

TANGER FACTORY OUTLET CENTERS INC
Form 10-Q
November 12, 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 September 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 October 31, 2013, there were 94,478,785 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 September 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. As of September 30, 2013, the Company, through its ownership of Tanger GP Trust and Tanger LP Trust, owned 94,478,785 units of the Operating Partnership and other limited partners collectively owned 5,145,012 units. Each unit held by the other limited partners is exchangeable for one common share of the Company, subject to certain limitations to preserve the Company's REIT status.

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' equity 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 limited partners other than Tanger LP Trust are accounted for as partners' equity 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;

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)

	September 30, 2013	December 31, 2012
ASSETS		
Rental property		
Land	\$230,417	\$148,002
Buildings, improvements and fixtures	2,004,882	1,796,042
Construction in progress	4,375	3,308
	2,239,674	1,947,352
Accumulated depreciation	(636,035	) (582,859
Total rental property, net	1,603,639	1,364,493
Cash and cash equivalents	10,482	10,335
Investments in unconsolidated joint ventures	136,922	126,632
Deferred lease costs and other intangibles, net	171,702	107,415
Deferred debt origination costs, net	7,275	9,083
Prepays and other assets	71,943	60,842
Total assets	\$2,001,963	\$1,678,800
LIABILITIES AND EQUITY		
Liabilities		
Debt		
Senior, unsecured notes (net of discount of \$1,753 and \$1,967, respectively)	\$548,247	\$548,033
Unsecured term loans (net of discount of \$435 and \$547, respectively)	267,065	259,453
Mortgages payable (including premiums of \$3,963 and \$6,362, respectively)	251,533	107,745
Unsecured lines of credit	259,000	178,306
Total debt	1,325,845	1,093,537
Construction trade payables	5,272	7,084
Accounts payable and accrued expenses	48,400	41,149
Deferred financing obligation	28,388	—
Other liabilities	33,101	23,155
Total liabilities	1,441,006	1,164,925
Commitments and contingencies		
Equity		
Tanger Factory Outlet Centers, Inc.		
Common shares, \$.01 par value, 300,000,000 shares authorized, 94,478,785 and 94,061,384 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	945	941
Paid in capital	785,515	766,056
Accumulated distributions in excess of net income	(262,173	) (285,588
Accumulated other comprehensive income	1,179	1,200
Equity attributable to Tanger Factory Outlet Centers, Inc.	525,466	482,609
Equity attributable to noncontrolling interests		
Noncontrolling interests in Operating Partnership	28,615	24,432
Noncontrolling interests in other consolidated partnerships	6,876	6,834

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Total equity	560,957	513,875
Total liabilities and equity	\$2,001,963	\$1,678,800

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 September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Revenues				
Base rentals	\$64,301	\$59,662	\$184,591	\$175,464
Percentage rentals	3,084	3,180	6,956	6,542
Expense reimbursements	27,414	24,908	78,544	73,777
Other income	3,104	2,733	7,516	6,278
Total revenues	97,903	90,483	277,607	262,061
Expenses				
Property operating	29,863	27,614	86,819	81,679
General and administrative	9,754	9,018	29,240	27,737
Acquisition costs	532	—	963	—
Depreciation and amortization	24,223	24,809	68,683	75,247
Total expenses	64,372	61,441	185,705	184,663
Operating income	33,531	29,042	91,902	77,398
Interest expense	(12,367)	(12,317)	(37,826)	(37,062)
Gain on previously held interest in acquired joint venture	26,002	—	26,002	—
Income before equity in earnings (losses) of unconsolidated joint ventures	47,166	16,725	80,078	40,336
Equity in earnings (losses) of unconsolidated joint ventures	9,014	(555)	10,107	(2,874)
Net income	56,180	16,170	90,185	37,462
Noncontrolling interests in Operating Partnership	(2,787)	(836)	(4,435)	(2,315)
Noncontrolling interests in other consolidated partnerships	(99)	(7)	(129)	25
Net income attributable to Tanger Factory Outlet Centers, Inc.	\$53,294	\$15,327	\$85,621	\$35,172
Basic earnings per common share				
Net income	\$0.56	\$0.16	\$0.91	\$0.38
Diluted earnings per common share				
Net income	\$0.56	\$0.16	\$0.90	\$0.37
Dividends paid per common share	\$0.225	\$0.210	\$0.660	\$0.620

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 September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net income	\$56,180	\$16,170	\$90,185	\$37,462
Other comprehensive income (loss)				
Reclassification adjustments for amounts recognized in net income	(94	) (88	) (147	) (261
Foreign currency translation adjustments	(79	) (73	) 124	(39
Other comprehensive income (loss)	(173	) (161	) (23	) (300
Comprehensive income	56,007	16,009	90,162	37,162
Comprehensive income attributable to noncontrolling interests	(2,877	) (835	) (4,562	) (2,273
Comprehensive income attributable to Tanger Factory Outlet Centers, Inc.	\$53,130	\$15,174	\$85,600	\$34,889

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
Net income	—	—	53,228	—	53,228	3,267	(19)	56,476
Other comprehensive loss	—	—	—	(335)	(335)	(21)	—	(356)
Compensation under Incentive Award Plan	—	10,676	—	—	10,676	—	—	10,676
Issuance of 37,700 common shares upon exercise of options	—	481	—	—	481	—	—	481
Grant of 566,000 restricted shares, net of forfeitures	6	(6)	—	—	—	—	—	—
Adjustment for noncontrolling interests in Operating Partnership	—	34,910	—	—	34,910	(34,910)	—	—
Adjustment for noncontrolling interests in other consolidated partnerships	—	(10)	—	—	(10)	—	10	—
Exchange of 6,730,028 Operating Partnership units for 6,730,028 common shares	68	(68)	—	—	—	—	—	—
Common dividends (\$0.83 per share)	—	—	(76,903)	—	(76,903)	—	—	(76,903)
Distributions to noncontrolling interest in Operating Partnership	—	—	—	—	—	(4,931)	—	(4,931)

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Balance, December 31, 2012	\$941	\$766,056	\$(285,588)	\$ 1,200	\$482,609	\$ 24,432	\$ 6,834	\$513,875
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TANGER FACTORY OUTLET CENTERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY

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

(Continued)

	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, 2012	\$941	\$766,056	\$(285,588)	\$ 1,200	\$482,609	\$ 24,432	\$ 6,834	\$513,875
Net income	—	—	85,621	—	85,621	4,435	129	90,185
Other comprehensive loss	—	—	—	(21)	(21)	(2)	—	(23)
Compensation under Incentive Award Plan	—	8,614	—	—	8,614	—	—	8,614
Issuance of 17,600 common shares upon exercise of options	—	332	—	—	332	—	—	332
Issuance of 450,576 Operating Partnership limited partner units	—	—	—	—	—	13,981	—	13,981
Grant of 337,373 restricted shares, net of forfeitures	3	(3)	—	—	—	—	—	—
Adjustment for noncontrolling interests in Operating Partnership	—	11,095	—	—	11,095	(11,095)	—	—
Adjustment for noncontrolling interests in other consolidated partnerships	—	(578)	—	—	(578)	—	578	—
Acquisition of noncontrolling interests in other consolidated partnerships	—	—	—	—	—	—	(525)	(525)
Exchange of 67,428 Operating Partnership units for 67,428 common shares	1	(1)	—	—	—	—	—	—

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Common dividends (\$.66 per share)	—	—	(62,206)	—	(62,206)	—	—	(62,206)
Distributions to noncontrolling interests in Operating Partnership	—	—	—	—	—	(3,136)	(140)	(3,276)
Balance, September 30, 2013	\$945	\$785,515	\$(262,173)	\$1,179	\$525,466	\$28,615	\$6,876	\$560,957

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

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

(In thousands, unaudited)

Nine months ended