

SAUL CENTERS INC
Form 10-Q
November 01, 2013
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United States
Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For The Quarterly Period Ended September 30, 2013
Commission File Number 1-12254

SAUL CENTERS, INC.
(Exact name of registrant as specified in its charter)

Maryland 52-1833074
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
7501 Wisconsin Avenue, Bethesda, Maryland 20814
(Address of principal executive office) (Zip Code)
Registrant's telephone number, including area code (301) 986-6200

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

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

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

Large accelerated filer o Accelerated filer x

Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO x

Number of shares of common stock, par value \$0.01 per share outstanding as of October 31, 2013: 20.5 million.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments necessary for the fair presentation of the financial position and results of operations of Saul Centers, Inc. for the interim periods have been included. All such adjustments are of a normal recurring nature. These consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements of Saul Centers, Inc. for the year ended December 31, 2012, which are included in its Annual Report on Form 10-K. The results of operations for interim periods are not necessarily indicative of results to be expected for the year.

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Saul Centers, Inc.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Real estate investments		
Land	\$353,958	\$353,890
Buildings and equipment	1,122,786	1,109,911
Construction in progress	7,232	2,267
	1,483,976	1,466,068
Accumulated depreciation	(386,839	) (353,305
	1,097,137	1,112,763
Cash and cash equivalents	11,696	12,133
Accounts receivable and accrued income, net	44,528	41,406
Deferred leasing costs, net	25,673	26,102
Prepaid expenses, net	7,439	3,895
Deferred debt costs, net	8,244	7,713
Other assets	4,455	3,297
Total assets	\$1,199,172	\$1,207,309
Liabilities		
Mortgage notes payable	\$825,420	\$789,776
Revolving credit facility payable	—	38,000
Dividends and distributions payable	13,082	13,490
Accounts payable, accrued expenses and other liabilities	21,999	27,434
Deferred income	30,072	31,320
Total liabilities	890,573	900,020
Stockholders' equity		
Preferred stock, 1,000,000 shares authorized:		
Series A Cumulative Redeemable, 16,000 and 40,000 shares issued and outstanding, respectively	40,000	100,000
Series B Cumulative Redeemable, 31,731 shares issued and outstanding in 2012	—	79,328
Series C Cumulative Redeemable, 56,000 shares issued and outstanding in 2013	140,000	—
Common stock, \$0.01 par value, 40,000,000 shares authorized, 20,517,281 and 20,045,452 shares issued and outstanding, respectively	205	201
Additional paid-in capital	267,727	246,557
Accumulated deficit	(171,843	) (154,830
Accumulated other comprehensive loss	(1,873	) (3,553
Total Saul Centers, Inc. stockholders' equity	274,216	267,703
Noncontrolling interest	34,383	39,586
Total stockholders' equity	308,599	307,289
Total liabilities and stockholders' equity	\$1,199,172	\$1,207,309
The Notes to Financial Statements are an integral part of these statements.		

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Saul Centers, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except per share amounts)	For The Three Months		For The Nine Months		
	Ended September 30,		Ended September 30,		
	2013	2012	2013	2012	
Revenue					
Base rent	\$40,110	\$38,334	\$119,403	\$113,862	
Expense recoveries	7,848	7,564	22,925	22,706	
Percentage rent	215	250	1,153	1,109	
Other	1,583	1,297	4,270	4,129	
Total revenue	49,756	47,445	147,751	141,806	
Operating expenses					
Property operating expenses	6,106	5,877	18,096	17,532	
Provision for credit losses	191	168	740	761	
Real estate taxes	5,610	5,535	16,806	16,897	
Interest expense and amortization of deferred debt costs	11,738	12,322	35,164	37,609	
Depreciation and amortization of deferred leasing costs	10,492	10,237	39,316	29,744	
General and administrative	3,501	3,272	10,830	10,303	
Predevelopment expenses	60	1,870	3,642	1,870	
Total operating expenses	37,698	39,281	124,594	114,716	
Operating income	12,058	8,164	23,157	27,090	
Acquisition related costs	(99	) —	(99) —	
Change in fair value of derivatives	46	17	107	(2)
Loss on early extinguishment of debt	(497	) —	(497) —	
Gain on sale of property	—	1,057	—	1,057	
Gain on casualty settlement	—	219	—	219	
Income from continuing operations	11,508	9,457	22,668	28,364	
Discontinued operations	—	(53) —	(45)
Net Income	11,508	9,404	22,668	28,319	
Noncontrolling interest					
Income attributable to noncontrolling interests	(2,110) (1,456) (1,692) (4,428)
Net income attributable to Saul Centers, Inc.	9,398	7,948	20,976	23,891	
Preferred stock redemption	—	—	(5,228) —	
Preferred stock dividends	(3,206) (3,785) (10,777) (11,355)
Net income attributable to common stockholders	\$6,192	\$4,163	\$4,971	\$12,536	
Per share net income attributable to common stockholders					
Basic and diluted:					
Continuing operations	\$0.30	\$0.21	\$0.24	\$0.64	
Discontinued operations	—	—	—	—	
	\$0.30	\$0.21	\$0.24	\$0.64	
Dividends declared per common share outstanding	\$0.36	\$0.36	\$1.08	\$1.08	

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

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Saul Centers, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)	For The Three Months Ended September 30,		For The Nine Months Ended September 30,		
	2013	2012	2013	2012	
Net income	\$11,508	\$9,404	\$22,668	\$28,319	
Other comprehensive income					
Change in unrealized loss on cash flow hedge	(12) (321) 2,252	(1,231)
Total comprehensive income	11,496	9,083	24,920	27,088	
Comprehensive income attributable to noncontrolling interests	(2,105) (1,363) (2,264) (4,107)
Total comprehensive income attributable to Saul Centers, Inc.	9,391	7,720	22,656	22,981	
Preferred stock redemption	—	—	(5,228) —	
Preferred stock dividends	(3,206) (3,785) (10,777) (11,355)
Total comprehensive income attributable to common stockholders	\$6,185	\$3,935	\$6,651	\$11,626	

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

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Saul Centers, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

(Dollars in thousands, except per share amounts)	Preferred Stock	Common Stock	Additional Capital	Paid-in Accumulated Deficit	Accumulated Other Comprehensive (Loss)	Total Saul Centers, Inc.	Noncontrolling Interest	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 Cumulative preferred stock	140,000	—	(4,779)	—	—	135,221	—	135,221
Partial redemption of 24,000 shares of Series A Cumulative preferred stock	(60,000)	—	2,212	(2,216)	—	(60,004)	—	(60,004)
Full redemption of 31,731 shares of Series B Cumulative preferred stock	(79,328)	—	3,007	(3,012)	—	(79,333)	—	(79,333)
Issuance of 471,829 shares of common stock:								
426,326 shares pursuant to dividend reinvestment plan	—	4	18,417	—	—	18,421	—	18,421
45,503 shares due to exercise of employee stock options and issuance of directors' deferred stock	—	—	2,313	—	—	2,313	—	2,313
Net income (loss)	—	—	—	20,976	—	20,976	1,692	22,668
Change in unrealized loss on cash flow hedge	—	—	—	—	1,680	1,680	572	2,252
Preferred stock distributions:								
Series A	—	—	—	(2,413)	—	(2,413)	—	(2,413)
Series B	—	—	—	(1,468)	—	(1,468)	—	(1,468)
Series C	—	—	—	(3,689)	—	(3,689)	—	(3,689)
Common stock distributions	—	—	—	(14,599)	—	(14,599)	(4,978)	(19,577)
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)

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Distributions payable common stock (\$0.36/share) and distributions payable	—	—	—	(7,386)	—	(7,386)	(2,489)	(9,875)
partnership units (\$0.36/unit)								
Balance, September 30, 2013	\$180,000	\$205	\$267,727	\$(171,843)	\$(1,873)	\$274,216	\$34,383	\$308,599

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

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Saul Centers, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)	Nine months ended September 30,		
	2013	2012	
Cash flows from operating activities:			
Net income	\$22,668	\$28,319	
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in fair value of derivatives	(107	) 2
Gain on sale of property	—	(1,057)
Gain on casualty settlement	—	(219)
Depreciation and amortization of deferred leasing costs	39,316	29,816	
Amortization of deferred debt costs	934	1,181	
Non cash compensation costs of stock grants and options	935	802	
Provision for credit losses	740	761	
Decrease in accounts receivable and accrued income	(3,862) (3,110)
Additions to deferred leasing costs	(4,560) (3,826)
Decrease in prepaid expenses	(3,544) (2,499)
(Increase) decrease in other assets	(1,158	) 7,764
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(1,670	) 1,975
Decrease in deferred income	(1,248) (953)
Net cash provided by operating activities	48,444	58,956	
Cash flows from investing activities:			
Acquisition of real estate investment	(4,250) —	
Additions to real estate investments	(10,303) (8,410)
Additions to development and redevelopment projects	(5,554) (4,853)
Proceeds from sale of property	—	1,888	
Proceeds from casualty settlement	—	1,702	
Net cash used in investing activities	(20,107) (9,673)
The Notes to Financial Statements are an integral part of these statements.			

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Saul Centers, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Unaudited)

(Dollars in thousands)	Nine months ended September 30,	
	2013	2012
Cash flows from financing activities:		
Proceeds from mortgage notes payable	101,600	83,500
Repayments on mortgage notes payable	(65,956	) (79,408
Proceeds from revolving credit facility	142,000	—
Repayments on revolving credit facility	(180,000	) (8,000
Additions to deferred debt costs	(1,465	) (2,197
Proceeds from the issuance of:		
Common stock	19,800	17,833
Series C preferred stock	135,221	—
Preferred stock redemption payments:		
Series A preferred	(60,000) —
Series B preferred	(79,328) —
Preferred stock redemption costs	(9) —