2014
Net income	\$ 52,931	\$ 57,988
Add: Interest expense and amortization of deferred debt costs	45,165	46,034
Add: General and administrative	16,353	16,961
Add: Depreciation and amortization of deferred leasing costs	43,270	41,203
Add: Predevelopment expenses	132	503
Add: Acquisition related costs	84	949
Add: Change in fair value of derivatives	10	10
Less: Gains on property dispositions	(11)	(6,069)
Less: Interest income	(51)	(75)
Property operating income	157,883	157,504
Less: Acquisitions, dispositions & development property	(2,274)	(1,122)
Total same property operating income	\$ 155,609	\$ 156,382
Shopping centers	\$ 119,959	\$ 119,482
Mixed-Use properties	35,650	36,900
Total same property operating income	\$ 155,609	\$ 156,382

Same property operating income decreased \$0.8 million for 2015 compared to 2014 due primarily to (a) the 2014 bankruptcy settlement and collection related to a former tenant at Seven Corners (\$1.6 million), (b) higher real estate taxes (\$1.2 million), and (c) a 2014 lease termination fee at Seven Corners (\$1.9 million) partially

offset by (d) a \$0.23 per square foot increase in base rent (\$2.0 million), (e) a 48,863 square foot increase in leased space (\$0.9 million) and (f) increased expense recovery income (\$0.8 million).

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

REVENUE

<i>(Dollars in thousands)</i>	Year ended December 31,			Percentage Change	
	2015	2014	2013	2015 from 2014	2014 from 2013
Base rent	\$ 168,303	\$ 164,599	\$ 159,898	2.3%	2.9%
Expense recoveries	32,911	32,132	30,949	2.4%	3.8%
Percentage rent	1,608	1,492	1,575	7.8%	(5.3)%
Other	6,255	8,869	5,475	(29.5)%	62.0%
Total revenue	\$ 209,077	\$ 207,092	\$ 197,897	1.0%	4.6%

Base rent includes \$2.4 million, \$2.0 million and \$3.0 million, for the years 2015, 2014, and 2013, respectively, to recognize base rent on a straight-line basis. In addition, base rent includes \$1.8 million, \$1.9 million and \$1.7 million, for the years 2015, 2014, and 2013, respectively, to recognize income from the amortization of in-place leases.

Total revenue increased 1.0% in 2015 compared to 2014 primarily due to (a) a \$0.45 per square foot increase in base rent (\$3.9 million) and (b) higher expense recoveries (\$0.8 million) partially offset by (c) a 2014 bankruptcy settlement and collection related

to a former tenant at Seven Corners (\$1.6 million), (d) a 2014 lease termination fee at Seven Corners (\$1.9 million), and (e) a 6,586 square foot decrease in leased space (\$0.1 million). Total revenue increased 4.6% in 2014 compared to 2013 primarily due to (a) a \$0.43 per square foot increase in base rent (\$3.7 million), (b) a 107,062 square foot increase in leased space (\$1.9 million), (c) higher expense recoveries (\$1.2 million), (d) a 2014 bankruptcy settlement and collection related to a former tenant at Seven Corners (\$1.6 million) and (e) the impact of a 2014 lease termination at Seven Corners (\$0.7 million). A discussion of the components of revenue follows.

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BASE RENT

The \$3.7 million increase in base rent in 2015 compared to 2014 was attributable to (a) a \$0.45 per square foot increase in base rent (\$3.9 million) partially offset by (b) a 6,586 square foot decrease in leased space (\$0.1 million). The \$4.7 million increase in base rent in 2014 compared to 2013 was attributable to (a) a \$0.30 per square foot increase in base rent (\$2.6 million) and (b) a 107,062 square foot increase in leased space (\$1.9 million).

EXPENSE RECOVERIES

Expense recovery income increased \$0.8 million in 2015 compared to 2014 primarily due to higher real estate tax expense. Expense recovery income increased \$1.2 million in 2014 compared to 2013 primarily due to higher snow removal costs incurred in early 2014.

OTHER REVENUE

Other revenue decreased \$2.6 million in 2015 compared to 2014 and increased \$3.4 million in 2014 compared to 2013 due primarily to (a) the 2014 bankruptcy settlement and collection related to a former tenant at Seven Corners (\$1.6 million) and (b) a 2014 lease termination fee at Seven Corners (\$1.9 million).

OPERATING EXPENSES

<i>(In thousands)</i>	Year ended December 31,			Percentage Change	
	2015	2014	2013	2015 from 2014	2014 from 2013
Property operating expenses	\$ 26,565	\$ 26,479	\$ 24,559	0.3%	7.8%
Provision for credit losses	915	680	968	34.6%	(29.8)%
Real estate taxes	23,663	22,354	22,415	5.9%	(0.3)%
Interest expense and amortization of deferred debt costs	45,165	46,034	46,589	(1.9)%	(1.2)%
Depreciation and amortization of deferred leasing costs	43,270	41,203	49,130	5.0%	(16.1)%
General and administrative	16,353	16,961	14,951	(3.6)%	13.4%
Acquisition related costs	84	949	106	(91.1)%	795.3%
Predevelopment expenses	132	503	3,910	(73.8)%	(87.1)%
Total operating expenses	\$ 156,147	\$ 155,163	\$ 162,628	0.6%	(4.6)%

Total operating expenses increased 0.6% in 2015 compared to 2014. Total operating expenses decreased 4.6% in 2014 compared to 2013 primarily due to \$8.0 million of additional depreciation expense recorded in 2013 and \$3.4 million of lower predevelopment expenses related to Park Van Ness partially offset by \$1.9 million of higher property operating expenses caused by snow removal costs in early 2014.

PROPERTY OPERATING EXPENSES

Property operating expenses increased \$0.1 million in 2015 compared to 2014. Property operating expenses increased \$1.9 million in 2014 compared to 2013 primarily due to a \$1.5 million increase in 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 \$235,000 increase in 2015 compared to 2014 as well as the \$288,000 decrease in 2014 compared to 2013 reflect general stability in the retail economy and lack of significant bankruptcy losses among the Company's various tenants.

REAL ESTATE TAXES

Real estate taxes increased \$1.3 million in 2015 compared to 2014 primarily due to a \$0.5 million increase at 601 Pennsylvania Avenue, a \$0.3 million increase at Clarendon Center and small increases throughout the remainder of the portfolio. Real estate taxes decreased \$61,000 in 2014 compared to 2013.

INTEREST AND AMORTIZATION OF DEFERRED DEBT COSTS

Interest expense decreased \$0.9 million in 2015 compared to 2014 primarily due to a \$1.5 million increase in the amount of interest capitalized. Interest expense decreased \$0.6 million in 2014 compared to 2013 primarily due to a \$0.5 million increase in the amount of interest capitalized.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization of deferred leasing costs increased by \$2.1 million in 2015 compared to 2014 primarily due to (a) additional depreciation expense on a portion of the buildings at Germantown as a result of the reduction of their useful lives to six months effective May 2015 (\$0.7 million) and (b) incremental depreciation expense on buildings purchased in 2014 and 2015 (\$0.6 million). Depreciation and amortization of deferred leasing costs decreased \$7.9 million in 2014 compared to 2013 primarily due to \$8.0 million of additional depreciation expense in 2013 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.

GENERAL AND ADMINISTRATIVE

General and administrative costs decreased \$0.6 million in 2015 compared to 2014 and increased \$2.0 million in 2014 compared to 2013 primarily due to the accrual in 2014 of \$1.1 million of severance costs.

ACQUISITION RELATED COSTS

Acquisition related costs in 2015 totaling approximately \$0.1 million relate to the purchase of 726 N. Glebe Road. Acquisition related costs in 2014 totaling approximately \$0.9 million relate to the purchase of 1580, 1582 and 1584 Rockville Pike and 730 and 750 N. Glebe Road. Acquisition related costs in 2013 totaling approximately \$0.1 million 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.

PREDEVELOPMENT EXPENSES

Predevelopment expenses in 2015 include lease termination costs and demolition costs which are related to development projects and do not meet the criteria to be capitalized. Predevelopment expenses in 2014 and 2013 represent costs, primarily lease termination and demolition costs, incurred with the repositioning and redevelopment of Van Ness Square.

GAIN ON CASUALTY SETTLEMENT

Gain on casualty settlement in 2013 reflects insurance proceeds received in excess of the carrying value of assets damaged during a hail storm at French Market in 2012. 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 SALES OF PROPERTIES

Gain on sale of property in 2014 resulted from the April 2014 sale of Giant Center shopping center.

IMPACT OF INFLATION

Inflation has remained relatively low during 2015 and 2014. 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 \$10.0 million and \$12.1 million at December 31, 2015 and 2014, respectively. The changes in cash and cash equivalents during the years ended December 31, 2015 and 2014 were attributable to operating, investing and financing activities, as described below.

<i>(In thousands)</i>	Year Ended December 31,	
	2015	2014
Net cash provided by operating activities	\$ 88,896	\$ 86,568
Net cash used in investing activities	(69,587)	(83,589)
Net cash used in financing activities	(21,434)	(8,148)
Decrease in cash and cash equivalents	\$ (2,125)	\$ (5,169)

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OPERATING ACTIVITIES

Net cash provided by operating activities increased \$2.3 million to \$88.9 million for the year ended December 31, 2015 compared to \$86.6 million for the year ended December 31, 2014. 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 \$14.0 million to \$69.6 million for the year ended December 31, 2015 from \$83.6 million for the year ended December 31, 2014. Investing activities in 2015 primarily reflect tenant improvements and capital expenditures (\$18.9 million), the Company's development activities (\$45.9 million) and the acquisition of various retail real estate assets (\$4.9 million). Net cash used in investing activities increased \$57.6 million to \$83.6 million for the year ended December 31, 2014 from \$26.0 million for the year ended December 31, 2013. Investing activities in 2014 primarily reflect (a) tenant improvements and capital expenditures (\$15.0 million), (b) the Company's development activities (\$17.8 million) and (c) the acquisition of various retail real estate assets (\$57.5 million).

FINANCING ACTIVITIES

Net cash used in financing activities was \$21.4 million and \$8.1 million for the years ended December 31, 2015 and 2014, respectively. Net cash used in financing activities in 2015 primarily reflects:

- the repayment of mortgage notes payable totaling \$53.0 million;
- the repayment of amounts borrowed under the revolving credit facility totaling \$35.0 million;
- distributions to common stockholders totaling \$35.6 million;
- distributions to holders of convertible limited partnership units in the Operating Partnership totaling \$12.2 million;
- distributions made to preferred stockholders totaling \$12.4 million; and
- payments of \$0.3 million for financing costs of mortgage notes payable;

which was partially offset by:

- proceeds of \$20.0 million received from revolving credit facility draws;
- proceeds of \$5.7 million from the issuance of limited partnership units in the Operating Partnership under the dividend reinvestment program;
- proceeds of \$15.6 million from the issuance of common stock under the dividend reinvestment program, directors deferred plan and the exercise of stock options; and
- proceeds of \$39.8 million received from construction loan draws.

Net cash used in financing activities for the year ended December 31, 2014 primarily reflects:

- repayments of \$47.0 million on the revolving credit facility;
- preferred stock redemption payments totaling \$40.0 million;
- the repayment of mortgage notes payable totaling \$22.1 million;
- distributions to common stockholders totaling \$32.3 million;
- distributions to holders of convertible limited partnership units in the Operating Partnership totaling \$11.1 million;
- distributions to preferred stockholders totaling \$13.5 million; and
- payments of \$1.3 million for financing costs of new mortgage loans;

which was partially offset by:

- proceeds of \$39.3 million received from the sale of Series C preferred stock;
- proceeds of \$90.0 million from revolving credit facility;
- proceeds of \$8.9 million from the issuance of limited partnership units in the Operating Partnership under the divided reinvestment program;
- proceeds of \$15.6 million received from the issuance of common stock under the dividend reinvestment program and from the exercise of stock options; and
- proceeds of \$5.4 million from construction loan draws.

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. The Company is developing 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 is being funded with a \$71.6 million construction-to-permanent loan 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.

CONTRACTUAL PAYMENT OBLIGATIONS

As of December 31, 2015, the Company had unfunded contractual payment obligations of approximately \$49.0 million, excluding operating obligations, due within the next 12 months. The table below shows the total contractual payment obligations as of December 31, 2015.

(Dollars in thousands)	CONTRACTUAL PAYMENT OBLIGATIONS					Total
	Payments Due By Period					
	One Year or Less	2 - 3 Years	4 - 5 Years	After 5 Years		
Notes Payable:						
Interest	\$ 4,030	\$ 7,042	\$ 5,513	\$ 12,280	\$ 28,865	
Scheduled Principal	24,655	51,701	46,509	127,678	250,543	
Balloon Payments	—	70,178	121,956	432,565	624,699	
Subtotal	28,685	128,921	173,978	572,523	904,107	
Ground Leases ⁽¹⁾	176	351	359	9,005	9,891	
Corporate Headquarters Lease ⁽¹⁾	789	132	—	—	921	
Development Obligations	12,310	3,554	—	—	15,864	
Tenant Improvements	7,021	—	278	—	7,299	
Total Contractual Obligations	\$ 48,981	\$ 132,958	\$ 174,615	\$ 581,528	\$ 938,082	

(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, 2015, included cash balances of \$10.0 million and borrowing availability

of approximately \$246.6 million on its revolving line of credit, will be sufficient to meet its contractual obligations for the foreseeable future.

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OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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. In December 2014, the Company redeemed the remaining outstanding Series A Stock.

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.

In November 2014, the Company sold, in an underwritten public offering, 1.6 million depositary shares of the Series C Stock (the "Additional Series C Stock"). The Company received proceeds of approximately \$39.3 million from the offering and used the proceeds to redeem its outstanding Series A Stock. The Additional Series C Stock represents a new issuance of additional depositary shares representing shares of Series C Stock.

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 193,678 and 190,177 shares under the Plan at a weighted average discounted price of \$52.93 and \$46.85 per share during the years ended December 31, 2015 and 2014, respectively. The Company issued 107,037 and 196,183 limited partnership units under the Plan at a weighted average price of \$53.00 and \$45.25 per unit during the years ended December 31, 2015 and 2014, respectively. The Company also credited 7,534 and 7,461 shares to directors pursuant to the reinvestment of dividends specified by the Directors' Deferred Compensation Plan at a weighted average discounted price of \$53.01 and \$47.08 per share, during the years ended December 31, 2015 and 2014, 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, 2015.

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

(Dollars in thousands)	NOTES PAYABLE		Interest Rate*	Scheduled Maturity*
	Year Ended December 31, 2015	Year Ended December 31, 2014		
Fixed rate mortgages:	\$ — (a)	\$ 15,399	7.45%	Jun-2015
	30,778 (b)	32,049	6.01%	Feb-2018
	33,766 (c)	35,398	5.88%	Jan-2019
	10,928 (d)	11,454	5.76%	May-2019
	15,098 (e)	15,819	5.62%	Jul-2019
	15,064 (f)	15,761	5.79%	Sep-2019
	13,387 (g)	14,014	5.22%	Jan-2020
	10,587 (h)	10,881	5.60%	May-2020
	9,127 (i)	9,535	5.30%	Jun-2020
	40,360 (j)	41,441	5.83%	Jul-2020
	8,025 (k)	8,346	5.81%	Feb-2021
	5,959 (l)	6,100	6.01%	Aug-2021
	34,420 (m)	35,222	5.62%	Jun-2022
	10,492 (n)	10,718	6.08%	Sep-2022
	11,365 (o)	11,587	6.43%	Apr-2023
	14,177 (p)	14,909	6.28%	Feb-2024
	16,348 (q)	16,750	7.35%	Jun-2024
	14,197 (r)	14,535	7.60%	Jun-2024
	25,088 (s)	25,639	7.02%	Jul-2024
	29,714 (t)	30,429	7.45%	Jul-2024
	29,564 (u)	30,253	7.30%	Jan-2025
	15,360 (v)	15,735	6.18%	Jan-2026
	112,299 (w)	115,291	5.31%	Apr-2026
	34,133 (x)	35,125	4.30%	Oct-2026
	38,842 (y)	39,932	4.53%	Nov-2026
	18,150 (z)	18,645	4.70%	Dec-2026
	67,850 (aa)	69,397	5.84%	May-2027
	16,826 (bb)	17,281	4.04%	Apr-2028
	31,844 (cc)	33,140	3.51%	Jun-2028
	17,011 (dd)	17,462	3.99%	Sep-2028
	29,444 (ee)	—	3.69%	Mar-2030
	15,748 (ff)	—	3.99%	Apr-2030
	45,208 (gg)	5,391	4.88%	Sep-2032
	11,282 (hh)	11,119	8.00%	Apr-2034
Total fixed rate	832,441	784,757	5.53%	9.2 Years
Variable rate loans:				
	28,000 (ii)	43,000	LIBOR + 1.45%	Jun-2018
	— (jj)	14,525	LIBOR + 1.65%	Feb-2016
	14,801 (kk)	15,106	LIBOR + 1.65%	Feb-2017
Total variable rate	42,801	72,631	LIBOR + 1.94%	2.0 Years
Total notes payable	\$ 875,242	\$ 857,388	5.35%	8.9 Years

* Interest rate and scheduled maturity data presented as of December 31, 2015. Totals computed using weighted averages.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- (a) The loan was collateralized by Shops at Fairfax and Boulevard shopping centers and required 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 was due at loan maturity. In 2015 the loan was repaid in full and replaced with a new \$30.0 million loan. See (ee) below.
- (b) 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 \$1.3 million was amortized during 2015.
- (c) 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 \$1.6 million was amortized during 2015.
- (d) 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 \$526,000 was amortized during 2015.
- (e) 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 \$721,000 was amortized during 2015.
- (f) 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 \$697,000 was amortized during 2015.
- (g) 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 \$627,000 was amortized during 2015.
- (h) 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 \$294,000 was amortized during 2015.
- (i) 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 \$408,000 was amortized during 2015.
- (j) 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 \$1,081,000 was amortized during 2015.
- (k) 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 \$321,000 was amortized during 2015.
- (l) 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 \$141,000 was amortized during 2015.
- (m) 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 \$802,000 was amortized during 2015.
- (n) 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 \$226,000 was amortized during 2015.
- (o) 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 \$222,000 was amortized during 2015.
- (p) 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 \$732,000 was amortized during 2015.
- (q) 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 \$402,000 was amortized during 2015.
- (r) 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 \$338,000 was amortized during 2015.
- (s) 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 \$551,000 was amortized during 2015.
- (t) 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 \$715,000 was amortized during 2015.
- (u) 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 \$689,000 was amortized during 2015.
- (v) 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 \$375,000 was amortized during 2015.
- (w) 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 \$3.0 million was amortized during 2015.
- (x) 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 \$992,000 was amortized during 2015.
- (y) 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 \$1,090,000 was amortized during 2015.
- (z) 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 \$495,000 was amortized during 2015.
- (aa) 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 \$1.5 million was amortized during 2015.
- (bb) 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 \$455,000 was amortized in 2015.

- (cc) 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 \$1,296,000 was amortized in 2015.
- (dd) 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 \$451,000 was amortized in 2015.
- (ee) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires equal monthly principal and interest payments totaling \$153,300 based upon a 25-year amortization schedule and a final payment of \$15.5 million at maturity. Principal of \$556,000 was amortized in 2015.
- (ff) The loan is collateralized by Northrock and requires equal monthly principal and interest payments totaling \$84,400 based upon a 25-year amortization schedule and a final payment of \$8.4 million at maturity. Principal of \$252,000 was amortized in 2015.
- (gg) 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.
- (hh) The Company entered into a sale-leaseback transaction with its Olney property and is accounting for that transaction as a secured financing. The arrangement requires monthly payments of \$60,400 which increased by 1.5% on May 1, 2015, and every May 1 thereafter. The arrangement provides for a final payment of \$14.7 million and has an implicit interest rate of 8.0%. Negative amortization in 2015 totaled \$163,000.
- (ii) The loan is a \$275.0 million unsecured revolving credit facility. Interest accrues at a rate equal to the sum of one-month LIBOR plus a spread of 145 basis points. The line may be extended at the Company's option for one year with payment of a fee of 0.15%. 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 was collateralized by Northrock and required monthly principal and interest payments of approximately \$47,000 and a final payment of \$14.2 million at maturity. In 2015, the loan was repaid in full and replaced with a new \$16.0 million loan. See (ff) above.
- (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 \$305,000 was amortized during 2015.

The carrying value of properties collateralizing the mortgage notes payable totaled \$856.8 million and \$895.5 million as of December 31, 2015 and 2014, 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, 2015, the Company was in compliance with all such covenants:

- maintain tangible net worth, as defined in the loan agreement, of at least \$542.1 million plus 80% of the Company's net equity proceeds received after March 2014;
- 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); and
- 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).

2015 FINANCING ACTIVITY

On March 3, 2015, the Company closed on a 15-year, \$30.0 million non-recourse mortgage loan secured by Boulevard and Shops at Fairfax shopping centers in Fairfax, Virginia. The loan matures in 2030, bears interest at a fixed rate of 3.69%, requires monthly principal and interest payments totaling \$153,300 based on a 25-year amortization schedule and a final payment of \$15.5 million at maturity. Proceeds of the loan were used to repay in full the existing 7.45% mortgage in the amount of \$15.2 million, which was scheduled to mature in June 2015 and to pay down outstanding balances under the revolving credit facility.

On April 1, 2015, the Company closed on a 15-year, non-recourse \$16.0 million mortgage loan secured by Northrock. The loan matures in 2030, bears interest at a fixed rate of 3.99%, requires monthly principal and interest payments totaling \$84,400 based on a 25-year amortization schedule and requires a final payment of \$8.4 million at maturity. Proceeds of the loan were used to repay in full the \$14.5 million remaining balance of existing debt secured by Northrock.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2014 FINANCING ACTIVITY

On June 24, 2014, the Company amended and restated its revolving credit facility. The unsecured revolving credit facility, which can be used for working capital, property acquisitions, development projects or letters of credit was increased to \$275.0 million. The revolving credit facility matures on June 23, 2018, 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. 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 145 basis points to 200 basis points.

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 2017, 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 one additional year. 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 was originally scheduled to mature in 2016 and was refinanced in 2015. The loan bore interest at a variable rate equal to the sum of one-month LIBOR and 165 basis points, required monthly principal and interest payments based on a 25-year amortization schedule and required a final payment of \$14.2 million at maturity. 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.

OFF-BALANCE SHEET ARRANGEMENTS

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

FUNDS FROM OPERATIONS

In 2015, the Company reported Funds From Operations ("FFO")¹ available to common stockholders and noncontrolling interests of \$83.8 million, a 7.1% increase from 2014 FFO available to common stockholders and noncontrolling interests of \$78.3 million. The following table presents a reconciliation from net income to FFO available to common stockholders and noncontrolling interests for the periods indicated.

(Dollars in thousands except per share amounts)	Year ended December 31,				
	2015	2014	2013	2012	2011
Net income	\$ 52,931	\$ 57,988	\$ 34,842	\$ 39,780	\$ 30,294
Subtract:					
Gains on sales of properties	(11)	(6,069)	—	(4,510)	—
Gain on casualty settlement	—	—	(77)	(219)	(245)
Add:					
Real estate depreciation – discontinued operations	—	—	—	77	102
Real estate depreciation and amortization	43,270	41,203	49,130	40,112	35,298
FFO	96,190	93,122	83,895	75,240	65,449
Subtract:					
Preferred dividends	(12,375)	(13,361)	(13,983)	(15,140)	(15,140)
Preferred stock redemption	—	(1,480)	(5,228)	—	—
FFO available to common stockholders and noncontrolling interests	\$ 83,815	\$ 78,281	\$ 64,684	\$ 60,100	\$ 50,309
Average shares and units used to compute FFO per share	28,449	27,977	27,330	26,614	24,740
FFO per share	\$ 2.95	\$ 2.80	\$ 2.37	\$ 2.26	\$ 2.03

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

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The Company has been selectively involved in acquisition, development, redevelopment and renovation activities. It continues to evaluate the acquisition of land parcels for retail and office development and acquisitions of operating properties for opportunities to enhance operating income and cash flow growth. The following describes significant acquisitions, developments, redevelopments and renovations which affected the Company's financial position and results of operations in 2015, 2014, and 2013.

1500, 1580, 1582 AND 1584 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.

In January 2014, the Company purchased for \$8.0 million a single-tenant retail property with a 12,100 square foot CVS Pharmacy located at 1580 Rockville Pike in Rockville, Maryland, and incurred acquisition costs of \$0.2 million.

In April 2014, the Company purchased for \$11.0 million a single-tenant retail property with a 40,700 square foot furniture store located at 1582 Rockville Pike in Rockville, Maryland, and incurred acquisition costs totaling approximately \$0.2 million. Concurrently with the purchase, the Company sold to the same party, for \$11.0 million, the 53,765 square foot Olney Center located in Olney, Maryland.

In December 2014, the Company purchased for \$6.2 million a single-tenant retail property with a 4,600 square foot restaurant located at 1584 Rockville Pike in Rockville, Maryland, and incurred acquisition costs totaling approximately \$0.2 million.

The properties at 1580, 1582 and 1584 Rockville Pike are contiguous with and an expansion of the Company's assets at 1500 Rockville Pike. When combined with 1500 Rockville Pike, the four properties comprise 10.3 acres which are zoned for development potential of up to 1.2 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.

OLNEY

Simultaneously with the sale of Olney Center, the Company entered into a lease of the property with the buyer and the Company continues to operate and manage the property. The lease term is 20 years and the Company has the option to purchase the property for \$14.6 million at the end of the lease term. The purchaser has the right to sell the property to the Company at any time from and after April 2016 at a price equal to \$11.0 million increased by 1.5% annually beginning January 1, 2015 and continuing each January thereafter. The Company has accounted for this transaction as a secured financing.

5541 NICHOLSON LANE AND 11503 ROCKVILLE PIKE

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 331,000 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 1.6 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.

WESTVIEW PAD

In February 2015, the Company purchased for \$0.9 million, including acquisition costs, a 1.1 acre retail pad site in Frederick, Maryland, which is contiguous with and an expansion of the Company's other Westview asset.

726, 730, 750 N. GLEBE ROAD

In August 2014, the Company purchased for \$40.0 million a single-tenant retail property with a 16,900 square foot automobile dealership located at 750 N. Glebe Road in Arlington, Virginia, and incurred acquisition costs of \$0.4 million. In December 2014, the Company purchased for \$2.8 million an adjacent single-tenant retail property with a 2,000 square foot store, and incurred acquisition costs of \$40,400. In September 2015, the Company purchased an additional property on North Glebe Road, which is adjacent to the two properties acquired in 2014, for \$4.0 million. The properties comprise 2.5 acres of land which is zoned for development potential of up to 550,000 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

The Company continues to develop Park Van Ness, 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. Construction is projected to be substantially completed early in the second quarter of 2016. The structure comprises 11 levels, five of which are below street level. Interior finishes are nearing completion and site work is being finalized. The street level retail space is 100% leased to a grocery/gourmet food market and an upscale Italian restaurant. 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 is being financed with a \$71.6 million construction-to-permanent loan. Costs incurred through December 31, 2015, total approximately \$77.2 million, of which \$45.2 million has been financed by the loan.

PROPERTY SALES

GIANT CENTER

In April 2014, the Company sold for \$7.5 million the 70,040 square foot Giant Center located in Milford Mill, Maryland and recognized a \$6.1 million gain. As of March 31, 2014, the carrying amounts of the associated assets and liabilities were \$0.5 million and \$0.1 million, respectively. There was no debt on 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
2015	50	6	7,896,499	1,453,159	95.4%	91.0%
2014	50	6	7,886,304	1,453,159	95.0%	90.8%
2013	50	6	7,880,269	1,452,742	94.5%	90.5%

The 2015 Shopping Center leasing percentage includes one property acquired in 2015. There is no change in 2015 in the properties that comprise the Mixed-Use leasing percentage. The Clarendon Center residential component was 99.2% leased at December 31, 2015. On a same property basis, which excludes the impact of properties not in operation for the entirety of the comparable periods, the Shopping Center leasing percentage increased to 95.3% from 95.0%. and the Mixed-Use leasing percentage increased to 91.0% from 90.8%. The overall portfolio leasing percentage, on a comparative same property basis, increased to 94.7% at December 31, 2015 from 94.4% at December 31, 2014.

The 2014 Shopping Center leasing percentage includes the five properties acquired in 2014 and excludes the Giant Center, which was sold in 2014. There is no change in 2014 in the properties that comprise the Mixed-Use leasing percentage. The Clarendon Center residential component was 95.9% leased at December 31, 2014. On a same property basis, which excludes the impact of properties not in operation for the entirety of the comparable periods, the Shopping Center leasing percentage increased to 95.0% from 94.5%. and the Mixed-Use leasing percentage increased to 90.8% from 90.5%. The overall portfolio leasing percentage, on a comparative same property basis, increased to 94.4% at December 31, 2014 from 93.9% at December 31, 2013.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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, 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 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.

SELECTED LEASING DATA

Year ended December 31,	Square Feet	Number of Leases	Base Rent per Square Foot	
			New/Renewed Leases	Expiring Leases
2015	1,583,310	259	\$ 15.15	\$ 14.82
2014	1,224,700	276	18.60	18.26
2013	1,471,000	276	19.56	19.75

Additional information about commercial leasing activity during the three months ended December 31, 2015, is set forth below. The below information includes leases for space which had not been previously leased during the period of the Company's ownership, either a result of acquisition or development.

COMMERCIAL LEASING ACTIVITY

	New Leases	Renewed Leases
Number of leases	15	38
Square feet	28,435	113,347
Per square foot average annualized:		
Base rent	\$ 25.16	\$ 26.34
Tenant improvements	(3.00)	(0.34)
Leasing costs	(0.37)	—
Rent concessions	(0.32)	—
Effective rents	\$ 21.47	\$ 26.00

During 2015, the Company entered into 222 new or renewed apartment leases. The monthly rent per square foot for these leases was unchanged at \$3.45. During 2014, the Company entered into 234 new or renewed apartment leases. The monthly rent per square foot for these leases increased to \$3.46 from \$3.37. 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.

As of December 31, 2015, 1,035,195 square feet of Commercial space was subject to leases scheduled to expire in 2016. Below is information about existing and estimated market base rents per square foot for that space.

EXPIRING LEASES

	Total
Square feet	1,035,195
Average base rent per square foot	\$ 15.32
Estimated market base rent per square foot	\$ 15.38

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, 2015 was approximately \$2.9 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, 2015, the Company had variable rate indebtedness totaling \$42.8 million. If the interest rates on the Company's variable rate debt instruments outstanding at December 31, 2015 had been one percent higher, our annual interest expense relating to these debt instruments would have increased by \$428,010, based on those balances. As of December 31, 2015, the Company had fixed-rate indebtedness totaling \$832.4 million with a weighted average interest rate of 5.53%. If interest rates on the Company's fixed-rate debt instruments at December 31, 2015 had been one percent higher, the fair value of those debt instruments on that date would have decreased by approximately \$43.3 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 (2013 Framework) to assess the effectiveness of the Company's internal control over financial reporting. Based upon the assessments, the Company's

management has concluded that, as of December 31, 2015, 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 31 in this Annual Report.

REPORT

OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The 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, 2015 and 2014, 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, 2015. 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, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, 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, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 4, 2016 expressed an unqualified opinion thereon.

Ernst & Young LLP
McLean, Virginia
March 4, 2016

The 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, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 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, 2015, 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, 2015 and 2014 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, 2015 of Saul Centers, Inc. and our report dated March 4, 2016 expressed an unqualified opinion thereon.

Ernst & Young LLP
McLean, Virginia
March 4, 2016

CONSOLIDATED BALANCE SHEETS

<i>(Dollars in thousands, except per share amounts)</i>	December 31, 2015	December 31, 2014
Assets		
Real estate investments		
Land	\$ 424,837	\$ 420,622
Buildings and equipment	1,114,357	1,109,276
Construction in progress	83,516	30,261
	1,622,710	1,560,159
Accumulated depreciation	(425,370)	(396,617)
	1,197,340	1,163,542
Cash and cash equivalents	10,003	12,128
Accounts receivable and accrued income, net	51,076	46,784
Deferred leasing costs, net	26,919	26,928
Prepaid expenses, net	4,663	4,093
Deferred debt costs, net	8,737	9,874
Other assets	5,407	3,638
Total assets	\$ 1,304,145	\$ 1,266,987
Liabilities		
Mortgage notes payable	\$ 802,034	\$ 808,997
Revolving credit facility payable	28,000	43,000
Construction loan payable	45,208	5,391
Dividends and distributions payable	15,380	14,352
Accounts payable, accrued expenses and other liabilities	27,687	23,537
Deferred income	32,109	32,453
Total liabilities	950,418	927,730
Stockholders' equity		
Preferred stock, 1,000,000 shares authorized:		
Series C Cumulative Redeemable, 72,000 shares issued and outstanding	180,000	180,000
Common stock, \$0.01 par value, 30,000,000 shares authorized, 21,266,239 and 20,947,141 shares issued and outstanding, respectively	213	209
Additional paid-in capital	305,008	287,995
Accumulated deficit	(180,091)	(173,774)
Accumulated other comprehensive loss	(1,802)	(1,894)
Total Saul Centers, Inc. stockholders' equity	303,328	292,536
Noncontrolling interests	50,399	46,721
Total stockholders' equity	353,727	339,257
Total liabilities and stockholders' equity	\$ 1,304,145	\$ 1,266,987

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

CONSOLIDATED STATEMENTS OF OPERATIONS

<i>(Dollars in thousands, except per share amounts)</i>	For The Year Ended December 31,		
	2015	2014	2013
Revenue			
Base rent	\$ 168,303	\$ 164,599	\$ 159,898
Expense recoveries	32,911	32,132	30,949
Percentage rent	1,608	1,492	1,575
Other	6,255	8,869	5,475
Total revenue	209,077	207,092	197,897
Operating expenses			
Property operating expenses	26,565	26,479	24,559
Provision for credit losses	915	680	968
Real estate taxes	23,663	22,354	22,415
Interest expense and amortization of deferred debt costs	45,165	46,034	46,589
Depreciation and amortization of deferred leasing costs	43,270	41,203	49,130
General and administrative	16,353	16,961	14,951
Acquisition related costs	84	949	106
Predevelopment expenses	132	503	3,910
Total operating expenses	156,147	155,163	162,628
Operating income	52,930	51,929	35,269
Change in fair value of derivatives	(10)	(10)	(7)
Loss on early extinguishment of debt	—	—	(497)
Gains on sales of properties	11	6,069	—
Gain on casualty settlement	—	—	77
Net Income	52,931	57,988	34,842
Income attributable to noncontrolling interests	(10,463)	(11,045)	(3,970)
Net income attributable to Saul Centers, Inc.	42,468	46,943	30,872
Preferred stock redemption	—	(1,480)	(5,228)
Preferred dividends	(12,375)	(13,361)	(13,983)
Net income available to common stockholders	\$ 30,093	\$ 32,102	\$ 11,661
Per share net income available to common stockholders			
Basic	\$ 1.42	\$ 1.55	\$ 0.57
Diluted	\$ 1.42	\$ 1.54	\$ 0.57

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,		
	2015	2014	2013
Net income	\$ 52,931	\$ 57,988	\$ 34,842
Other comprehensive income			
Unrealized gain (loss) on cash flow hedge	124	(675)	2,897
Total comprehensive income	53,055	57,313	37,739
Comprehensive income attributable to noncontrolling interests	(10,495)	(10,874)	(4,706)
Total comprehensive income attributable to Saul Centers, Inc.	42,560	46,439	33,033
Preferred stock redemption	—	(1,480)	(5,228)
Preferred dividends	(12,375)	(13,361)	(13,983)
Total comprehensive income available to common stockholders	\$ 30,185	\$ 31,598	\$ 13,822

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 Interests	Total
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 preferred stock	140,000	—	(4,807)	—	—	135,193	—	135,193
Partial redemption of 24,000 shares of Series A preferred stock	(60,000)	—	2,212	(2,216)	—	(60,004)	—	(60,004)
Full redemption of 31,731 shares of Series B preferred stock	(79,328)	—	3,007	(3,012)	—	(79,333)	—	(79,333)
Issuance of common stock:								
475,162 shares pursuant to dividend reinvestment plan	—	5	20,667	—	—	20,672	—	20,672
56,002 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 pursuant to dividend reinvestment plan	—	—	—	—	—	—	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
Issuance of 16,000 shares of Series C preferred stock	40,000	—	(740)	—	—	39,260	—	39,260
Redemption of 16,000 shares of Series A preferred stock	(40,000)	—	1,475	(1,475)	—	(40,000)	—	(40,000)
Issuance of common stock:								
197,638 shares pursuant to dividend reinvestment plan	—	2	9,262	—	—	9,264	—	9,264
172,887 shares due to exercise of employee stock options and issuance of directors' deferred stock	—	1	7,570	—	—	7,571	—	7,571
Issuance of 196,183 partnership units pursuant to dividend reinvestment plan	—	—	—	—	—	—	8,877	8,877
Net income	—	—	—	46,943	—	46,943	11,045	57,988
Change in unrealized loss on cash flow hedge	—	—	—	—	(502)	(502)	(173)	(675)
Preferred stock distributions:								
Series A	—	—	—	(3,049)	—	(3,049)	—	(3,049)
Series C	—	—	—	(7,219)	—	(7,219)	—	(7,219)
Common stock distributions	—	—	—	(24,937)	—	(24,937)	(8,597)	(33,534)
Distributions payable preferred stock:								
Series C, \$42.97 per share	—	—	—	(3,094)	—	(3,094)	—	(3,094)
Distributions payable common stock (\$0.40/share) and distributions payable partnership units (\$0.40/unit)	—	—	—	(8,379)	—	(8,379)	(2,879)	(11,258)
Balance, December 31, 2014	\$ 180,000	\$ 209	\$ 287,995	\$ (173,774)	\$ (1,894)	\$ 292,536	\$ 46,721	\$ 339,257
Issuance of common stock:								
201,212 shares pursuant to dividend reinvestment plan	—	3	10,647	—	—	10,650	—	10,650
117,886 shares due to exercise of employee stock options and issuance of directors' deferred stock	—	1	6,366	—	—	6,367	—	6,367
Issuance of 107,037 partnership units pursuant to dividend reinvestment plan	—	—	—	—	—	—	5,673	5,673
Net income	—	—	—	42,468	—	42,468	10,463	52,931
Change in unrealized loss on cash flow hedge	—	—	—	—	92	92	32	124
Series C preferred stock distributions	—	—	—	(9,282)	—	(9,282)	—	(9,282)
Common stock distributions	—	—	—	(27,265)	—	(27,265)	(9,349)	(36,614)
Distributions payable on Series C preferred stock, \$42.97 per share	—	—	—	(3,093)	—	(3,093)	—	(3,093)
Distributions payable common stock (\$0.43/share) and partnership units (\$0.43/unit)	—	—	—	(9,145)	—	(9,145)	(3,141)	(12,286)
Balance, December 31, 2015	\$ 180,000	\$ 213	\$ 305,008	\$ (180,091)	\$ (1,802)	\$ 303,328	\$ 50,399	\$ 353,727

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	For the Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	\$ 52,931	\$ 57,988	\$ 34,842
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in fair value of derivatives	10	10	7
Gains on sales of properties	(11)	(6,069)	—
Gain on casualty settlement	—	—	(77)
Depreciation and amortization of deferred leasing costs	43,270	41,203	49,130
Amortization of deferred debt costs	1,433	1,327	1,257
Non cash compensation costs of stock grants and options	1,434	1,240	1,145
Provision for credit losses	915	680	968
Increase in accounts receivable and accrued income	(5,207)	(3,320)	(3,669)
Additions to deferred leasing costs	(5,563)	(4,048)	(5,876)
Increase in prepaid expenses	(570)	(60)	(152)
(Increase) decrease in other assets	1,535	(694)	353
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(937)	1,149	(3,286)
Decrease in deferred income	(344)	(2,838)	(1,115)
Net cash provided by operating activities	88,896	86,568	73,527
Cash flows from investing activities:			
Acquisitions of real estate investments ⁽¹⁾	(4,894)	(57,494)	(5,124)
Additions to real estate investments	(18,855)	(14,986)	(13,999)
Additions to development and redevelopment projects	(45,870)	(17,788)	(7,316)
Proceeds from sale of properties	32	6,679	—
Proceeds from casualty settlement	—	—	405
Net cash used in investing activities	(69,587)	(83,589)	(26,034)
Cash flows from financing activities:			
Proceeds from mortgage notes payable ⁽¹⁾	46,000	—	101,600
Repayments on mortgage notes payable	(52,963)	(22,071)	(71,308)
Proceeds from construction loans payable	39,817	5,391	—
Proceeds from revolving credit facility	20,000	90,000	142,000
Repayments on revolving credit facility	(35,000)	(47,000)	(180,000)
Additions to deferred debt costs	(296)	(1,264)	(3,219)
Proceeds from the issuance of:			
Common stock	15,583	15,596	22,292
Partnership units	5,673	8,877	4,144
Series C preferred stock	—	39,260	135,221
Preferred stock redemption payments:			
Series A preferred	—	(40,000)	(60,000)
Series B preferred	—	—	(79,328)
Preferred stock redemption costs	—	—	(9)
Distributions to:			
Series A preferred stockholders	—	(3,849)	(5,213)
Series B preferred stockholders	—	—	(3,253)
Series C preferred stockholders	(12,375)	(9,625)	(6,095)
Common stockholders	(35,645)	(32,346)	(29,205)
Noncontrolling interests	(12,228)	(11,117)	(9,956)
Net cash used in financing activities	(21,434)	(8,148)	(42,329)
Net increase (decrease) in cash and cash equivalents	(2,125)	(5,169)	5,164
Cash and cash equivalents, beginning of year	12,128	17,297	12,133
Cash and cash equivalents, end of year	\$ 10,003	\$ 12,128	\$ 17,297
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 45,965	\$ 45,443	\$ 45,743

(1) The 2014 acquisition of real estate and proceeds from notes payable each exclude \$11,000 in connection with the sale and leaseback of the Company's Olney property.

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 significant properties acquired, developed and/or disposed of by the Company since January 1, 2013.

Name of Property	Location	Type	Year of Acquisition/ Development/ Disposal
ACQUISITIONS			
1580 Rockville Pike	Rockville, Maryland	Shopping Center	January 2014
1582 Rockville Pike	Rockville, Maryland	Shopping Center	April 2014
750 N. Glebe Road	Arlington, Virginia	Shopping Center	August 2014
730 N. Glebe Road	Arlington, Virginia	Shopping Center	December 2014
1584 Rockville Pike	Rockville, Maryland	Shopping Center	December 2014
726 N. Glebe Road	Arlington, Virginia	Shopping Center	September 2015
DEVELOPMENTS			
Park Van Ness	Washington, DC	Mixed-Use	2013-2015
DISPOSITIONS			
Giant Center	Milford Mill, Maryland	Shopping Center	April 2014

As of December 31, 2015, the Company’s properties (the “Current Portfolio Properties”) consisted of 50 shopping center properties (the “Shopping Centers”), six mixed-use properties, one of which was designated as held for sale, 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, 2015, 31 of the Shopping Centers were anchored by a grocery store and offer primarily day-to-day necessities and services. Two retail tenants, Giant Food (4.4%), a tenant at nine Shopping Centers, and Albertson's/Safeway (2.7%), a tenant at nine Shopping Centers, individually accounted for 2.5% or more of the Company's total revenue for the year ended December 31, 2015.

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 2015, 2014, or 2013.

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 \$2.2 million, \$0.7 million, and \$0.2 million during 2015, 2014, and 2013, 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, which is included in Depreciation and amortization of

deferred leasing costs in the Consolidated Statements of Operations, for the years ended December 31, 2015, 2014, and 2013, was \$37.7 million, \$35.9 million, and \$43.2 million, respectively. Repairs and maintenance expense totaled \$11.6 million, \$11.9 million, and \$10.3 million for 2015, 2014, and 2013, 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 \$26.9 million and \$26.9 million, net of accumulated amortization of approximately \$26.6 million and \$21.6 million, as of December 31, 2015 and 2014, respectively. Amortization expense, which is included in Depreciation and amortization of deferred leasing costs in the Consolidated Statements of Operations, totaled approximately \$5.6 million, \$5.3 million, and \$5.9 million, for the years ended December 31, 2015, 2014, and 2013, 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. The following table shows the components of construction in progress.

<i>(In thousands)</i>	December 31,	
	2015	2014
Park Van Ness	\$ 77,245	\$ 26,998
Other	6,271	3,263
Total	\$ 83,516	\$ 30,261

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 \$1.3 million and \$0.7 million, at December 31, 2015 and 2014, respectively.

<i>(In thousands)</i>	Year ended December 31,		
	2015	2014	2013
Beginning Balance	\$ 677	\$ 572	\$ 1,208
Provision for Credit Losses	915	680	968
Charge-offs	(329)	(575)	(1,604)
Ending Balance	\$1,263	\$ 677	\$ 572

In addition to rents due currently, accounts receivable also includes \$41.4 million and \$38.7 million, at December 31, 2015 and 2014, respectively, net of allowance for doubtful accounts totaling \$0.5 million and \$0.3 million, respectively, representing minimum rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases.

ASSETS HELD FOR SALE

The Company considers properties to be assets held for sale when all of the following criteria are met:

- management commits to a plan to sell a property;
- it is unlikely that the disposal plan will be significantly modified or discontinued;
- the property is available for immediate sale in its present condition;
- actions required to complete the sale of the property have been initiated;
- sale of the property is probable and the Company expects the completed sale will occur within one year; and
- the property is actively being marketed for sale at a price that is reasonable given its current market value.

The Company must make a determination as to the point in time that it is probable that a sale will be consummated, which generally occurs when an executed sales contract has no contingencies and the prospective buyer has significant funds at risk to ensure performance. Upon designation as an asset held for sale, the Company records the carrying value of each property at the lower of its carrying value or its estimated fair value, less estimated costs to sell, and ceases depreciation. As of December 31, 2015, the Company has classified as held-for-sale one operating property, comprising 197,127 square feet of gross leasable area. The book value of this property, which is included in Other Assets, was \$3.4

million, net of accumulated depreciation of \$7.0 million, which does not exceed its estimated fair value, less costs to sell, and liabilities were \$0.2 million. Fair value was determined based on a third party appraisal.

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, 2015 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 \$8.7 million and \$9.9 million, net of accumulated amortization of \$6.2 million and \$5.9 million at December 31, 2015 and 2014, 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.

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, 2015, 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 2015, 2014, and 2013. The tax basis of the Company's real estate investments was approximately \$1.1 billion and \$1.2 billion as of December 31, 2015 and 2014, respectively. With few exceptions, the Company is no longer subject to U.S. federal, state, and local tax examinations by tax authorities for years before 2012.

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, 2015, the directors' deferred fee accounts comprise 241,949 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, 2015, 2014, and 2013. 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 \$143,000, \$112,900, and \$124,400, for the years ended December 31, 2015, 2014, and 2013, respectively.

NONCONTROLLING INTEREST

Saul Centers is the sole general partner of the Operating Partnership, owning a 74.2% common interest as of December 31, 2015. 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. The treasury stock method was used to measure the effect of the dilution.

BASIC AND DILUTED SHARES OUTSTANDING

(Shares in thousands)	December 31,		
	2015	2014	2013
Weighted average common shares outstanding - Basic	21,127	20,772	20,364
Effect of dilutive options	69	49	37
Weighted average common shares outstanding - Diluted	21,196	20,821	20,401
Average share price	\$ 53.38	\$ 49.09	\$ 45.44
Non-dilutive options	111	107	113
Years non-dilutive options were issued	2007 and 2015	2007 and 2008	2007 and 2008

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.

RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property Plant and Equipment (Topic 360)" ("ASU 2014-08"). ASU 2014-08 changes the requirements for reporting discontinued operations such that disposals of components of an entity will be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations. ASU 2014-08 also requires additional disclosures about discontinued operations. ASU 2014-08 is effective for annual periods beginning after December 15, 2014, and interim periods within those years and early adoption is permitted. The Company retrospectively adopted ASU 2014-08 on April 15, 2014. The adoption of ASU 2014-08 did not have a material impact on the Company's financial condition or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 will replace most existing revenue recognition guidance and will require an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those years and early adoption is not permitted. ASU 2014-09 must be applied retrospectively by either restating prior periods or by recognizing the cumulative effect as of the first date of application. We have not yet selected a transition method and are evaluating the impact that ASU 2014-09 will have on our consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest" ("ASU 2015-03"). ASU 2015-03 simplifies the presentation of debt issuance costs and will require an entity to deduct transaction costs from the carrying value of the related financial liability and not record those transaction costs as a separate asset. Recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. ASU 2015-03 is effective for annual periods beginning after December 15, 2015, and interim periods within those years, and must be applied retrospectively by adjusting the balance sheet of each individual period presented. Adoption of ASU 2015-03 is not expected to have a material effect on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, interim periods within those years, and requires a modified retrospective transition approach for all leases existing at the date of initial application, with an option to use certain practical expedients for those existing leases. We are evaluating the impact that ASU 2016-02 will have on our consolidated financial statements and related disclosures.

RECLASSIFICATIONS

Certain reclassifications have been made to prior years to conform to the presentation used for year ended December 31, 2015.

3. REAL ESTATE ACQUIRED

1580, 1582 AND 1584 ROCKVILLE PIKE

In January 2014, the Company purchased for \$8.0 million 1580 Rockville Pike and incurred acquisition costs of \$0.2 million. In April 2014, the Company purchased for \$11.0 million 1582 Rockville Pike and incurred acquisition costs of \$0.2 million. In December 2014, the company purchased for \$6.2 million 1584 Rockville Pike and incurred acquisition costs of \$0.2 million. These retail properties are contiguous with each other and the Company's property at 1500 Rockville Pike and are located in Rockville, Maryland.

726, 730 AND 750 N. GLEBE ROAD

In August 2014, the Company purchased for \$40.0 million, 750 N. Glebe Road and incurred acquisition costs of \$0.4 million. In December 2014, the Company purchased for \$2.8 million 730 N. Glebe Road and incurred acquisition costs of \$40,400. In September 2015, the Company purchased for \$4.0 million 726 N. Glebe Road and incurred acquisition costs of \$0.1 million. These retail properties are contiguous and are located in Arlington, Virginia.

KENTLANDS PAD

In August 2013, the Company purchased for \$4.3 million, 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, and incurred acquisition costs of \$0.1 million.

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.

WESTVIEW PAD

In February 2015, the Company purchased for \$0.9 million including acquisition costs, a 1.1 acre retail pad site in Frederick, Maryland, which is contiguous with and an expansion of the Company's other Westview 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 2015, the Company purchased one property at a cost of \$4.0 million and incurred acquisition costs of \$0.1 million. Of the total purchase price, \$3.9 million was allocated to land and \$0.1 million was allocated to building. No amounts were allocated to in-place, above-market or below-market leases.

During 2014, the Company purchased five properties at an aggregate cost of \$68.0 million, and incurred acquisition costs of \$0.9 million. The purchase prices were allocated to the assets acquired and liabilities assumed based on their fair value as shown in the following table.

PURCHASE PRICE ALLOCATION OF ACQUISITIONS

<i>(In thousands)</i>	1580 Rockville Pike	1582 Rockville Pike	750 N. Glebe Road	730 N. Glebe Road	1584 Rockville Pike	Total
Land	\$ 9,600	\$ 9,742	\$ 38,224	\$ 2,683	\$ 5,798	\$ 66,047
Buildings	2,200	828	1,327	78	440	4,873
In-place Leases	513	849	449	39	249	2,099
Above-Market Rent	—	—	—	—	—	—
Below-Market Rent	(4,313)	(419)	—	—	(337)	(5,069)
Total Purchase Price	\$ 8,000	\$ 11,000	\$ 40,000	\$ 2,800	\$ 6,150	\$ 67,950

During 2013, the Company purchased two properties at a cost of \$5.1 million and incurred acquisition costs of \$106,000. Of the total purchase price, \$2.0 million was allocated to buildings and \$3.1 million was allocated to land. No amounts were allocated to in-place, above-market, or below-market leases.

The gross carrying amount of lease intangible assets included in deferred leasing costs as of December 31, 2015 and 2014 was \$24.0 million and \$24.0 million, respectively, and accumulated amortization was \$19.2 million and \$18.0 million, respectively. Amortization expense totaled \$1.3 million, \$1.3 million and \$2.0 million, for the years ended December 31, 2015, 2014, and 2013, respectively. The gross carrying amount of below-market lease intangible liabilities included in deferred income as of December 31, 2015 and 2014 was \$29.9 million and \$29.9 million, respectively, and accumulated amortization was \$13.7 million and \$11.9 million, respectively. Accretion income totaled \$1.8 million, \$1.9 million, and \$1.7 million, for the years ended December 31, 2015, 2014, and 2013, respectively. The gross carrying amount of above market lease intangible assets included in accounts receivable as of December 31, 2015 and 2014 was \$1.0 million and \$1.0 million, respectively, and accumulated amortization was \$998,200 and \$996,700, respectively. Amortization expense totaled \$2,000, \$23,000 and \$45,000, for the years ended December 31, 2015, 2014 and 2013, respectively.

As of December 31, 2015, 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
2016	\$ 988	\$ 2	\$ 1,719
2017	796	1	1,697
2018	737	1	1,615
2019	550	—	1,478
2020	417	—	1,397
Thereafter	1,322	—	8,236
Total	\$ 4,810	\$ 4	\$ 16,142

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

The Saul Organization holds a 25.8% limited partnership interest in the Operating Partnership represented by 7,305,758 limited partnership units, as of December 31, 2015. 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, 2015, 1,040,000 units were eligible for conversion.

The impact of the Saul Organization's 25.8% limited partnership interest in the Operating Partnership is reflected as Noncontrolling Interests in the accompanying consolidated financial statements. Fully converted partnership units and diluted weighted average shares outstanding for the years ended December 31, 2015, 2014, and 2013, were 28,449,400, 27,977,500, and 27,330,100, respectively.

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

At December 31, 2015, outstanding debt totaled \$875.2 million, of which \$832.4 million was fixed rate debt and \$42.8 million was variable rate debt. The Company's outstanding debt totaled \$857.4 million at December 31, 2014, of which \$784.8 million was fixed rate debt and \$72.6 million was variable rate debt. At December 31, 2015, the Company had a \$275.0 million unsecured revolving credit facility, which can be used for working capital, property acquisitions or development projects. The revolving credit facility matures on June 23, 2018, 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, 2015, based on the value of the Company's unencumbered properties, approximately \$246.6 million was available under the line, \$28.0 million was outstanding and approximately \$448,000 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 145 basis points to 200 basis points. As of December 31, 2015, the margin was 145 basis points.

Saul Centers is a guarantor of the revolving credit facility, of which the Operating Partnership is the borrower, the Metro Pike Center bank loan (approximately \$7.8 million of the \$14.8 million outstanding at December 31, 2015) and all of the Park Van Ness construction-to-permanent loan. All other notes payable are non-recourse.

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 2017, 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 one additional year. 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 was originally scheduled to mature in 2016 and was refinanced in 2015. The loan bore interest at a variable rate equal to the sum of one-month LIBOR and 165 basis points, required monthly principal and interest payments based on a 25-year amortization schedule and required a final payment of \$14.2 million at maturity. 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.

On June 24, 2014, the Company amended and restated its revolving credit facility. The Company unsecured revolving credit facility, which can be used for working capital, property acquisitions, development projects or letters of credit was increased to \$275.0 million. The revolving credit facility matures on June 23, 2018, 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. 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 145 basis points to 200 basis points.

On March 3, 2015, the Company closed on a 15-year, non-recourse \$30.0 million mortgage loan secured by Shops at Fairfax and Boulevard. The loan matures in 2030, bears interest at a fixed rate of 3.69%, requires monthly principal and interest payments totaling \$153,300 based on a 25-year amortization schedule and requires a final payment of \$15.5 million at maturity. Proceeds were used to repay in full the \$15.2 million remaining balance of existing debt secured by Shops at Fairfax and Boulevard and to reduce outstanding borrowings under the revolving credit facility.

On April 1, 2015, the Company closed on a 15-year, non-recourse \$16.0 million mortgage loan secured by Northrock. The loan matures in 2030, bears interest at a fixed rate of 3.99%, requires monthly principal and interest payments totaling \$84,400 based on a 25-year amortization schedule and requires a final payment of \$8.4 million at maturity. Proceeds were used to repay in full the \$14.5 million remaining balance of existing debt secured by Northrock.

The following is a summary of notes payable as of December 31, 2015 and 2014:

NOTES PAYABLE

(Dollars in thousands)	Year Ended December 31,		Interest Rate*	Scheduled Maturity*
	2015	2014		
Fixed rate mortgages:	\$ — (a)	\$ 15,399	7.45%	Jun-2015
	30,778 (b)	32,049	6.01%	Feb-2018
	33,766 (c)	35,398	5.88%	Jan-2019
	10,928 (d)	11,454	5.76%	May-2019
	15,098 (e)	15,819	5.62%	Jul-2019
	15,064 (f)	15,761	5.79%	Sep-2019
	13,387 (g)	14,014	5.22%	Jan-2020
	10,587 (h)	10,881	5.60%	May-2020
	9,127 (i)	9,535	5.30%	Jun-2020
	40,360 (j)	41,441	5.83%	Jul-2020
	8,025 (k)	8,346	5.81%	Feb-2021
	5,959 (l)	6,100	6.01%	Aug-2021
	34,420 (m)	35,222	5.62%	Jun-2022
	10,492 (n)	10,718	6.08%	Sep-2022
	11,365 (o)	11,587	6.43%	Apr-2023
	14,177 (p)	14,909	6.28%	Feb-2024
	16,348 (q)	16,750	7.35%	Jun-2024
	14,197 (r)	14,535	7.60%	Jun-2024
	25,088 (s)	25,639	7.02%	Jul-2024
	29,714 (t)	30,429	7.45%	Jul-2024
	29,564 (u)	30,253	7.30%	Jan-2025
	15,360 (v)	15,735	6.18%	Jan-2026
	112,299 (w)	115,291	5.31%	Apr-2026
	34,133 (x)	35,125	4.30%	Oct-2026
	38,842 (y)	39,932	4.53%	Nov-2026
	18,150 (z)	18,645	4.70%	Dec-2026
	67,850 (aa)	69,397	5.84%	May-2027
	16,826 (bb)	17,281	4.04%	Apr-2028
	31,844 (cc)	33,140	3.51%	Jun-2028
	17,011 (dd)	17,462	3.99%	Sep-2028
	29,444 (ee)	—	3.69%	Mar-2030
	15,748 (ff)	—	3.99%	Apr-2030
	45,208 (gg)	5,391	4.88%	Sep-2032
	11,282 (hh)	11,119	8.00%	Apr-2034
Total fixed rate	832,441	784,757	5.53%	9.2 Years
Variable rate loans:				
	28,000 (ii)	43,000	LIBOR + 1.45%	Jun-2018
	— (jj)	14,525	LIBOR + 1.65%	Feb-2016
	14,801 (kk)	15,106	LIBOR + 1.65%	Feb-2017
Total variable rate	\$ 42,801	\$ 72,631	LIBOR + 1.94%	2.0 Years
Total notes payable	\$ 875,242	\$ 857,388	5.35%	8.9 Years

* Interest rate and scheduled maturity data presented as of December 31, 2015. Totals computed using weighted averages.

- (a) The loan was collateralized by Shops at Fairfax and Boulevard shopping centers and required 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 was due at loan maturity. In 2015 the loan was repaid in full and replaced with a new \$30.0 million loan. See (ee) below.
- (b) 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 \$1.3 million was amortized during 2015.
- (c) 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 \$1.6 million was amortized during 2015.
- (d) 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 \$526,000 was amortized during 2015.
- (e) 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 \$721,000 was amortized during 2015.
- (f) 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 \$697,000 was amortized during 2015.
- (g) 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 \$627,000 was amortized during 2015.
- (h) 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 \$294,000 was amortized during 2015.
- (i) 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 \$408,000 was amortized during 2015.
- (j) 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 \$1,081,000 was amortized during 2015.
- (k) 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 \$321,000 was amortized during 2015.
- (l) 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 \$141,000 was amortized during 2015.
- (m) 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 \$802,000 was amortized during 2015.
- (n) 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 \$226,000 was amortized during 2015.
- (o) 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 \$222,000 was amortized during 2015.
- (p) 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 \$732,000 was amortized during 2015.
- (q) 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 \$402,000 was amortized during 2015.
- (r) 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 \$338,000 was amortized during 2015.
- (s) 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 \$551,000 was amortized during 2015.
- (t) 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 \$715,000 was amortized during 2015.
- (u) 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 \$689,000 was amortized during 2015.
- (v) 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 \$375,000 was amortized during 2015.
- (w) 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 \$3.0 million was amortized during 2015.
- (x) 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 \$992,000 was amortized during 2015.
- (y) 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 \$1,090,000 was amortized during 2015.
- (z) 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 \$495,000 was amortized during 2015.
- (aa) 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 \$1.5 million was amortized during 2015.
- (bb) 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 \$455,000 was amortized in 2015.
- (cc) 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 \$1,296,000 was amortized in 2015.
- (dd) 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 \$451,000 was amortized in 2015.
- (ee) The loan is collateralized by Shops at Fairfax and Boulevard shopping centers and requires equal monthly principal and interest payments totaling \$153,300 based upon a 25-year amortization schedule and a final payment of \$15.5 million at maturity. Principal of \$556,000 was amortized in 2015.

- (ff) The loan is collateralized by Northrock and requires equal monthly principal and interest payments totaling \$84,400 based upon a 25-year amortization schedule and a final payment of \$8.4 million at maturity. Principal of \$252,000 was amortized in 2015.
- (gg) 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.
- (hh) The Company entered into a sale-leaseback transaction with its Olney property and is accounting for that transaction as a secured financing. The arrangement requires monthly payments of \$60,400 which increased by 1.5% on May 1, 2015, and every May 1 thereafter. The arrangement provides for a final payment of \$14.7 million and has an implicit interest rate of 8.0%. Negative amortization in 2015 totaled \$163,000.

- (ii) The loan is a \$275.0 million unsecured revolving credit facility. Interest accrues at a rate equal to the sum of one-month LIBOR plus a spread of 145 basis points. The line may be extended at the Company's option for one year with payment of a fee of 0.15%. 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 was collateralized by Northrock and required monthly principal and interest payments of approximately \$47,000 and a final payment of \$14.2 million at maturity. In 2015, the loan was repaid in full and replaced with a new \$16.0 million loan. See (ff) above.
- (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 \$305,000 was amortized during 2015.

The carrying value of the properties collateralizing the mortgage notes payable totaled \$856.8 million and \$895.5 million, as of December 31, 2015 and 2014, 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, 2015.

- maintain tangible net worth, as defined in the loan agreement, of at least \$542.1 million plus 80% of the Company's net equity proceeds received after March 2014;
- 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 2.0 x on a trailing four-quarter basis (interest expense coverage); and
- 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).

Mortgage notes payable at each of December 31, 2015 and 2014, totaling \$51.0 million, are guaranteed by members of the Saul Organization. As of December 31, 2015, the scheduled maturities of all debt including scheduled principal amortization for years ended December 31 are as follows:

DEBT MATURITY SCHEDULE

(In thousands)	Balloon Payments	Scheduled Principal Amortization	Total
2016	\$ —	\$ 24,655	\$ 24,655
2017	14,430	25,798	40,228
2018	55,748 ^(a)	25,903	81,651
2019	60,793	24,616	85,409
2020	61,163	21,893	83,056
Thereafter	432,565	127,678	560,243
	\$ 624,699	\$ 250,543	\$ 875,242

(a) Includes \$28.0 million outstanding under the line of credit.

The components of interest expense are set forth below.

INTEREST EXPENSE

(In thousands)	Year ended December 31,		
	2015	2014	2013
Interest incurred	\$ 45,898	\$ 45,396	\$ 45,502
Amortization of deferred debt costs	1,433	1,327	1,257
Capitalized interest	(2,166)	(689)	(170)
Total	\$ 45,165	\$ 46,034	\$ 46,589

Deferred debt costs capitalized during the years ending December 31, 2015, 2014 and 2013 totaled \$0.3 million, \$1.3 million and \$3.2 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, 2015, 2014, and 2013, amounted to \$168.3 million, \$164.6 million, and \$159.9 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 RENT PAYMENTS

(In thousands)	
2016	\$ 154,983
2017	140,786
2018	122,922
2019	100,845
2020	80,559
Thereafter	273,328
Total	\$ 873,423

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, 2015, 2014, and 2013, amounted to \$32.9 million, \$32.1 million, and \$30.9 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 \$1.6 million, for the years ended December 31, 2015, 2014, and 2013, 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 \$176,000, for the years ended December 31, 2015, 2014, and 2013, respectively. The future minimum rental commitments under these ground leases are as follows:

(In thousands)	LONG-TERM LEASE OBLIGATIONS						
	Year ending December 31,						
	2016	2017	2018	2019	2020	Thereafter	Total
Beacon Center	\$ 60	\$ 60	\$ 60	\$ 60	\$ 60	\$ 2,482	\$ 2,782
Olney	56	56	56	57	62	3,697	3,984
Southdale	60	60	60	60	60	2,825	3,125
Total	\$ 176	\$ 176	\$ 176	\$ 177	\$ 182	\$ 9,004	\$ 9,891

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, 2015, 2014, and 2013 was \$904,900, \$840,800, and \$850,600, 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, 2015, 2014, and 2013 reflect noncontrolling interest of \$10.5 million, \$11.0 million, and \$4.0 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. In December 2014, the Company redeemed the remaining outstanding Series A Stock. Costs associated with the redemptions were charged against accumulated deficit in the respective periods.

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 ("Series C 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 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. On November 12, 2014, the Company sold, in an underwritten public offering, 1.6 million depositary shares of Series C Stock and received net cash proceeds of approximately \$39.3 million (the "Additional Series C Stock"). The terms of Additional Series C Stock are identical to the Series C Stock.

9. RELATED PARTY TRANSACTIONS

The Chairman and Chief Executive Officer, the President and Chief Operating Officer, the Executive Vice President-Chief Legal and Administrative Officer 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 \$400,000, \$379,000, and \$369,000, for 2015, 2014, and 2013, 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, 2015, 2014, and 2013, the Company contributed three times the amount deferred by employees. The Company's expense, included in general and administrative expense, totaled \$224,900, \$192,800, and \$191,300, for the years ended December 31, 2015, 2014, and 2013, respectively. All amounts deferred by employees and the Company are fully vested. The cumulative unfunded liability under this plan was \$1.8 million and \$1.8 million, at December 31, 2015 and 2014, 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, 2015, 2014, and 2013, which included rental expense for the Company's headquarters lease (see Note 7. Long Term Lease Obligations), totaled \$8.2 million, \$7.4 million, and \$6.3 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 December 31, 2015 and 2014, accounts payable, accrued expenses and other liabilities included \$655,000 and \$543,000, respectively, representing billings due to the Saul Organization for the Company's share of these ancillary costs and expenses.

The Company has entered into a shared third-party predevelopment cost agreement with the B. F. Saul Real Estate Investment Trust, a member of the Saul Organization (the "Predevelopment Agreement"). The Predevelopment Agreement, which expired on December 31, 2015 and was extended to December 31, 2016, relates to the sharing of third-party predevelopment costs incurred in connection with the planning of the future redevelopment of certain adjacent real estate assets in the Twinbrook area of Rockville, Maryland. The costs will be billed by the third-parties on a pro rata basis based on the acreage owned by each entity and neither party is obligated to advance funds to the other.

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 \$443,500, \$427,300, and \$447,300, for the years ended December 31, 2015, 2014, and 2013, respectively.

Effective as of September 4, 2012, the Company entered into a consulting agreement with B. F. Saul III, one of the Company's former presidents, whereby Mr. Saul III provided certain consulting services to the Company as an independent contractor and was paid at a rate of \$60,000 per month. The consulting agreement included certain noncompete, nonsolicitation and nondisclosure covenants, and expired in September 2014. During 2014 and 2013 such consulting fees totaled \$495,000 and \$720,000, 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 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 vested 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 \$257,250 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$257,250 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 9, 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.

Effective May 9, 2014, the Compensation Committee granted options to purchase 200,000 shares (29,300 incentive stock options and 170,700 nonqualified stock options) to eighteen Company officers and twelve Company Directors (the "2014 options"), which expire on May 8, 2024. The officers' 2014 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2014 Options were immediately exercisable. The exercise price of \$47.03 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 2014 Options to be \$1.3 million, of which \$1.2 million and \$109,500 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$109,500 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 8, 2015, the Compensation Committee granted options to purchase 225,000 shares (33,690 incentive stock options and 191,310 nonqualified stock options) to 19 Company officers and 14 Company Directors (the "2015 options"), which expire on May 7, 2025. The officers' 2015 Options vest 25% per year over four years and are subject to early expiration upon termination of employment. The directors' 2015 Options were immediately exercisable. The exercise price of \$51.07 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 2015 Options to be \$1.6 million, of which \$1.4 million and \$125,300 were assigned to the officer options and director options, respectively. Because the directors' options vested immediately, the entire \$125,300 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.

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, 2015, 2014 and 2013.

STOCK OPTIONS ISSUED TO DIRECTORS

(Dollars in thousands, except per share data)

Grant date	5/1/2006	4/27/2007	4/25/2008	4/24/2009	5/7/2010	5/13/2011	5/4/2012	5/10/2013	5/9/2014	5/9/2015	Subtotals
Total grant	30,000	30,000	30,000	32,500	32,500	32,500	35,000	35,000	30,000	35,000	322,500
Vested	30,000	30,000	30,000	32,500	32,500	32,500	35,000	35,000	30,000	35,000	322,500
Exercised	20,000	5,000	7,500	22,500	15,000	15,000	15,000	12,500	7,500	5,000	125,000
Forfeited	2,500	7,500	7,500	—	2,500	2,500	—	—	—	—	22,500
Exercisable at											
December 31, 2015	7,500	17,500	15,000	10,000	15,000	15,000	20,000	22,500	22,500	30,000	175,000
Remaining unexercised	7,500	17,500	15,000	10,000	15,000	15,000	20,000	22,500	22,500	30,000	175,000
Exercise price	\$ 40.35	\$ 54.17	\$ 50.15	\$ 32.68	\$ 38.76	\$ 41.82	\$ 39.29	\$ 44.42	\$ 47.03	\$ 51.07	
Volatility	0.206	0.225	0.237	0.344	0.369	0.358	0.348	0.333	0.173	0.166	
Expected life (years)	9.0	8.0	7.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0	
Assumed yield	5.93%	4.39%	4.09%	4.54%	4.23%	4.16%	4.61%	4.53%	4.48%	4.54%	
Risk-free rate	5.11%	4.65%	3.49%	2.19%	2.17%	1.86%	0.78%	0.82%	1.63%	1.50%	
Gross value at grant date	\$ 144	\$ 285	\$ 255	\$ 223	\$ 288	\$ 297	\$ 257	\$ 278	\$ 110	\$ 125	\$ 2,262
Expensed in previous years	144	285	255	223	288	297	257	—	—	—	1,749
Expensed in 2013	—	—	—	—	—	—	—	278	—	—	278
Expensed in 2014	—	—	—	—	—	—	—	—	110	—	110
Expensed in 2015	—	—	—	—	—	—	—	—	—	125	125
Future expense	—	—	—	—	—	—	—	—	—	—	—

STOCK OPTIONS ISSUED TO OFFICERS AND GRAND TOTALS

Grant date	4/27/2007	5/13/2011	5/4/2012	5/10/2013	5/9/2014	5/8/2015	Subtotals	Grand Totals
Total grant	135,000	162,500	242,500	202,500	170,000	190,000	1,102,500	1,425,000
Vested	67,500	118,750	81,875	91,250	42,500	—	401,875	724,375
Exercised	14,097	58,754	40,625	24,375	3,125	—	140,976	265,976
Forfeited	67,500	43,750	135,000	30,000	—	—	276,250	298,750
Exercisable at								
December 31, 2015	53,403	59,996	41,250	68,875	39,375	—	260,899	435,899
Remaining unexercised	53,403	59,996	68,875	148,125	166,875	190,000	685,274	860,274
Exercise price	\$ 54.17	\$ 41.82	\$ 39.29	\$ 44.42	\$ 47.03	\$ 51.07		
Volatility	0.233	0.330	0.315	0.304	0.306	0.298		
Expected life (years)	6.5	8.0	8.0	8.0	7.0	7.0		
Assumed yield	4.13%	4.81%	5.28%	5.12%	4.89%	4.94%		
Risk-free rate	4.61%	2.75%	1.49%	1.49%	2.17%	1.89%		
Gross value at grant date	\$ 1,339	\$ 1,367	\$ 1,518	\$ 1,401	\$ 1,350	\$ 1,585	\$ 8,560	\$ 10,822
Estimated forfeitures	62	368	890	280	169	142	1,911	1,911
Expensed in previous years	1,277	457	105	—	—	—	1,839	3,588
Expensed in 2013	—	236	157	209	—	—	602	880
Expensed in 2014	—	217	157	284	197	—	855	965
Expensed in 2015	—	89	157	269	295	240	1,050	1,176
Future expense	—	—	52	359	689	1,202	2,302	2,302

Weighted average term of remaining future expense 2.7 years

The table below summarizes the option activity for the years 2015, 2014 and 2013

	OPTION ACTIVITY					
	2015		2014		2013	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1	748,208	\$ 44.79	753,625	\$ 42.55	570,840	\$ 41.04
Granted	225,000	51.07	200,000	47.03	237,500	44.42
Exercised	(112,934)	43.67	(167,917)	37.71	(49,715)	33.15
Expired/Forfeited	—	—	(37,500)	43.56	(5,000)	52.16
Outstanding December 31	860,274	46.58	748,208	44.79	753,625	42.55
Exercisable at December 31	435,899	45.33	380,708	44.85	413,000	42.42

The intrinsic value of options exercised in 2015, 2014, and 2013, was \$1.5 million, \$2.0 million and \$0.6 million, respectively. The intrinsic value of options outstanding and exercisable at year end 2015 was \$4.2 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, 2015, the final trading day of calendar 2015, the closing price of \$51.27 per share was used for the calculation of aggregate intrinsic value of options outstanding and exercisable at that date. At December 31, 2015, 70,903 options issued in 2007 had an exercise price in excess of the market closing price and therefore had no intrinsic value. The weighted average remaining contractual life of the Company's exercisable and outstanding options at December 31, 2015 are 5.7 and 7.1 years, respectively.

11. NON-OPERATING ITEMS

Gain on casualty settlement in 2013 reflects insurance proceeds received in excess of the carrying value of assets damaged during a hail storm at French Market in 2012. 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 3.75% and 3.65%, would be approximately \$832.4 million and \$886.4 million as of December 31, 2015 and 2014, respectively, compared

to the carrying value of \$892.9 million and \$784.8 million at December 31, 2015 and 2014, 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.

	SWAPS FAIR VALUE		
	Year ended December 31,		
(In thousands)	2015	2014	2013
Increase (decrease) in fair value:			
Recognized in earnings	\$ (10)	\$ (10)	\$ (7)
Recognized in other comprehensive income	124	(675)	2,897
Total	114	\$ (685)	\$ 2,890

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,

2015, the fair value of the interest-rate swap was approximately \$2.9 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 \$1.69 per share in 2015 and \$1.56 per share during 2014 and \$1.44 per share during 2013, Series A preferred stock dividends of \$2.41 per depositary share during 2014 and \$2.00 per depositary share in 2013, Series B preferred stock dividends of \$0.99 per depositary share during 2013, and Series C preferred stock dividends of \$1.72 per depositary share during each of 2015 and 2014 and \$1.09 per depositary share during 2013. Of the common stock dividends paid, \$1.69 per share, \$1.56 per share, and \$0.96 per share, represented ordinary dividend income in 2015, 2014, and 2013, respectively, and \$0.48 per share represented return of capital to the shareholders in 2013. All of the preferred stock dividends paid were considered ordinary dividend income.

The following summarizes distributions paid during the years ended December 31, 2015, 2014, and 2013, 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			Common Stock Shares Issued	Dividend Reinvestments		Average Unit Price
	Preferred Stockholders	Common Stockholders	Limited Partnership Unitholders		Discounted Share Price	Limited Partnership Units Issued	
Distributions during 2015							
October 31	\$ 3,094	\$ 9,106	\$ 3,129	47,313	\$ 55.73	28,936	\$ 55.73
July 31	3,094	9,081	3,115	56,003	50.30	32,041	50.30
April 30	3,094	9,055	3,104	54,921	50.21	25,264	50.21
January 31	3,093	8,403	2,880	42,975	56.74	20,796	56.74
Total 2015	\$ 12,375	\$ 35,645	\$ 12,228	201,212		107,037	
Distributions during 2014							
October 31	\$ 3,856	\$ 8,348	\$ 2,879	40,142	\$ 52.71		
July 31	3,206	8,314	2,879	57,696	46.79		
April 30	3,206	8,269	2,838	60,212	44.14	104,831	\$ 44.77
January 31	3,206	7,415	2,521	39,588	45.15	91,352	45.80
Total 2014	\$ 13,474	\$ 32,346	\$ 11,117	197,638		196,183	
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	

In December 2015, the Board of Directors of the Company authorized a distribution of \$0.43 per common share payable in January 2016, to holders of record on January 15, 2016. As a result, \$9.1 million was paid to common shareholders on January 29, 2016. Also, \$3.1 million was paid to limited partnership unitholders on January 29, 2016 (\$0.43 per Operating Partnership unit). The Board of Directors authorized preferred stock dividends of \$0.4297 per Series C depository share to holders of record on Jan-

uary 7, 2016. As a result, \$3.1 million was paid to preferred shareholders on January 15, 2016. These amounts are reflected as a reduction of stockholders' equity in the case of common stock and preferred stock dividends and noncontrolling interests 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 2015 and 2014.

(In thousands, except per share amounts)

	2015			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	\$ 52,088	\$ 51,711	\$ 52,376	\$ 52,902
Operating income before loss on early extinguishment of debt, gain on casualty settlement, and noncontrolling interests	12,687	12,922	13,238	14,083
Gain on sales of properties	—	11	—	—
Net income attributable to Saul Centers, Inc.	10,207	10,396	10,615	11,250
Net income available to common stockholders	7,113	7,302	7,522	8,156
Net income available to common stockholders per diluted share	0.33	0.35	0.36	0.38

	2014			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	\$ 52,947	\$ 52,286	\$ 50,595	\$ 51,264
Operating income before loss on early extinguishment of debt, gain on casualty settlement, and noncontrolling interests	12,713	14,423	12,479	12,314
Gain on sales of properties	—	6,069	—	—
Net income attributable to Saul Centers, Inc.	10,287	16,054	10,106	10,496
Net income available to common stockholders	7,081	12,847	6,900	5,274
Net income available to common stockholders per diluted share	0.34	0.62	0.33	0.25

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 ex-

penses 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 2015 presentation.

<i>(In thousands)</i>	Shopping Centers	Mixed-Use Properties	Corporate and Other	Consolidated Totals
As of or for the year ended December 31, 2015				
Real estate rental operations:				
Revenue	\$ 156,110	\$ 52,916	\$ 51	\$ 209,077
Expenses	(33,877)	(17,266)	—	(51,143)
Income from real estate	122,233	35,650	51	157,934
Interest expense and amortization of deferred debt costs	—	—	(45,165)	(45,165)
General and administrative	—	—	(16,353)	(16,353)
Subtotal	122,233	35,650	(61,467)	96,416
Depreciation and amortization of deferred leasing costs	(30,171)	(13,099)	—	(43,270)
Acquisition related costs	(84)	—	—	(84)
Predevelopment expenses	(57)	(75)	—	(132)
Change in fair value of derivatives	—	—	(10)	(10)
Gain on sale of property	11	—	—	11
Net income (loss)	\$ 91,932	\$ 22,476	\$ (61,477)	\$ 52,931
Capital investment	\$ 17,159	\$ 52,460	\$ —	\$ 69,619
Total assets	\$ 936,542	\$ 356,400	\$ 11,203	\$ 1,304,145
As of or for the year ended December 31, 2014				
Real estate rental operations:				
Revenue	\$ 154,385	\$ 52,632	\$ 75	\$ 207,092
Expenses	(33,781)	(15,732)	—	(49,513)
Income from real estate	120,604	36,900	75	157,579
Interest expense and amortization of deferred debt costs	—	—	(46,034)	(46,034)
General and administrative	—	—	(16,961)	(16,961)
Subtotal	120,604	36,900	(62,920)	94,584
Depreciation and amortization of deferred leasing costs	(28,082)	(13,121)	—	(41,203)
Acquisition related costs	(949)	—	—	(949)
Predevelopment expenses	—	(503)	—	(503)
Change in fair value of derivatives	—	—	(10)	(10)
Gain on sale of property	6,069	—	—	6,069
Net income (loss)	\$ 97,642	\$ 23,276	\$ (62,930)	\$ 57,988
Capital investment	\$ 66,508	\$ 23,760	\$ —	\$ 90,268
Total assets	\$ 946,819	\$ 307,901	\$ 12,267	\$ 1,266,987

<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

17. SUBSEQUENT EVENTS

The Company has reviewed operating activities for the period subsequent to December 31, 2015 and prior to the date that financial settlements are issued, March 4, 2016, and determined there are no subsequent events that are required to be disclosed.

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 more than the required amount in 2015 and 2014. Distributions by the Company to common stockholders and holders of limited partnership units in the Operating Partnership were \$47.9 million and \$43.5 million in 2015 and 2014, respectively. Distributions to preferred stockholders were \$12.4 million and \$13.5 million in 2015 and 2014, 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, prior to distributions on the common stock.

The Company paid four quarterly distributions totaling \$1.69, \$1.56 and \$1.44 per common share during 2015, 2014 and 2013, respectively. The annual distribution amounts paid by the Company exceeded 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. All of the 2015 and 2014 common dividends were treated as taxable dividends. 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. No assurance can be given regarding what portion, if any, of distributions in 2016 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 Company's shares of common stock were reported by the New York Stock Exchange for each quarter of 2015 and 2014 as follows:

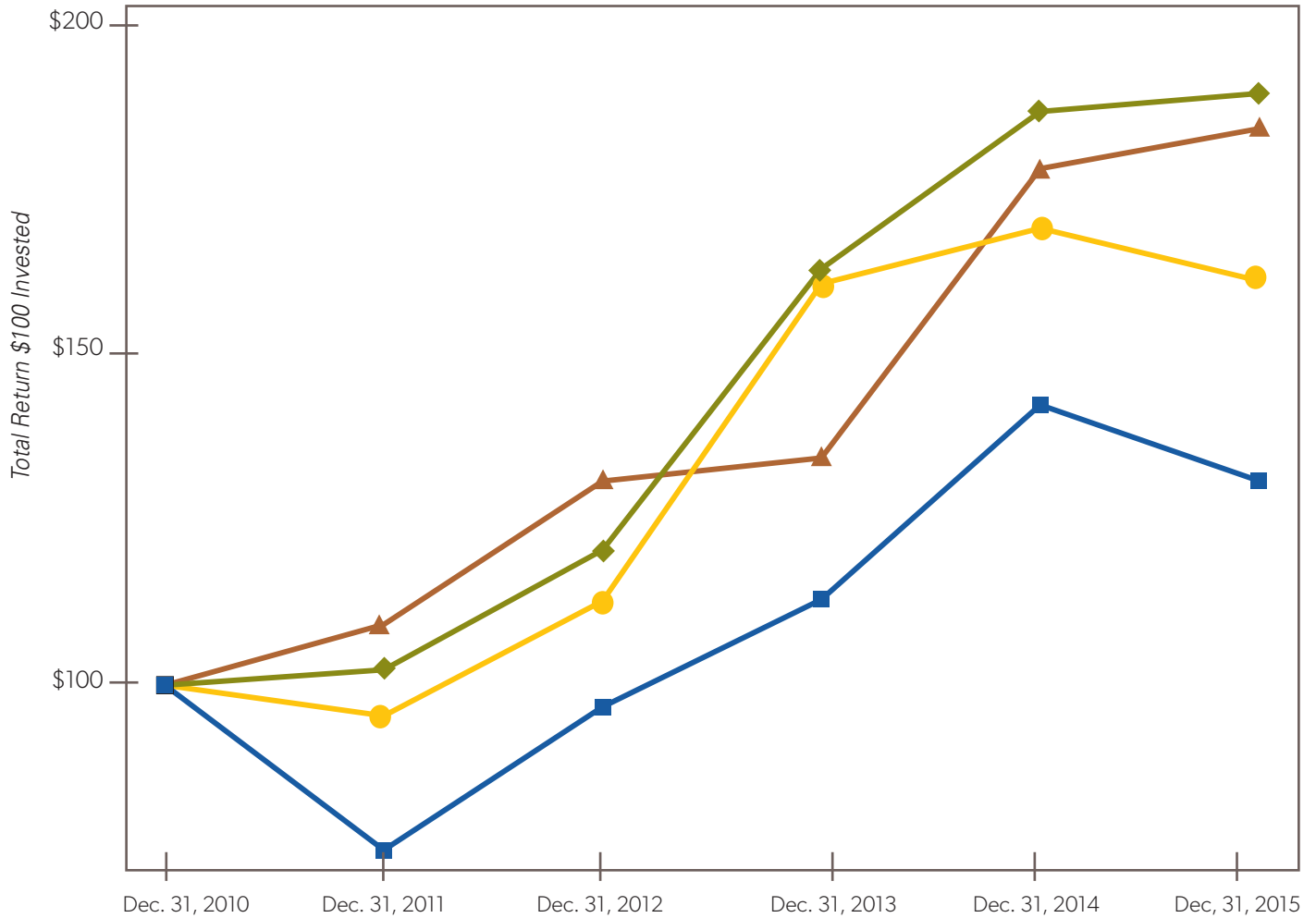
Period	Share Price	
	High	Low
October 1, 2015 – December 31, 2015	\$ 58.87	\$ 51.27
July 1, 2015 – September 30, 2015	\$ 52.90	\$ 47.65
April 1, 2015 – June 30, 2015	\$ 56.93	\$ 49.19
January 1, 2015 – March 31, 2015	\$ 60.30	\$ 53.52
October 1, 2014 – December 31, 2014	\$ 58.56	\$ 46.83
July 1, 2014 – September 30, 2014	\$ 50.35	\$ 45.98
April 1, 2014 – June 30, 2014	\$ 50.53	\$ 45.51
January 1, 2014 – March 31, 2014	\$ 48.20	\$ 45.06

On March 1, 2016, the closing price was \$49.83 per share.
The approximate number of holders of record of the common stock was 196 as of March 1, 2016.

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, 2011.

Comparison of Cumulative Total Return



	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015
■ Saul Centers	\$100	\$77.51	\$97.05	\$111.70	\$138.25	\$127.88
◆ S&P 500	\$100	\$102.11	\$118.45	\$156.82	\$178.28	\$180.75
● Russell 2000	\$100	\$95.82	\$111.49	\$154.78	\$162.35	\$155.18
▲ NAREIT Equity	\$100	\$108.29	\$127.85	\$131.01	\$170.49	\$175.94

DIRECTORS

B. Francis Saul II

Chairman and Chief Executive Officer

J. Page Lansdale

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

Patrick F. Noonan

Founder/Chairman Emeritus,
The Conservation Fund

H. Gregory Platts

Senior Vice President and
Treasurer, Emeritus,
National Geographic Society

Andrew M. Saul II

Chief Executive Officer
Genovation Cars

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

J. Page Lansdale

President and Chief
Operating Officer

Christine N. Kearns

Executive Vice President – Chief
Legal and Administrative Officer

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, Retail Leasing

Steven N. Corey

Senior Vice President, Office Leasing

John F. Collich

Senior Vice President,
Acquisitions and Development

Donald A. Hachey

Senior Vice President, Construction

Charles W. Sherren, Jr.

Senior Vice President, Management

Benjamin Underwood

Vice President, Residential

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Washington, DC 20036

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.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 2015, 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



Annual Meeting of Stockholders

The Annual Meeting of Stockholders will be held at 11:00 a.m., local time, on May 6, 2016, 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

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Bethesda, MD 20814-6522

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