

TANGER FACTORY OUTLET CENTERS INC  
Form 10-Q  
May 06, 2015

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 March 31, 2015

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, including area code)

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 April 30, 2015, there were 95,836,347 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 March 31, 2015 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 and Canada. 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 March 31, 2015, the Company, through its ownership of Tanger GP Trust and Tanger LP Trust, owned 95,836,347 units of the Operating Partnership and other limited partners (the "Non-Company LPs") collectively owned 5,078,406 Class A common limited partnership units. Each Class A common limited partnership unit held by the Non-Company LPs is exchangeable for one of the Company's common shares, subject to certain limitations to preserve the Company's status as a REIT. Class B common limited partnership units, which are held by Tanger LP Trust, are not exchangeable for common shares of the Company.

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 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 only a few differences between the Company and the Operating Partnership, which are reflected in the disclosure in this report. We believe it is important, however to understand these 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, the 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 all of the outlet centers and other assets, including the ownership interests in 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 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 Non-Company LPs 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;

- 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.

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.

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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 data, unaudited)

	March 31, 2015	December 31, 2014
<b>ASSETS</b>		
Rental property		
Land	\$217,994	\$217,994
Buildings, improvements and fixtures	1,950,092	1,947,083
Construction in progress	154,328	98,526
	2,322,414	2,263,603
Accumulated depreciation	(680,739)	(662,236)
Total rental property, net	1,641,675	1,601,367
Cash and cash equivalents	14,661	16,875
Rental property held for sale	46,530	46,005
Investments in unconsolidated joint ventures	205,083	208,050
Deferred lease costs and other intangibles, net	137,478	140,883
Deferred debt origination costs, net	11,606	12,126
Prepays and other assets	71,924	72,354
Total assets	\$2,128,957	\$2,097,660
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
<b>Debt</b>		
Senior, unsecured notes (net of discount of \$6,259 and \$6,426, respectively)	\$793,741	\$793,574
Unsecured term loans (net of discount of \$202 and \$241, respectively)	267,298	267,259
Mortgages payable (including premiums of \$2,838 and \$3,031, respectively)	285,068	271,361
Unsecured lines of credit	115,700	111,000
Total debt	1,461,807	1,443,194
Accounts payable and accrued expenses	80,835	69,558
Deferred financing obligation	28,388	28,388
Other liabilities	31,076	32,634
Total liabilities	1,602,106	1,573,774
Commitments and contingencies	—	—
<b>Equity</b>		
Tanger Factory Outlet Centers, Inc.		
Common shares, \$.01 par value, 300,000,000 shares authorized, 95,836,347 and 95,509,781 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	958	955
Paid in capital	794,652	791,566
Accumulated distributions in excess of net income	(270,124)	(281,679)
Accumulated other comprehensive loss	(25,755)	(14,023)
Equity attributable to Tanger Factory Outlet Centers, Inc.	499,731	496,819
Equity attributable to noncontrolling interests		
Noncontrolling interests in Operating Partnership	26,481	26,417
Noncontrolling interests in other consolidated partnerships	639	650



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Total equity	526,851	523,886
Total liabilities and equity	\$2,128,957	\$2,097,660

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 share data, unaudited)

	Three months ended March 31,	
	2015	2014
Revenues		
Base rentals	\$67,629	\$66,976
Percentage rentals	2,229	2,083
Expense reimbursements	33,364	31,542
Management, leasing and other services	1,283	566
Other income	1,421	1,615
Total revenues	105,926	102,782
Expenses		
Property operating	37,732	36,027
General and administrative	11,305	10,722
Acquisition costs	—	7
Abandoned pre-development costs	—	1,596
Depreciation and amortization	23,989	26,063
Total expenses	73,026	74,415
Operating income	32,900	28,367
Other income/(expense)		
Interest expense	(13,089 )	(14,920 )
Gain on sale of assets and interests in unconsolidated entities	13,726	—
Interest and other income	306	60
Income before equity in earnings of unconsolidated joint ventures	33,843	13,507
Equity in earnings of unconsolidated joint ventures	2,543	1,933
Net income	36,386	15,440
Noncontrolling interests in Operating Partnership	(1,855 )	(803 )
Noncontrolling interests in other consolidated partnerships	(19 )	(21 )
Net income attributable to Tanger Factory Outlet Centers, Inc.	\$34,512	\$14,616
Basic earnings per common share		
Net income	\$0.36	\$0.15
Diluted earnings per common share		
Net income	\$0.36	\$0.15
Dividends paid per common share	\$0.240	\$0.225

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	
	March 31,	
	2015	2014
Net income	\$36,386	\$15,440
Other comprehensive loss		
Reclassification adjustments for amounts recognized in net income	—	(96 )
Foreign currency translation adjustments	(11,076 )	(2,840 )
Change in fair value of cash flow hedges	(1,287 )	(320 )
Other comprehensive loss	(12,363 )	(3,256 )
Comprehensive income	24,023	12,184
Comprehensive income attributable to noncontrolling interests	(1,243 )	(655 )
Comprehensive income attributable to Tanger Factory Outlet Centers, Inc.	\$22,780	\$11,529

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

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

	Common shares	Paid in capital	Accumulated distributions in excess of earnings	Accumulated other comprehensive loss	Total Tanger Factory Outlet Centers, Inc. equity	Noncontrolling interests in Operating Partnership	Noncontrolling interests in other consolidated partnerships	Total equity
Balance, December 31, 2013	\$945	\$788,984	\$(265,242)	\$(2,428)	\$522,259	\$28,432	\$6,904	\$557,595
Net income	—	—	14,616	—	14,616	803	21	15,440
Other comprehensive loss	—	—	—	(3,087)	(3,087)	(169)	—	(3,256)
Compensation under Incentive Award Plan	—	3,525	—	—	3,525	—	—	3,525
Issuance of 15,800 common shares upon exercise of options	—	261	—	—	261	—	—	261
Issuance of 1,302,729 restricted common shares, net of forfeitures	13	(13)	—	—	—	—	—	—
Adjustment for noncontrolling interests in Operating Partnership	—	302	—	—	302	(302)	—	—
Adjustment for noncontrolling interests in other consolidated partnerships	—	—	—	—	—	—	903	903
Exchange of 21,500 Operating Partnership units for 21,500 common shares	—	—	—	—	—	—	—	—
Common dividends (\$0.225 per share)	—	—	—	—	—	—	—	—