

TANGER FACTORY OUTLET CENTERS INC
Form 10-Q
August 05, 2013

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 June 30, 2013

OR

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

For the transition period from _____ to _____

Commission file number 1-11986 (Tanger Factory Outlet Centers, Inc.)
Commission file number 333-3526-01 (Tanger Properties Limited Partnership)

TANGER FACTORY OUTLET CENTERS, INC.
TANGER PROPERTIES LIMITED PARTNERSHIP
(Exact name of Registrant as specified in its charter)
North Carolina (Tanger Factory Outlet Centers, Inc.)
North Carolina (Tanger Properties Limited Partnership)
(State or other jurisdiction of incorporation or organization)

56-1815473
56-1822494
(I.R.S. Employer Identification No.)

3200 Northline Avenue, Suite 360, Greensboro, NC 27408
(Address of principal executive offices)

(336) 292-3010
(Registrant's telephone number)

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 requirements for the past 90 days.

Tanger Factory Outlet Centers, Inc. Yes No
Tanger Properties Limited Partnership Yes No

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).

Tanger Factory Outlet Centers, Inc. Yes No
Tanger Properties Limited Partnership Yes No

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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" (as defined in Rule 12b-2 of the Securities and Exchange Act of 1934).

Tanger Factory Outlet Centers, Inc.
x Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company

Tanger Properties Limited Partnership

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act).

Tanger Factory Outlet Centers, Inc. Yes No

Tanger Properties Limited Partnership Yes No

As of July 31, 2013, there were 94,425,537 common shares of Tanger Factory Outlet Centers, Inc. outstanding, \$.01 par value.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended June 30, 2013 of Tanger Factory Outlet Centers, Inc. and Tanger Properties Limited Partnership. Unless the context indicates otherwise, the term, Company, refers to Tanger Factory Outlet Centers, Inc. and subsidiaries and the term, Operating Partnership, refers to Tanger Properties Limited Partnership and subsidiaries. The terms "we", "our" and "us" refer to the Company or the Company and the Operating Partnership together, as the text requires.

Tanger Factory Outlet Centers, Inc. and subsidiaries is one of the largest owners and operators of outlet centers in the United States. The Company is a fully-integrated, self-administered and self-managed real estate investment trust ("REIT") which, through its controlling interest in the Operating Partnership, focuses exclusively on developing, acquiring, owning, operating and managing outlet shopping centers. The outlet centers and other assets are held by, and all of the operations are conducted by, the Operating Partnership and its subsidiaries. Accordingly, the descriptions of the business, employees and properties of the Company are also descriptions of the business, employees and properties of the Operating Partnership.

The Company owns the majority of the units of partnership interest issued by the Operating Partnership through its two wholly-owned subsidiaries, Tanger GP Trust and Tanger LP Trust. Tanger GP Trust controls the Operating Partnership as its sole general partner. Tanger LP Trust holds a limited partnership interest. Through May 31, 2011, the Tanger family, through its ownership of the Tanger Family Limited Partnership, held the remaining units as a limited partner. On June 1, 2011, the Tanger Family Limited Partnership was dissolved, and the units of the Operating Partnership owned by the Tanger Family Limited Partnership were distributed to the individual beneficial owners of the Tanger Family Limited Partnership. As a result, each such individual beneficial owner became an individual limited partner of the Operating Partnership (collectively the "Family Limited Partners").

As of June 30, 2013, the Company, through its ownership of Tanger GP Trust and Tanger LP Trust, owned 23,606,384 units of the Operating Partnership and the Family Limited Partners collectively owned 1,186,921 units. Each unit held by the Family Limited Partners is exchangeable for four of the Company's common shares, subject to certain limitations to preserve the Company's REIT status. Prior to the Company's 2 for 1 splits of its common shares on December 28, 2004 and January 24, 2011, the exchange ratio was one for one.

Management operates the Company and the Operating Partnership as one enterprise. The management of the Company consists of the same members as the management of the Operating Partnership. These individuals are officers of the Company and employees of the Operating Partnership. The individuals that comprise the Company's Board of Directors are also the same individuals that make up the Tanger GP Trust's Board of Trustees.

We believe combining the quarterly reports on Form 10-Q of the Company and the Operating Partnership into this single report results in the following benefits:

• enhancing investors' understanding of the Company and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;

• eliminating duplicative disclosure and providing a more streamlined and readable presentation since a substantial portion of the disclosure applies to both the Company and the Operating Partnership; and

• creating time and cost efficiencies through the preparation of one combined report instead of two separate reports.

There are a few differences between the Company and the Operating Partnership, which are reflected in the disclosure in this report. We believe it is important to understand the differences between the Company and the Operating Partnership in the context of how the Company and the Operating Partnership operate as an interrelated consolidated company. As stated above, the Company is a REIT, whose only material asset is its ownership of partnership interests of the Operating Partnership through its wholly-owned subsidiaries, Tanger GP Trust and Tanger LP Trust. As a result, the Company does not conduct business itself, other than issuing public equity from time to time and incurring expenses required to operate as a public company. However, all operating expenses incurred by the Company are reimbursed by the Operating Partnership, thus the only material item on the Company's income statement is its equity in the earnings of the Operating Partnership. Therefore, the assets and liabilities and the revenues and expenses of the Company and the Operating Partnership are the same on their respective financial statements, except for immaterial differences related to cash, other assets and accrued liabilities that arise from public company expenses paid by the Company. The Company itself does not hold any indebtedness but does guarantee certain debt of the Operating Partnership, as disclosed in this report. The Operating Partnership holds substantially all the assets of the Company and holds the ownership interests in the Company's consolidated and unconsolidated joint ventures. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for net proceeds from public equity issuances by the Company, which are required to be contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates the capital required through its operations, its incurrence of indebtedness or through the issuance of partnership units.

Noncontrolling interests, shareholder's equity and partners' capital are the main areas of difference between the consolidated financial statements of the Company and those of the Operating Partnership. The limited partnership interests in the Operating Partnership held by the Family Limited Partners are accounted for as partners' capital in the Operating Partnership's financial statements and as noncontrolling interests in the Company's financial statements.

To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections for each of the Company and the Operating Partnership:

Consolidated financial statements;

The following notes to the consolidated financial statements:

Debt of the Company and the Operating Partnership;

Shareholders' Equity and Partners' Equity;

Share-Based Compensation of the Company and Equity-Based Compensation of the Operating Partnership;

Earnings Per Share and Earnings Per Unit;

Accumulated Other Comprehensive Income of the Company and the Operating Partnership

Liquidity and Capital Resources in the Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report also includes separate Item 4. Controls and Procedures sections and separate Exhibit 31 and 32 certifications for each of the Company and the Operating Partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the Company and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

In order to highlight the differences between the Company and the Operating Partnership, the separate sections in this report for the Company and the Operating Partnership specifically refer to the Company and the Operating Partnership. In the sections that combine disclosure of the Company and the Operating Partnership, this report refers to actions or holdings as being actions or holdings of the Company. Although the Operating Partnership is generally the entity that enters into contracts and joint ventures and holds assets and debt, reference to the Company is appropriate because the business is one enterprise and the Company operates the business through the Operating Partnership.

As the 100% owner of Tanger GP Trust, the general partner with control of the Operating Partnership, the Company consolidates the Operating Partnership for financial reporting purposes. The separate discussions of the Company and the Operating Partnership in this report should be read in conjunction with each other to understand the results of the Company on a consolidated basis and how management operates the Company.

TANGER FACTORY OUTLET CENTERS, INC. AND TANGER PROPERTIES LIMITED PARTNERSHIP
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PART I. - FINANCIAL INFORMATION

Item 1 - Financial Statements of Tanger Factory Outlet Centers, Inc.

TANGER FACTORY OUTLET CENTERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data, unaudited)

	June 30, 2013	December 31, 2012
ASSETS		
Rental property		
Land	\$ 148,003	\$ 148,002
Buildings, improvements and fixtures	1,821,404	1,796,042
Construction in progress	2,531	3,308
	1,971,938	1,947,352
Accumulated depreciation	(618,644) (582,859
Total rental property, net	1,353,294	1,364,493
Cash and cash equivalents	5,450	10,335
Investments in unconsolidated joint ventures	162,094	126,632
Deferred lease costs and other intangibles, net	94,192	101,040
Deferred debt origination costs, net	7,921	9,083
Prepays and other assets	69,205	60,842
Total assets	\$ 1,692,156	\$ 1,672,425
LIABILITIES AND EQUITY		
Liabilities		
Debt		
Senior, unsecured notes (net of discount of \$1,826 and \$1,967, respectively)	\$ 548,174	\$ 548,033
Unsecured term loans (net of discount of \$472 and \$547, respectively)	259,528	259,453
Mortgages payable (including premiums of \$5,816 and \$6,362, respectively)	104,237	107,745
Unsecured lines of credit	213,100	178,306
Total debt	1,125,039	1,093,537
Construction trade payables	5,595	7,084
Accounts payable and accrued expenses	34,806	41,149
Other liabilities	16,422	16,780
Total liabilities	1,181,862	1,158,550
Commitments and contingencies		
Equity		
Tanger Factory Outlet Centers, Inc.		
Common shares, \$.01 par value, 300,000,000 shares authorized, 94,425,537 and 94,061,384 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	944	941
Paid in capital	771,265	766,056
Accumulated distributions in excess of net income	(294,237) (285,588
Accumulated other comprehensive income	1,343	1,200
Equity attributable to Tanger Factory Outlet Centers, Inc.	479,315	482,609
Equity attributable to noncontrolling interests		
Noncontrolling interests in Operating Partnership	24,100	24,432
Noncontrolling interests in other consolidated partnerships	6,879	6,834
Total equity	510,294	513,875

Total liabilities and equity	\$1,692,156	\$1,672,425
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The accompanying notes are an integral part of these consolidated financial statements.

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TANGER FACTORY OUTLET CENTERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data, unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenues				
Base rentals	\$61,046	\$58,583	\$120,290	\$115,802
Percentage rentals	1,855	1,618	3,872	3,362
Expense reimbursements	25,824	25,196	51,130	48,869
Other income	2,290	1,938	4,412	3,545
Total revenues	91,015	87,335	179,704	171,578
Expenses				
Property operating	28,821	27,977	56,956	54,065
General and administrative	9,914	8,699	19,486	18,719
Acquisition costs	252	—	431	—
Depreciation and amortization	22,172	24,923	44,460	50,438
Total expenses	61,159	61,599	121,333	123,222
Operating income	29,856	25,736	58,371	48,356
Interest expense	12,583	12,411	25,459	24,745
Income before equity in earnings (losses) of unconsolidated joint ventures	17,273	13,325	32,912	23,611
Equity in earnings (losses) of unconsolidated joint ventures	503	(867)	1,093	(2,319)
Net income	17,776	12,458	34,005	21,292
Noncontrolling interests in Operating Partnership	(859)	(766)	(1,648)	(1,479)
Noncontrolling interests in other consolidated partnerships	(29)	25	(30)	32
Net income attributable to Tanger Factory Outlet Centers, Inc.	\$16,888	\$11,717	\$32,327	\$19,845
Basic earnings per common share				
Net income	\$0.18	\$0.13	\$0.34	\$0.21
Diluted earnings per common share				
Net income	\$0.18	\$0.12	\$0.34	\$0.21
Dividends paid per common share	\$0.225	\$0.210	\$0.435	\$0.410

The accompanying notes are an integral part of these consolidated financial statements.

TANGER FACTORY OUTLET CENTERS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income	\$17,776	\$12,458	\$34,005	\$21,292
Other comprehensive income (loss)				
Reclassification adjustments for amounts recognized in net income	37	(87) (53) (173
Foreign currency translation adjustments	135	39	203	34
Other comprehensive income (loss)	172	(48) 150	(139
Comprehensive income	17,948	12,410	34,155	21,153
Comprehensive income attributable to noncontrolling interests	(896) (738) (1,685) (1,438
Comprehensive income attributable to Tanger Factory Outlet Centers, Inc.	\$17,052	\$11,672	\$32,470	\$19,715

The accompanying notes are an integral part of these consolidated financial statements.

TANGER FACTORY OUTLET CENTERS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except share and per share data, unaudited)

	Common shares	Paid in capital	Accumulated distributions in excess of earnings	Accumulated other comprehensive income	Total Tanger Factory Outlet Centers, Inc. equity	Noncontrolling interests in Operating Partnership	Noncontrolling interests in other consolidated partnerships	Total equity
Balance, December 31, 2011	\$867	\$720,073	\$(261,913)	\$1,535	\$460,562	\$61,027	\$6,843	\$528,432