TANGER FACTORY OUTLET CENTERS INC
Form 10-Q
May 11, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009
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 No. 1-11986

TANGER FACTORY OUTLET CENTERS, INC.
(Exact name of Registrant as specified in its Charter)

NORTH CAROLINA	56-1815473
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3200 Northline Avenue, Suite 360, Greensboro, North Carolina 27408
(Address of principal executive offices)
(Zip code)

(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. Yes ý 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). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨

Smaller reporting company ¨

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

31,905,081 Common Shares,
$.01 par value, outstanding as of May 1, 2009

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TANGER FACTORY OUTLET CENTERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(Unaudited)

	March 31, 2009	December 31, 2008 (as adjusted)
ASSETS:		
Rental property		
Land	$ 135,710	$ 135,689
Buildings, improvements and fixtures	1,348,211	1,260,243
Construction in progress	4,805	3,823
	1,488,726	1,399,755
Accumulated depreciation	(374,541)	(359,301)
Rental property, net	1,114,185	1,040,454
Cash and cash equivalents	3,101	4,977
Investments in unconsolidated joint ventures	9,773	9,496
Deferred charges, net	48,294	37,750
Other assets	34,010	29,248
Total assets	$ 1,209,363	$ 1,121,925
LIABILITIES AND EQUITY		
Liabilities		
Debt		
Senior, unsecured notes (net of discount of $8,367 and $9,137, respectively)	$ 391,133	$ 390,363
Mortgage payable (including a debt discount of $1,166 and $0, respectively)	34,634	---
Unsecured term loan	235,000	235,000
Unsecured lines of credit	188,400	161,500
	849,167	786,863
Construction trade payables	9,070	11,968
Accounts payable and accrued expenses	27,777	26,277
Other liabilities	33,868	30,914
Total liabilities	919,882	856,022
Commitments		
Equity		
Tanger Factory Outlet Centers, Inc. shareholders' equity		
Preferred shares, 7.5% Class C, liquidation preference $25 per share, 8,000,000 shares authorized, 3,000,000 shares issued and outstanding at March 31, 2009 and December 31, 2008	75,000	75,000
Common shares, $.01 par value, 150,000,000 shares		

authorized, 31,888,401 and 31,667,501 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	319	317
Paid in capital	372,762	371,190
Distributions in excess of net income	(184,349)	(201,679)
Accumulated other comprehensive loss	(8,533)	(9,617)
Equity attributable to shareholders of Tanger Factory Outlet Centers, Inc.	255,199	235,211
Equity attributable to noncontrolling interest in Operating Partnership	34,282	30,692
Total equity	289,481	265,903
Total liabilities and equity	$1,209,363	$ 1,121,925

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

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008 (as adjusted)
Revenues		
Base rentals	$ 42,927	$ 37,232
Percentage rentals	1,308	1,178
Expense reimbursements	19,219	17,478
Other income	1,704	1,388
Total revenues	65,158	57,276
Expenses		
Property operating	21,748	19,219
General and administrative	5,935	5,271
Depreciation and amortization	20,397	15,583
Total expenses	48,080	40,073
Operating income	17,078	17,203
Interest expense	(11,210)	(10,199)
Gain on fair value measurement of previous interest held in acquired joint venture	31,497	---
Income before equity in earnings (losses) of unconsolidated joint ventures	37,365	7,004
Equity in earnings (losses) of unconsolidated joint ventures	(897)	394
Net income	36,468	7,398
Noncontrolling interest in Operating Partnership	(5,698)	(981)
Net income attributable to shareholders of Tanger Factory Outlet Centers, Inc.	$ 30,770	$ 6,417
Basic earnings per common share:		
Income from continuing operations	$ .93	$ .16
Net income	$ .93	$ .16
Diluted earnings per common share:		
Income from continuing operations	$ .92	$ .16
Net income	$ .92	$ .16
Dividends paid per common share	$ .38	$ .36

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)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008 (as adjusted)
OPERATING ACTIVITIES		
Net income	$ 36,468	$ 7,398
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,429	15,583
Amortization of deferred financing costs	465	361
Equity in (earnings) loss of unconsolidated joint ventures	897	(394)
Compensation expense related to restricted shares and options granted	1,297	1,224
Amortization of debt premiums and discount, net	999	12
Gain on fair value measurement of previous interest held in acquired joint venture	(31,497)	---
Distributions of cumulative earnings from unconsolidated joint ventures	168	885
Amortization of above/(below) market rent rate adjustment, net	77	105
Straight-line base rent adjustment	(777)	(789)
Increase (decrease) due to changes in:		
Other assets	382	(3,310)
Accounts payable and accrued expenses	1,622	(3,437)
Net cash provided by operating activities	30,530	17,638
INVESTING ACTIVITIES		
Additions to rental property	(11,306)	(24,897)
Acquisition of remaining interests in unconsolidated joint venture, net of cash acquired	(31,086)	---
Distributions in excess of cumulative earnings from unconsolidated joint ventures	42	---
Additions to deferred lease costs	(1,473)	(1,104)
Net cash used in investing activities	(43,823)	(26,001)
FINANCING ACTIVITIES		
Cash dividends paid	(13,440)	(12,689)
Distributions to noncontrolling interest in Operating Partnership	(2,302)	(2,183)
Proceeds from borrowings and issuance of debt	70,500	180,820
Repayments of debt	(43,600)	(158,795)
Proceeds from tax increment financing	---	1,449
Additions to deferred financing costs	---	(571)

Proceeds from exercise of options	259	222
Net cash provided by financing activities	11,417	8,253
Net decrease in cash and cash equivalents	(1,876)	(110)
Cash and cash equivalents, beginning of period	4,977	2,412
Cash and cash equivalents, end of period	$ 3,101	$ 2,302

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

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TANGER FACTORY OUTLET CENTERS INC. 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 factory outlet centers in the United States. We are a fully-integrated, self-administered and self-managed real estate investment trust, or REIT, which focuses exclusively on developing, acquiring, owning, operating and managing factory outlet shopping centers. As of March 31, 2009, we owned and operated 31 outlet centers, with a total gross leasable area of approximately 9.2 million square feet. These factory outlet centers were 94% occupied. Also, we operated and had partial ownership interests in two outlet centers totaling approximately 950,000 square feet.

Our factory 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.

We own the majority of the units of partnership interest issued by the Operating Partnership through our two wholly-owned subsidiaries, the Tanger GP Trust and the Tanger LP Trust. The Tanger GP Trust controls the Operating Partnership as its sole general partner. The Tanger LP Trust holds a limited partnership interest. The Tanger family, through its ownership of the Tanger Family Limited Partnership holds the remaining units as a limited partner. Stanley K. Tanger, our Chairman of the Board, is the sole general partner of the Tanger Family Limited Partnership.

2. Basis of Presentation

Our unaudited consolidated financial statements 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 our Annual Report on Form 10-K for the year ended December 31, 2008. The December 31, 2008 balance sheet data 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 Securities and Exchange Commission’s ("SEC") rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. Certain prior period amounts have been reclassified to conform to the current period presentation, including changes resulting from the adoption of FSP APB 14-1, FAS 160, and FSP EITF 03-6-1 on January 1, 2009, as discussed below.

The accompanying unaudited consolidated financial statements include our accounts, our wholly-owned subsidiaries, as well as the Operating Partnership and its subsidiaries and reflect, in the opinion of management, all adjustments necessary for a fair presentation of the interim consolidated financial statements. All such adjustments are of a normal and recurring nature. Intercompany balances and transactions have been eliminated in consolidation.

Investments in real estate joint ventures that represent non-controlling ownership interests 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) and cash contributions and distributions.

Adoption of Recent Accounting Pronouncements

FSP APB 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)"

Effective January 1, 2009, we retrospectively adopted Financial Accounting Standards Board staff position FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)" ("FSP 14-1"). In August 2006 we issued $149.5 million of Exchangeable Notes at an interest rate of 3.75 %, or the Exchangeable Notes. These Exchangeable Notes are within the scope of FSP 14-1, which requires bifurcation of the Exchangeable Notes into a debt component that is initially recorded at fair value and an equity component. The difference between the fair value of the debt component and the initial proceeds from issuance of the instrument is recorded as a component of equity. The liability component of the debt instrument is accreted to par using the effective interest method over the remaining life of the debt (the first redemption date in August 2011). The accretion is reported as a component of interest expense. The equity component is not subsequently re-valued as long as it continues to qualify for equity treatment. Upon implementation of this accounting change we did the following:

- We concluded that the difference between the fair value of the debt component at issuance and the initial proceeds received was approximately $15.0 million based on a market interest rate of 6.11%. Therefore, we recorded an increase to equity of approximately $15.0 million. The corresponding debt discount of $15.0 million recognized was as a reduction to the carrying value of the Exchangeable Notes on the balance sheets.

The Exchangeable Notes issued in 2006 have an outstanding principal amount of $149.5 million and are reflected on our consolidated balance sheets as follows:

	As of March 31, 2009 (1)	As of December 31, 2008
Equity component carrying amount	$ 15.0	$ 15.0
Unamortized debt discount	$ 7.7	$ 8.5
Net debt carrying amount	$141.8	$141.0

- We also reclassified approximately $363,000 of unamortized financing costs to shareholders' equity as these costs were attributable to the issuance of the conversion feature associated with the Exchangeable Notes.

- Distributions in excess of net income as of December 31, 2008 includes a decrease of approximately $5.1 million for the cumulative accretion of the debt discount from August 2006 through December 31, 2008.

- Interest expense, net of additional capitalized amounts and reclassified loan cost amortization, for the three months ended March 31, 2009 and 2008, respectively, includes approximately $731,000 and $651,000 of additional non-cash interest expense related to the accretion of the debt discounts. Interest costs of $1.4 million were recognized for each of the three month periods in 2009 and 2008 related to the contractual interest coupon.

- The revised diluted earnings per common share for the quarter ended March 31, 2008 was reduced by $.02 per share from its originally recorded amount.

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FAS 160 “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51”

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51”, or FAS 160. We adopted the provisions of FAS 160 effective January 1, 2009 and adopted the recent revisions to EITF Topic D-98, "Classification and Measurements of Redeemable Securities", which became effective upon our adoption of FAS 160. This statement amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated balance sheet and the noncontrolling interest's share of earnings is included in consolidated net income. The calculation of earnings per share continues to be based on income amounts attributable to the Company. FAS 160 requires retrospective adoption of the presentation and disclosure requirements for existing noncontrolling interests. All other requirements of FAS 160 shall be applied prospectively. Upon adoption of FAS 160 we did the following:

- We reclassified the noncontrolling interests of the Operating Partnership from the mezzanine section of our balance sheets to equity but separate from the equity attributable to the shareholders of the Company. This reclassification totaled $34.3 million and $30.7 million as of March 31, 2009 and December 31, 2008, respectively.

- We display on the statements of operations net income at levels that include the amounts attributable to both the Company and the noncontrolling interest. We also display the amounts of net income attributable to the Company and to the noncontrolling interest. Previously, net income attributable to the noncontrolling interest was reported as an expense or other deduction in arriving at net income.

The following table provides a reconciliation of the beginning and the ending carrying amounts of total equity, equity attributable to shareholder of Tanger Factory Outlet Centers, Inc. and equity attributable to the noncontrolling interest in the Operating Partnership (in thousands, except share and per share amounts):

Shareholders of Tanger Factory Outlet Centers, Inc.			
Preferred shares	Common shares	Paid in capital	Distributions in excess of earnings