

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

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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.

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## 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
<b>ASSETS</b>		
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
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
<b>Debt</b>		
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
<b>Commitments and contingencies</b>		
<b>Equity</b>		
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
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 1,682,507 Operating Partnership units for 6,730,028 common shares	68	(68)	—	—	—	—	—	—
Common dividends (\$0.8300 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	—	—	32,327	—	32,327	1,648	30	34,005
Other comprehensive income	—	—	—	143	143	7	—	150
Compensation under Incentive Award Plan	—	5,534	—	—	5,534	—	—	5,534
Issuance of 17,600 common shares upon exercise of options	—	337	—	—	337	—	—	337
Grant of 337,373 restricted shares, net of forfeitures	3	(3 )	—	—	—	—	—	—
Adjustment for noncontrolling interests in Operating Partnership	—	(81 )	—	—	(81 )	81	—	—
Adjustment for noncontrolling interests in other consolidated partnerships	—	(578 )	—	—	(578 )	—	578	—
Acquisition of noncontrolling interests in other consolidated partnerships	—	—	—	—	—	—	(525 )	(525 )
Exchange of 3,545 Operating Partnership units for 14,180 common shares	—	—	—	—	—	—	—	—
Common dividends (\$ .435 per share)	—	—	(40,976 )	—	(40,976 )	—	—	(40,976 )
	—	—	—	—	—	(2,068 )	(38 )	(2,106 )

Distributions to  
noncontrolling  
interests in  
Operating  
Partnership

Balance, June 30, 2013	\$944	\$771,265	\$(294,237 )	\$1,343	\$479,315	\$24,100	\$6,879	\$510,294
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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)

	Six months ended	
	June 30,	
	2013	2012
<b>OPERATING ACTIVITIES</b>		
Net income	\$34,005	\$21,292
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44,460	50,438
Amortization of deferred financing costs	1,201	1,146
Equity in (earnings) losses of unconsolidated joint ventures	(1,093	) 2,319
Distributions of cumulative earnings from unconsolidated joint ventures	2,129	466
Share-based compensation expense	5,399	5,797
Amortization of debt (premiums) and discounts, net	(513	) (499
Net amortization (accretion) of market rent rate adjustments	154	(430
Straight-line rent adjustments	(2,480	) (1,789
Changes in other assets and liabilities:		
Other assets	(1,401	) 3,956
Accounts payable and accrued expenses	(6,447	) 113
Net cash provided by operating activities	75,414	82,809
<b>INVESTING ACTIVITIES</b>		
Additions to rental property	(26,146	) (19,945
Additions to investments in unconsolidated joint ventures	(40,964	) (46,893
Additions to non-real estate assets	(6,562	) —
Distributions in excess of cumulative earnings from unconsolidated joint ventures	4,711	310
Additions to deferred lease costs	(1,661	) (2,531
Net cash used in investing activities	(70,622	) (69,059
<b>FINANCING ACTIVITIES</b>		
Cash dividends paid	(40,976	) (37,589
Distributions to noncontrolling interests in Operating Partnership	(2,068	) (2,782
Proceeds from debt issuances	300,203	432,732
Repayments of debt	(266,553	) (399,864
Acquisition of noncontrolling interests in other consolidated partnerships	(525	) —
Distributions to noncontrolling interests in other consolidated partnerships	(38	) —
Additions to deferred financing costs	(57	) (2,527
Proceeds from exercise of options	337	241
Net cash used in financing activities	(9,677	) (9,789
Net increase (decrease) in cash and cash equivalents	(4,885	) 3,961
Cash and cash equivalents, beginning of period	10,335	7,894
Cash and cash equivalents, end of period	\$5,450	\$11,855

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



## Item 1 - Financial Statements of Tanger Properties Limited Partnership

TANGER PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(In thousands, unaudited)

	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
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	5,390	10,295
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	68,732	60,408
Total assets	\$ 1,691,623	\$ 1,671,951
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
<b>Debt</b>		
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	34,273	40,675
Other liabilities	16,422	16,780
Total liabilities	1,181,329	1,158,076
<b>Commitments and contingencies</b>		
<b>Equity</b>		
<b>Partners' Equity</b>		
General partner	4,632	4,720
Limited partners	497,526	501,214
Accumulated other comprehensive income	1,257	1,107
Total partners' equity	503,415	507,041
Noncontrolling interests in consolidated partnerships	6,879	6,834
Total equity	510,294	513,875
Total liabilities and equity	\$ 1,691,623	\$ 1,671,951

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

TANGER PROPERITES LIMITED PARTNERSHIP AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per unit 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 consolidated partnerships	(29)	) 25	(30)	) 32
Net income available to partners	17,747	12,483	33,975	21,324
Net income available to limited partners	17,566	12,355	33,628	21,105
Net income available to general partner	\$181	\$128	\$347	\$219
Basic earnings per common unit:				
Net income	\$0.71	\$0.50	\$1.37	\$0.86
Diluted earnings per common unit:				
Net income	\$0.71	\$0.50	\$1.36	\$0.85
Distribution paid per common unit	\$0.90	\$0.84	\$1.74	\$1.64

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

TANGER PROPERITES LIMITED PARTNERSHIP AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (In thousands, unaudited)

	Three months ended June 30,		Six months ended 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 in consolidated partnerships	(29	) 25	(30	) 32
Comprehensive income attributable to the Operating Partnership	\$17,919	\$12,435	\$34,125	\$21,185

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

TANGER PROPERITES LIMITED PARTNERSHIP AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EQUITY

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

	General partner	Limited partners	Accumulated other comprehensive income	Total partners' equity	Noncontrolling interests in consolidated partnerships	Total equity
Balance, December 31, 2011	\$4,972	\$515,154	\$1,463	\$521,589	\$6,843	\$528,432
Net income	578	55,917	—	56,495	(19)	)56,476
Other comprehensive loss	—	—	(356	)(356	)—	(356 )
Compensation under Incentive Award Plan	—	10,676	—	10,676	—	10,676
Issuance of 9,425 common units upon exercise of options	—	481	—	481	—	481
Grant of 141,500 restricted units, net of forfeitures	—	—	—	—	—	—
Adjustments for noncontrolling interests in consolidated partnerships	—	(10	)—	(10	)10	—
Common distributions (\$3.32 per common unit)	(830	)(81,004	)—	(81,834	)—	(81,834 )
Balance, December 31, 2012	4,720	501,214	1,107	507,041	6,834	513,875
Net income	347	33,628	—	33,975	30	34,005
Other comprehensive income	—	—	150	150	—	150
Compensation under Incentive Award Plan	—	5,534	—	5,534	—	5,534
Issuance of 4,400 common units upon exercise of options	—	337	—	337	—	337
Grant of 84,343 restricted units, net of forfeitures	—	—	—	—	—	—
Adjustment for noncontrolling interests in other consolidated partnerships	—	(578	)—	(578	)578	—
Acquisition of noncontrolling interests in other consolidated partnerships	—	—	—	—	(525	)(525 )
Common distributions (\$1.74 per common unit)	(435	)(42,609	)—	(43,044	)(38	)(43,082 )
Balance, June 30, 2013	\$4,632	\$497,526	\$1,257	\$503,415	\$6,879	\$510,294

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

TANGER PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

	Six months ended	
	June 30,	
	2013	2012
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 34,005	\$ 21,292
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44,460	50,438
Amortization of deferred financing costs	1,201	1,146
Equity in (earnings) losses of unconsolidated joint ventures	(1,093	) 2,319
Distributions of cumulative earnings from unconsolidated joint ventures	2,129	466
Equity-based compensation expense	5,399	5,797
Amortization of debt (premiums) and discounts, net	(513	) (499 )
Net amortization (accretion) of market rent rate adjustments	154	(430 )
Straight-line rent adjustments	(2,480	) (1,789 )
Changes in other assets and liabilities:		
Other assets	(1,362	) 3,854
Accounts payable and accrued expenses	(6,506	) 111
Net cash provided by operating activities	75,394	82,705
<b>INVESTING ACTIVITIES</b>		
Additions to rental property	(26,146	) (19,945 )
Additions to investments in unconsolidated joint ventures	(40,964	) (46,893 )
Additions to non-real estate assets	(6,562	) —
Distributions in excess of cumulative earnings from unconsolidated joint ventures	4,711	310
Additions to deferred lease costs	(1,661	) (2,531 )
Net cash used in investing activities	(70,622	) (69,059 )
<b>FINANCING ACTIVITIES</b>		
Cash distributions paid	(43,044	) (40,371 )
Proceeds from debt issuances	300,203	432,732
Repayments of debt	(266,553	) (399,864 )
Acquisition of noncontrolling interests in consolidated partnerships	(525	) —
Distributions to noncontrolling interests in consolidated partnerships	(38	) —
Additions to deferred financing costs	(57	) (2,527 )
Proceeds from exercise of options	337	241
Net cash used in financing activities	(9,677	) (9,789 )
Net increase (decrease) in cash and cash equivalents	(4,905	) 3,857
Cash and cash equivalents, beginning of period	10,295	7,866
Cash and cash equivalents, end of period	\$ 5,390	\$ 11,723

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

TANGER FACTORY OUTLET CENTERS INC. AND SUBSIDIARIES  
TANGER PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business

Tanger Factory Outlet Centers, Inc. and subsidiaries is one of the largest owners and operators of outlet centers in the United States. We are a fully-integrated, self-administered and self-managed real estate investment trust ("REIT") which, through our controlling interest in the Operating Partnership, focuses exclusively on developing, acquiring, owning, operating and managing outlet shopping centers. As of June 30, 2013, we owned and operated 36 outlet centers, with a total gross leasable area of approximately 10.8 million square feet. We also had partial ownership interests in 7 outlet centers totaling approximately 2.1 million square feet, including 3 outlet centers in Canada.

Our outlet centers and other assets are held by, and all of our operations are conducted by, Tanger Properties Limited Partnership and subsidiaries. Accordingly, the descriptions of our business, employees and properties are also descriptions of the business, employees and properties of the Operating 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.

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. The Family Limited Partners own the remaining Operating Partnership units.

2. Basis of Presentation

The unaudited consolidated financial statements included herein have been prepared pursuant to accounting principles generally accepted in the United States of America and should be read in conjunction with the consolidated financial statements and notes thereto of the Company's and the Operating Partnership's combined Annual Report on Form 10-K for the year ended December 31, 2012. The December 31, 2012 balance sheet data in this Form 10-Q was derived from audited financial statements. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the SEC's rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading.

Investments in real estate joint ventures that we do not control are accounted for using the equity method of accounting. These investments are recorded initially at cost and subsequently adjusted for our equity in the venture's net income (loss), cash contributions, distributions and other adjustments required under the equity method of accounting. These investments are evaluated for impairment when necessary. Control is determined using an evaluation based on accounting standards related to the consolidation of voting interest entities and variable interest entities. For joint ventures that are determined to be variable interest entities, we consolidate the entity where we are deemed to be the primary beneficiary.

Noncontrolling interests relate to the interests in the Operating Partnership owned by Family Limited Partners and interests in consolidated partnerships not wholly-owned by the Company or the Operating Partnership. Family Limited Partners are holders of Operating Partnership units that may be exchanged for the Company's common shares in a ratio of one unit for four common shares. The noncontrolling interests in other consolidated partnerships consist of outside equity interests in partnerships not wholly owned by the Company or the Operating Partnership that are consolidated with the financial results of the Company and Operating Partnership because the Operating Partnership exercises control over the entities that own the properties.

Certain amounts related to reimbursements of payroll related expenses from unconsolidated joint ventures in the statement of operations for the three and six months ended June 30, 2012 have been reclassified to the caption “expense reimbursements” from the caption “other income” to conform to the presentation of the consolidated statement of operations presented for the three months and six months ended June 30, 2013.

## 3. Investments in Unconsolidated Real Estate Joint Ventures

Our investments in unconsolidated joint ventures as of June 30, 2013 and December 31, 2012 aggregated \$162.1 million and \$126.6 million, respectively. We have concluded based on the current facts and circumstances that the equity method of accounting should be used to account for each of the individual joint ventures below. At June 30, 2013 and December 31, 2012, we were members of the following unconsolidated real estate joint ventures:

As of June 30, 2013

Joint Venture	Center Location	Ownership %	Square Feet	Carrying Value of Investment (in millions)	Total Joint Venture Debt (in millions)
Deer Park	Deer Park, Long Island NY	33.3	% 741,981	\$2.0	\$246.9
Galveston/Houston	Texas City, Texas	50.0	% 352,705	40.1	—
National Harbor	Washington D.C. Metro Area	50.0	% —	17.3	4.2
RioCan Canada	Various	50.0	% 434,162	82.3	18.7
Westgate	Glendale, Arizona	58.0	% 331,739	16.8	42.2
Wisconsin Dells	Wisconsin Dells, Wisconsin	50.0	% 265,086	2.5	24.3
Other			—	1.1	—
				\$162.1	\$336.3

As of December 31, 2012

Joint Venture	Center Location	Ownership %	Square Feet	Carrying Value of Investment (in millions)	Total Joint Venture Debt (in millions)
Deer Park	Deer Park, Long Island NY	33.3	% 741,981	\$3.0	\$246.9
Deer Park Warehouse	Deer Park, Long Island NY	33.3	% 29,253	—	1.9
Galveston/Houston	Texas City, TX	50.0	% 352,705	36.7	—
National Harbor	Washington D.C. Metro Area	50.0	% —	2.6	—
RioCan Canada	Various	50.0	% 434,562	62.2	20.1
Westgate	Glendale, AZ	58.0	% 332,234	19.1	32.0
Wisconsin Dells	Wisconsin Dells, WI	50.0	% 265,086	2.8	24.3
Other			—	0.2	—
				\$126.6	\$325.2

These investments are recorded initially at cost and subsequently adjusted for our equity in the venture's net income (loss), cash contributions, distributions and other adjustments required by the equity method of accounting as described below.



The following management, development, leasing and marketing fees were recognized from services provided to our unconsolidated joint ventures (in thousands):

	Three months ended		Six months ended	
	June 30, 2013	2012	June 30, 2013	2012
Fee:				
Development	\$(8	) \$—	\$63	\$—
Loan Guarantee	40	—	80	—
Management and leasing	786	474	1,631	953
Marketing	100	47	209	100
Total Fees	\$918	\$521	\$1,983	\$1,053

Our investments in real estate joint ventures are reduced by the percentage of the profits earned for leasing and development services associated with our ownership interest in each joint venture. Our carrying value of investments in unconsolidated joint ventures differs from our share of the assets reported in the "Summary Balance Sheets - Unconsolidated Joint Ventures" shown below due to adjustments to the book basis, including intercompany profits on sales of services that are capitalized by the unconsolidated joint ventures. The differences in basis are amortized over the various useful lives of the related assets.

#### Deer Park, Long Island, New York

In December 2011, the joint venture refinanced its mortgage and mezzanine loans, totaling \$246.9 million. The non-default interest rates for the mortgage and mezzanine loans are LIBOR + 3.50% and LIBOR + 5.00%, respectively with a maturity date of May 17, 2014. The loans require certain financial covenants, such as debt service coverage and loan to value ratios, to be met at various measurement dates. Based on the administrative agent bank's calculation of Deer Park's debt service coverage ratio utilizing financial information as of December 31, 2012, the joint venture was not in compliance with the coverage ratio. As a result, on March 22, 2013, the lender group placed Deer Park in default and also notified Deer Park that the default interest rates would accrue from April 1, 2013 until the default is cured. The default interest rates for the mortgage and mezzanine loans are PRIME + 7.5% and LIBOR + 9%, respectively.

On July 25, 2013, the lenders for both the mortgage and the mezzanine loans and Deer Park entered into forbearance agreements whereby the lenders and Deer Park agreed, among other things, that (1) the partners would make an immediate principal reduction of \$10.0 million toward the mortgage on the date of the agreement, (2) default interest on the mortgage through June 30, 2013 would be permanently waived, (3) default interest from July 2013 forward on the mortgage and mezzanine loan would continue to accrue but shall be waived subject to the loan being repaid in full by August 30, 2013, and (4) the managing member would rescind its notice dated February 25, 2013 purporting to terminate the Company as property manager effective September 1, 2013. On July 25, 2013, the partners of Deer Park funded the principal payment of \$10.0 million, of which we paid \$5.0 million, and delivered the required cancellation of the termination notice.

The Company and its two joint venture partners have each, jointly and severally, guaranteed the payment of interest (but not principal) on the current loans. The operations from Deer Park, together with cash on hand in the joint venture, have been sufficient in the past to pay interest on the loans, although the historical operations would not have generated sufficient cash flow to pay fully the monthly interest at the additional default interest rate. Deer Park is currently in discussions with various lending institutions to provide refinancing for the property.

#### Deer Park Warehouse, Long Island, New York

In March 2013, in connection with a loan forbearance agreement signed in 2012 with the lender to the joint venture, the warehouse property was sold for approximately \$1.2 million. The proceeds were used to satisfy the terms of the forbearance agreement. There was no impact to the net income of the joint venture as a result of this sale and the retirement of the associated mortgage debt.

National Harbor, Washington, D.C. Metro Area

In May 2011, we announced the formation of a joint venture for the development of a Tanger Outlet Center at National Harbor in the Washington, D.C. Metro area. The planned Tanger Outlet Center is expected to open in time for the 2013 holiday shopping season and contain approximately 80 brand name and designer outlet stores in a center containing approximately 340,000 square feet. In November 2012, the joint venture broke ground and began development. Both parties have made equity contributions of \$17.2 million to fund certain development costs. In May 2013, the joint venture closed on a construction loan with the ability to borrow up to \$62.0 million and carries an interest rate of LIBOR + 1.65%. As of June 30, 2013 the balance on the loan was \$4.2 million. We provide property management, leasing and marketing services to the joint venture; and with our partner, are jointly providing site development and construction supervision services.

RioCan Canada

We have entered into a 50/50 co-ownership agreement with RioCan Real Estate Investment Trust ("RioCan Joint Venture") to develop and acquire outlet centers in Canada. Any projects developed or acquired will be branded as Tanger Outlet Centers. We have agreed to provide leasing and marketing services to the venture and RioCan will provide development and property management services.

In March of 2013 the RioCan Joint Venture acquired the land adjacent to the existing Cookstown Outlet Mall for \$13.9 million. The land is being used for the joint venture's expansion of the Cookstown Outlet Mall which began in May 2013. The expansion, which is expected to open in the third quarter of 2014, will add approximately 153,000 square feet to the center and will add approximately 35 new brand name and designer outlet stores to the center.

Also, during the second quarter of 2013, the joint venture purchased land for \$28.7 million and broke ground on Tanger Outlets Ottawa, the first ground up development of a Tanger Outlet Center in Canada. Located in suburban Kanata off the TransCanada Highway (Highway 417) at Palladium Drive, this center will contain approximately 303,000 square feet and will feature approximately 80 brand name and designer outlet stores. The center is currently expected to open in the third quarter of 2014.

Additionally, the RioCan Joint Venture partners have decided not to proceed with the proposed development at Mississauga's Heartland Town Centre, west of Toronto, at the current time.

We evaluate our real estate joint ventures in accordance with the Consolidation guidance of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). As a result of our qualitative assessment, we concluded that our Westgate and Deer Park joint ventures are Variable Interest Entities ("VIEs") and all of our other joint ventures are not VIEs. Westgate is considered a VIE because the voting rights are disproportionate to the economic interests. Deer Park is considered a VIE because it does not meet the criteria of the members having a sufficient equity investment at risk. Investments in real estate joint ventures in which we have a non-controlling ownership interest are accounted for using the equity method of accounting.

After making the determination that Westgate and Deer Park were VIEs, we performed an assessment to determine if we would be considered the primary beneficiary and thus be required to consolidate their balance sheets and results of operations. This assessment was based upon whether we had the following:

- a. The power to direct the activities of the VIE that most significantly impact the entity's economic performance
- b. The obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE



The operating, development, leasing, and management agreements of Westgate and Deer Park provide that the activities that most significantly impact the economic performance of the ventures require either unanimous consent or, for certain activities related to Deer Park, majority consent. Accordingly, we determined that we do not have the power to direct the significant activities that affect the economic performance of the ventures and therefore, have applied the equity method of accounting for both Westgate and Deer Park. Our equity method investments in Westgate and Deer Park as of June 30, 2013 were approximately \$16.8 million and \$2.0 million, respectively. We are unable to estimate our maximum exposure to loss at this time because our guarantees are limited and based on the future operating performance of Westgate and Deer Park.

Condensed combined summary financial information of unconsolidated joint ventures accounted for using the equity method is as follows (in thousands):

Summary Balance Sheets - Unconsolidated Joint Ventures	June 30, 2013	December 31, 2012
Assets		
Land	\$94,961	\$96,455
Buildings, improvements and fixtures	493,100	493,424
Construction in progress, including land	90,413	16,338
	678,474	606,217
Accumulated depreciation	(74,642)	(62,547)
Total rental property, net	603,832	543,670
Assets held for sale <sup>(1)</sup>	—	1,828
Cash and cash equivalents	16,511	21,879
Deferred lease costs, net	21,285	24,411
Deferred debt origination costs, net	4,025	5,213
Prepays and other assets	26,181	25,350
Total assets	\$671,834	\$622,351
Liabilities and Owners' Equity		
Mortgages payable	\$336,338	\$325,192
Construction trade payables	10,842	21,734
Accounts payable and other liabilities	14,830	31,944
Total liabilities	362,010	378,870
Owners' equity	309,824	243,481
Total liabilities and owners' equity	\$671,834	\$622,351

(1) Assets related to our Deer Park Warehouse joint venture that were sold in March 2013.

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Summary Statements of Operations - Unconsolidated Joint Ventures	Three months ended		Six months ended	
	June 30, 2013	2012	June 30, 2013	2012
Revenues	\$20,553	\$11,606	\$41,948	\$23,264
Expenses				
Property operating	8,546	5,083	17,686	9,974
General and administrative	166	237	314	400
Acquisition costs	53	—	474	704
Abandoned development costs	134	436	134	1,310
Impairment Charge	—	420	—	420
Depreciation and amortization	7,584	4,300	14,968	8,908
Total expenses	16,483	10,476	33,576	21,716
Operating income	4,070	1,130	8,372	1,548
Interest expense	3,514	3,598	7,566	7,427
Net income (loss)	\$556	\$(2,468)	) \$806	\$(5,879)
The Company and Operating Partnership's share of:				
Net income (loss)	\$503	\$(867)	) \$1,093	\$(2,319)
Depreciation and impairment charge (real estate related)	\$3,431	\$1,793	\$6,604	\$3,608

## 4. Debt of the Company

All of the Company's debt is held directly by the Operating Partnership.

The Company guarantees the Operating Partnership's obligations with respect to its unsecured lines of credit which have a total borrowing capacity of \$520.0 million. As of June 30, 2013 and December 31, 2012, the Operating Partnership had amounts outstanding on these lines totaling \$213.1 million and \$178.3 million, respectively.

The Company also guarantees the Operating Partnership's unsecured term loan in the amount of \$250.0 million as well as its obligation with respect to the mortgage assumed in connection with the acquisition of the outlet center in Ocean City, Maryland in July 2011.

## 5. Debt of the Operating Partnership

The debt of the Operating Partnership consisted of the following (in thousands):

	Stated Interest Rate(s)	Maturity Date	As of June 30, 2013 Principal	Premium (Discount)	As of December 31, 2012 Principal	Premium (Discount)
Senior, unsecured notes:						
Senior notes	6.15	% November 2015	\$250,000	\$(265 )	\$250,000	\$(317 )
Senior notes	6.125	% June 2020	300,000	(1,561 )	300,000	(1,650 )
Mortgages payable <sup>(1)</sup> :						
Atlantic City	5.14%-7.65%	November 2021-December 2026	49,751	4,287	52,212	4,495
Ocean City	5.24	% January 2016	18,367	240	18,540	285
Hershey	5.17%-8.00%	August 2015	30,303	1,289	30,631	1,581
Note payable <sup>(1)</sup>	1.50	% June 2016	10,000	(472 )	10,000	(546 )
Unsecured term loan <sup>(2)</sup>	LIBOR + 1.60%	February 2019	250,000	—	250,000	—
Unsecured lines of credit <sup>(3)</sup>	LIBOR + 1.10%	November 2015	213,100	—	178,306	—
			\$1,121,521	\$3,518	\$1,089,689	\$3,848

The effective interest rates assigned during the purchase price allocation to these assumed mortgages and note <sup>(1)</sup>payable during acquisitions in 2011 were as follows: Atlantic City 5.05%, Ocean City 4.68%, Hershey 3.40% and note payable 3.15%.

<sup>(2)</sup>Our unsecured term loan is pre-payable without penalty beginning in February of 2015.

We have the option to extend the lines for one additional year to November 10, 2016. These lines require a facility <sup>(3)</sup>fee payment of 0.175% annually based on the total amount of the commitment. The credit spread and facility fee can vary depending on our investment grade rating.

The unsecured lines of credit and senior unsecured notes include covenants that require the maintenance of certain ratios, including debt service coverage and leverage, and limit the payment of dividends such that dividends and distributions will not exceed funds from operations, as defined in the agreements, for the prior fiscal year on an annual basis or 95% of funds from operations on a cumulative basis. As of June 30, 2013 we were in compliance with all of our debt covenants.





## Debt Maturities

Maturities of the existing long-term debt as of June 30, 2013 are as follows (in thousands):

Calendar Year	Amount
2013	\$1,723
2014	3,603
2015	495,443
2016	30,283
2017	3,008
Thereafter	587,461
Subtotal	1,121,521
Net premiums	3,518
Total	\$1,125,039

## 6. Shareholders' Equity of the Company

Throughout the first six months of 2013, Family Limited Partners exchanged a total of 3,545 Operating Partnership units for 14,180 common shares of the Company. After the above described exchanges, the Family Limited Partners owned 1,186,921 Operating Partnership units which were exchangeable for 4,747,684 common shares of the Company.

## 7. Partners' Equity of the Operating Partnership

The ownership interests of the Operating Partnership as of June 30, 2013 and December 31, 2012, consisted of the following:

	June 30, 2013	December 31, 2012
Common units:		
General partner	250,000	250,000
Limited partners	24,543,305	24,455,812
Total common units	24,793,305	24,705,812

When the Company issues common shares upon exercise of options or issues restricted share awards, the Operating Partnership issues one corresponding unit of partnership interest to the Company for every four common shares issued.

## 8. Share-Based Compensation of the Company

We have a shareholder approved share-based compensation plan, the Amended and Restated Incentive Award Plan of Tanger Factory Outlet Centers, Inc. and Tanger Properties Limited Partnership (the "Plan"), which covers our independent directors, officers and our employees. During February 2013, the Company's Board of Directors approved grants of 349,373 restricted common shares to the Company's independent directors and the Company's senior executive officers. The grant date fair value of the awards ranged from \$28.84 to \$36.05 per share. The independent directors' restricted common shares vest ratably over a three year period and the senior executive officers' restricted shares vest ratably over a five year period. For the grants to certain senior executive officers, the grants have a provision that requires the senior officers to hold the shares for a minimum of three years following the vesting date. Compensation expense related to the amortization of the deferred compensation is being recognized in accordance with the vesting schedule of the restricted shares.



In February 2013, the Compensation Committee of the Company approved the general terms of the Tanger Factory Outlet Centers, Inc. 2013 Outperformance Plan (the "2013 OPP"). The 2013 OPP provides for the grant of performance shares under the Amended and Restated Incentive Award Plan of Tanger Factory Outlet Centers, Inc.

The 2013 OPP is a long-term incentive compensation plan pursuant to which award recipients may earn up to an aggregate of 315,150 restricted common shares of the Company based on the Company's absolute share price appreciation (or total shareholder return) and its share price appreciation relative to its peer group, over a three year measurement period from January 1, 2013 through December 31, 2015. The maximum number of shares will be earned under this plan if the Company both (a) achieves 35% or higher share price appreciation, inclusive of all dividends paid, over the three-year measurement period and (b) is in the 70th or greater percentile of its peer group for total shareholder return over the three-year measurement period. The maximum value of the awards that could be earned on December 31, 2015, if the Company achieves or exceeds the 35% share price appreciation and is in the 70th or greater percentile of its peer group for total shareholder return over the three-year measurement period, will equal approximately \$13.25 million.

Any shares earned on December 31, 2015 are also subject to a time based vesting schedule, with 50% of the shares vesting on January 4, 2016 and the remaining 50% vesting on January 3, 2017, contingent upon continued employment with the Company through the vesting dates.

With respect to 70% of the performance shares (or 220,605 shares), 33.33% of this portion of the award (or 73,535 shares) will be earned if the Company's aggregate share price appreciation, inclusive of all dividends paid during this period, equals 25% over the three-year measurement period, 66.67% of the award (or 147,070 shares) will be earned if the Company's aggregate share price appreciation, inclusive of all dividends paid during this period equals 30%, and 100.00% of this portion of the award (or 220,605 shares) will be earned if the Company's aggregate share price appreciation, inclusive of all dividends paid during this period, equals 35% or higher.

With respect to 30% of the performance shares (or 94,545 shares), 33.33% of this portion of the award (or 31,515 shares) will be earned if the Company's share price appreciation inclusive of all dividends paid is in the 50th percentile of its peer group over the three-year measurement period, 66.67% of this portion of the award (or 63,030 shares) will be earned if the Company's share price appreciation inclusive of all dividends paid is in the 60th percentile of its peer group during this period, and 100.00% of this portion of the award (or 94,545 shares) will be earned if the Company's share price appreciation inclusive of all dividends paid is in the 70th percentile of its peer group or greater during this period. The peer group will be based on the SNL Equity REIT index.

The performance shares will convert on a pro-rata basis by linear interpolation between share price appreciation thresholds, both for absolute share price appreciation and for relative share price appreciation amongst the Company's peer group. The share price targets will be reduced on a dollar-for-dollar basis with respect to any dividend payments made during the measurement period. The compensation expense is amortized using the graded vesting attribution method over the requisite service period. The fair value of the awards are calculated using a Monte Carlo simulation pricing model.

We recorded share-based compensation expense in general and administrative expenses in our consolidated statements of operations as follows (in thousands):

	Three months ended		Six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Restricted common shares <sup>(1)</sup>	\$2,118	\$1,864	\$4,020	\$4,714
Notional unit performance awards	764	490	1,292	979
Options	43	52	87	104

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Total share-based compensation	\$2,925	\$2,406	\$5,399	\$5,797
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(1) For the six months ended June 30, 2012, includes approximately \$1.3 million of compensation expense related to 45,000 common shares that vested immediately upon grant under the terms of the amended and restated Employment Agreement (the "Employment Agreement") for Steven B. Tanger, President and Chief Executive Officer of the Company.

The following table summarizes information related to unvested restricted common shares outstanding as of June 30, 2013:

Unvested Restricted Common Shares	Number of shares	Weighted-average grant date fair value
Unvested at December 31, 2012	1,047,993	\$ 24.39
Granted	349,373	31.01
Vested	(289,400)	) 22.35
Forfeited	(12,000)	) 25.61
Unvested at June 30, 2013	1,095,966	\$ 27.03

The total value of restricted common shares vested during the six months ended June 30, 2013 and June 30, 2012 was \$9.6 million and \$7.9 million, respectively.

As of June 30, 2013, there was \$33.8 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 3.3 years.

#### 9. Equity-Based Compensation of the Operating Partnership

As discussed in Note 8, the Operating Partnership and the Company have a joint plan whereby equity based and performance based awards may be granted to directors, officers and employees. When common shares are issued by the Company, the Operating Partnership issues corresponding units to the Company based on the current exchange ratio as provided by the Operating Partnership agreement. Based on the current exchange ratio, each unit in the Operating Partnership is equivalent to four common shares of the Company. Therefore, when the Company grants an equity based award, the Operating Partnership treats each award as having been granted by the Operating Partnership.

We recorded equity-based compensation expense in general and administrative expenses in our consolidated statements of operations as follows (in thousands):

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Restricted units				
Restricted units <sup>(1)</sup>	\$2,118	\$1,864	\$4,020	\$4,714
Notional unit performance awards	764	490	1,292	979
Options	43	52	87	104
Total equity-based compensation	\$2,925	\$2,406	\$5,399	\$5,797

For the six months ended June 30, 2012, includes approximately \$1.3 million of compensation expense related to (1) 11,250 units issued related to a restricted share grant that vested immediately upon grant under the terms of the Employment Agreement for Steven B. Tanger, President and Chief Executive Officer of the Company.

The following table summarizes information related to unvested restricted units outstanding as of June 30, 2013:

Unvested Restricted Units	Number of units	Weighted-average grant date fair value
Unvested at December 31, 2012	261,998	\$ 97.56
Granted	87,343	124.04
Vested	(72,350)	) 89.40
Forfeited	(3,000)	) 102.44
Unvested at June 30, 2013	273,991	\$ 108.12

The total value of restricted units vested during the six months ended June 30, 2013 and June 30, 2012, was \$9.6 million and \$7.9 million, respectively.

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As of June 30, 2013, there was \$33.8 million of total unrecognized compensation cost related to unvested equity-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 3.3 years.

#### 10. Earnings Per Share of the Company

The following table sets forth a reconciliation of the numerators and denominators in computing the Company's earnings per share (in thousands, except per share amounts):

	Three months ended		Six months ended June	
	June 30, 2013	2012	30, 2013	2012
<b>Numerator</b>				
Net income attributable to Tanger Factory Outlet Centers, Inc.	\$16,888	\$11,717	\$32,327	\$19,845
Less allocation of earnings to participating securities	(231 )	(209 )	(425 )	(367 )
Net income available to common shareholders of Tanger Factory Outlet Centers, Inc.	\$16,657	\$11,508	\$31,902	\$19,478
<b>Denominator</b>				
Basic weighted average common shares	93,331	91,717	93,232	90,694
Effect of notional units	784	1,014	777	1,007
Effect of outstanding options and restricted common shares	92	85	99	74
Diluted weighted average common shares	94,207	92,816	94,108	91,775
<b>Basic earnings per common share:</b>				
Net income	\$0.18	\$0.13	\$0.34	\$0.21
<b>Diluted earnings per common share:</b>				
Net income	\$0.18	\$0.12	\$0.34	\$0.21

The notional units are considered contingently issuable common shares and are included in earnings per share if the effect is dilutive using the treasury stock method.

The computation of diluted earnings per share excludes options to purchase common shares when the exercise price is greater than the average market price of the common shares for the period. For the three months ended June 30, 2013 no options were excluded from the computation and for the three months ended June 30, 2012, 172,100 options were excluded from the computation. For the six months ended June 30, 2013 no options were excluded from the computation and for the six months ended June 30, 2012, 172,200 options were excluded from the computation. The assumed exchange of the partnership units held by the noncontrolling interest limited partners as of the beginning of the year, which would result in the elimination of earnings allocated to the noncontrolling interest in the Operating Partnership, would have no impact on earnings per share since the allocation of earnings to a partnership unit, as if exchanged, is equivalent to earnings allocated to a common share.

Certain of the Company's unvested restricted common share awards contain non-forfeitable rights to dividends or dividend equivalents. The impact of these unvested restricted common share awards on earnings per share has been calculated using the two-class method whereby earnings are allocated to the unvested restricted common share awards based on dividends declared and the unvested restricted common shares' participation rights in undistributed earnings. Unvested restricted common shares that do not contain non-forfeitable rights to dividends or dividend equivalents, are included in the diluted earnings per share computation if the effect is dilutive, using the treasury stock method.

11. Earnings Per Unit of the Operating Partnership