

TANGER FACTORY OUTLET CENTERS INC  
Form 10-Q  
August 06, 2010

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, 2010**

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.)

Commission File No. 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)

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

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(§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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Tanger Factory Outlet Centers, Inc.:

Tanger Properties Limited Partnership:

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

Tanger Factory Outlet Centers, Inc.

Yes  No

Tanger Properties Limited Partnership

Yes  No

## EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended June 30, 2010 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, or 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, 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 in the Operating Partnership. The Tanger family, through its ownership of the Tanger Family Limited Partnership, holds the remaining units of partnership interest in the Operating Partnership as a limited partner. Stanley K. Tanger, a member of the Company's Board of Directors, is the sole general partner of the Tanger Family Limited Partnership.

As of June 30, 2010, the Company, through its ownership of the GP Trust and LP Trust, owned 20,235,431 units of the Operating Partnership and the Tanger Family Limited Partnership owned 3,033,305 units. Each Tanger Family Limited Partnership unit is exchangeable for two of the Company's common shares, subject to certain limitations to preserve the Company's REIT status. Prior to the Company's two for one share split on December 28, 2004, 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 because 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 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, 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 REIT. 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 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 by the Company's business through the Operating Partnership's operations, by the Operating Partnership's incurrence of indebtedness or through the issuance of partnership units of the Operating Partnership or its subsidiaries.

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 Tanger Family Limited Partnership 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:

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, not including its consolidated subsidiaries, 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)**

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)**

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 CASH FLOWS**  
**(In thousands)**  
**(Unaudited)**

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)**

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)**

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)**

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, or 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, 2010, we owned and operated 31 outlet centers, with a total gross leasable area of approximately 9.1 million square feet. We also operated and had partial ownership interests in two outlet centers totaling approximately 948,000 square feet.

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, 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 in the Operating Partnership. The Tanger family, through its ownership of the Tanger Family Limited Partnership holds the remaining units of partnership interest in the Operating Partnership as a limited partner. Stanley K. Tanger, a member of the Company's Board of Directors, is the sole general partner of the Tanger Family Limited Partnership.

**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 Annual Reports on Form 10-K for the year ended December 31, 2009. The December 31, 2009 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 Securities and Exchange Commission's, or the SEC, 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 joint ventures and variable interest entities. For joint ventures that are defined as variable interest entities, the primary beneficiary consolidates the entity.

### **3. Development of Rental Properties**

#### **New Development**

During the second quarter of 2010, construction continued on our development site in Mebane, North Carolina. Currently, we have signed leases or leases out for signature for approximately 91% of the total square feet. We currently expect the center to open on November 5th, in time for the 2010 holiday season.

#### **Redevelopment at Existing Outlet Centers**

During the second quarter of 2010, we completed the demolition of our Hilton Head I center in Bluffton, South Carolina. The redevelopment of the outlet center is currently underway and we have leases signed or out for signature on 54% of the leasable square feet. When completed, the new 176,000 square foot center, with an additional four outparcel pads, will be the first LEED certified green shopping center in Beaufort County. Our \$50.0 million redevelopment is projected to open during the second half of 2011. As a result of the demolition and redevelopment plan, a total of \$9.2 million in depreciation and amortization was recognized in the first quarter of 2010 to completely depreciate the existing center. The demolition was completed during the second quarter of 2010, at which time the fully depreciated assets were written-off.

Commitments to complete construction of our new developments, redevelopments and other capital expenditure requirements amounted to approximately \$30.0 million at June 30, 2010. Commitments for construction represent only those costs contractually required to be paid by us.

Interest costs capitalized during the three months ended June 30, 2010 and 2009 amounted to \$313,000 and \$48,000, respectively, and for the six months ended June 30, 2010 and 2009 amounted to \$513,000 and \$84,000, respectively.

#### **Impairment Charges**

Rental property held and used by us is reviewed for impairment in the event that facts and circumstances indicate the carrying amount of an asset may not be recoverable. In such an event, we compare the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount, and if less, recognize an impairment loss in an amount by which the carrying amount exceeds its fair value.

##### *Seymour, Indiana 2010*

In 2005 we sold our outlet center located in Seymour, Indiana, but retained various outparcels of land at the development site, some of which we sold in recent years. In February 2010, our Board of Directors approved the sale of the remaining parcels of land. As a result of this Board approval and an approved plan to actively market the land, we accounted for the land as "held for sale" and recorded a non-cash impairment charge of approximately \$735,000 in our consolidated statement of operations which equaled the excess of the carrying amount of the land over its fair value. We determined the fair value using a market approach considering offers that we have obtained for all the various parcels less estimated closing costs. See Note 17, Fair Value Measurements, for further discussion.

##### *Commerce I, Georgia 2009*

During the second quarter 2009, we determined for our Commerce I, Georgia outlet center that the estimated future undiscounted cash flows of that property did not exceed the property's carrying value based on deteriorating amounts of net operating income and the expectation that the occupancy rate of the property would significantly decrease in future periods. Therefore, we recorded a \$5.2 million non-cash impairment charge in our consolidated statement of operations within discontinued operations (Note 5) which equaled the excess of the property's carrying value over its fair value. We determined the fair value using a market approach whereby we considered the prevailing market

income capitalization rates and sales data for transactions involving similar assets.

### **Land Outparcel Sales**

Gains on sale of outparcels are included in other income in the consolidated statements of operations. Cost is allocated to the outparcels based on the relative market value method.

In March 2010, we closed on the sale of an outparcel of land at our property in Lincoln City, Oregon. The net proceeds from the sale were approximately \$403,000 and a gain on sale of outparcel of approximately \$161,000 was recognized. We also sold two of the remaining outparcels in Seymour Indiana for net proceeds of approximately \$199,000. As these parcels were recorded at their fair value earlier in the quarter, no gain or loss on sale was recorded. The only remaining land as of June 30, 2010 is currently recorded at its estimated fair value which is approximately \$200,000.



#### 4. Investments in Unconsolidated Real Estate Joint Ventures

Our investments in unconsolidated joint ventures as of June 30, 2010 and December 31, 2009 aggregated \$7.6 million and \$9.1 million, respectively. We have evaluated the accounting treatment for each of the joint ventures and have concluded based on the current facts and circumstances that the equity method of accounting should be used to account for the individual joint ventures. At June 30, 2010, we were members of the following unconsolidated real estate joint ventures:

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 discussed below.

The following management, leasing and marketing fees were recognized from services provided to Wisconsin Dells and Deer Park (in thousands):

Our investments in real estate joint ventures are reduced by 50% of the profits earned for leasing services provided to Wisconsin Dells and by 33.3% of the profits earned for leasing services provided to Deer Park. 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.

On a periodic basis, we assess whether there are any indicators that the value of our investments in unconsolidated joint ventures may be impaired. An investment is impaired only if management's estimate of the value of the investment is less than the carrying value of the investments, and such decline in value is deemed to be other than temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the fair value of the investment. Our estimates of fair value for each joint venture investment are based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for tenants, changes in market rental rates and operating costs of the property. As these factors are difficult to predict and are subject to future events that may alter our assumptions, the values estimated by us in our impairment analysis may not be realized. As of June 30, 2010, we do not believe that any of our equity investments were impaired.

In accordance with amended guidance related to the consolidation of variable interest entities which became effective January 1, 2010, we performed an analysis of all of our real estate joint ventures to determine whether they would qualify as variable interest entities, or VIE, and whether the joint venture should be consolidated or accounted for as an equity method investment in an unconsolidated joint venture. As a result of our qualitative assessment, we concluded that Deer Park is a VIE and Wisconsin Dells is not a VIE. Deer Park is considered a VIE because it does not meet the criteria of the members having a sufficient equity investment at risk.

After making the determination that Deer Park was a VIE, we performed an assessment to determine if we would be considered the primary beneficiary and thus be required to consolidate Deer Park's 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 variable interest entity 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 variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity

Based on the provisions of the operating and management agreements of Deer Park, we determined that no one member alone has the power to direct the significant activities that affect the economic performance of Deer Park. While we are the Deer Park property manager, we must operate the property within the approved budget or risk being removed by the other two members as the property manager.

We have determined that all three partners share power in the decisions that most significantly impact Deer Park, as well as the financial rights and obligations, and therefore we are not required to consolidate Deer Park. Our equity method investment in Deer Park as of June 30, 2010 was approximately \$2.5 million. We are unable to estimate our maximum exposure to loss at this time. Upon completion of the final phase of the project, the debt is expected to be approximately \$284.0 million, of which our proportionate share would be approximately \$94.7 million. A calculation of the maximum loss would involve variables such as the loan balance amount and any proceeds from the sale of the property.

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

## **5. Rental Property Held for Sale**

In May 2010, our Board of Directors approved the sale of our Commerce I, Georgia center. As of June 30, 2010, this property qualified as a rental property held for sale under applicable accounting guidance. In June 2009, we recorded an impairment charge for this property of \$5.2 million which equaled the excess of the property's carrying value over its estimated fair value at that time.

Summary of results of operations for the property whose results of operations are considered discontinued operations for the three and six months ended June 30, 2010 and 2009, respectively (in thousands):

## 6. Debt of the Company

In this Note 6, the "Company" refers only to Tanger Factory Outlet Centers, Inc. and not to any of its subsidiaries.

The Company itself does not hold any indebtedness. All debt is held directly by the Operating Partnership.

The Company guarantees the Operating Partnership's obligations with respect to its five unsecured lines of credit which have a total borrowing capacity of \$325.0 million. As of June 30, 2010, the Operating Partnership had approximately \$50.8 million outstanding in total on these lines. The Company also guarantees the Operating Partnership's obligations with respect to its \$7.2 million of outstanding senior exchangeable notes due in 2026. However, August 18, 2011 is the first date that the noteholders can require us to repurchase the notes without the occurrence of specified events.

## 7. Debt of the Operating Partnership

As of June 30, 2010 and December 31, 2009, the debt of the Operating Partnership consisted of the following (in thousands):

- (1) The effective rate on this facility due to interest rate swap agreements was 5.25%.
- (2) For our lines of credit being utilized at June 30, 2010 and depending on our investment grade rating, the interest rates can vary from either prime or from LIBOR +.45% to LIBOR + 1.55% and expire in June 2011 or later. At June 30, 2010, our interest rates on outstanding balances were LIBOR + .60%.
- (3) Because this mortgage debt was assumed as part of an acquisition, the debt was recorded at its fair value and carried an effective interest rate of 5.34%.

## Transactions in 2010

In June 2010, we closed on \$300.0 million of senior unsecured notes. The ten year notes were issued by the Operating Partnership and were priced at 99.31% of par value to yield 6.219% to maturity. The notes will pay interest semi-annually at a rate of 6.125% per annum and mature on June 1, 2020.

The net proceeds from the offering, after deducting the underwriting discount and offering expenses, were approximately \$295.5 million. We used the net proceeds from the sale of the notes to (i) repay our \$235.0 million unsecured term loan due in June 2011, (ii) pay approximately \$6.1 million to terminate two interest rate swap agreements associated with the term loan and (iii) repay borrowings under our unsecured lines of credit and for general working capital purposes.

No prepayment or early termination penalty was paid as a result of the repayment of the term loan; however, unamortized loan origination costs of approximately \$563,000 were written-off during the second quarter of 2010.

## **Debt Maturities**

Maturities of the existing long-term debt as of June 30, 2010 are as follows (in thousands):

(1) Includes expiration of \$7.2 million of senior exchangeable notes shown in 2011 because that is the first date that the noteholders can require us to repurchase the notes without the occurrence of specified events.

## **8. Shareholders' Equity of the Company**

In May 2009, the senior exchangeable notes of the Operating Partnership in the principal amount of \$142.3 million were exchanged for Company common shares, representing approximately 95.2% of the total senior exchangeable notes outstanding prior to the exchange offer. In the aggregate, the exchange offer resulted in the issuance of approximately 4.9 million Company common shares and the payment of approximately \$1.2 million in cash for accrued and unpaid interest and in lieu of fractional shares. Following settlement of the exchange offer, senior exchangeable notes in the principal amount of approximately \$7.2 million remained outstanding. In connection with the exchange offering, we recognized in income from continuing operations and net income a gain on early extinguishment of debt in the amount of \$10.5 million. A portion of the debt discount recorded upon adoption of new accounting guidance for convertible debt amounting to approximately \$7.0 million was written-off as part of the transaction.

## **9. Partners' Equity of the Operating Partnership**

When the Company issues common shares pursuant to a public offering or upon exercise of options or issuance of restricted share awards, the Operating Partnership issues a corresponding unit to the Company on a two shares for one unit basis. At June 30, 2010 and December 31, 2009, the ownership interests of the Operating Partnership consisted of the following:

**10. Other Comprehensive Income of the Company**

Total comprehensive income for the three and six months ended June 30, 2010 and 2009 is as follows (in thousands):

**11. Other Comprehensive Income of the Operating Partnership**

Total comprehensive income for the three and six months ended June 30, 2010 and 2009 is as follows (in thousands):

## 12. Noncontrolling Interest in the Operating Partnership

Noncontrolling interest in the Operating Partnership in the consolidated financial statements relates to the ownership of units by the Tanger Family Limited Partnership. Net income attributable to noncontrolling interests in the Operating Partnership is computed by applying the weighted average percentage of units owned by the Tanger Family Limited Partnership during the period, as a percentage of the total number of outstanding units, to the Operating Partnership's net income for the period after deducting distributions for preferred units.

The following table sets forth noncontrolling interests in the Operating Partnership (in thousands):

## 13. Equity-Based Compensation

During the first quarter of 2010, the Company's Board of Directors approved the grant of 150,288 restricted common shares to the Company's independent directors and the Company's senior executive officers. The Company receives one common unit from the Operating Partnership for every two restricted shares issued by the Company. 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. The grant date fair value of the awards was \$39.24 per share, which was determined based upon the closing market price of our common shares on the day prior to the grant date in accordance with the terms of the Company's Incentive Award Plan, or Plan. Compensation expense related to the amortization of the deferred compensation amount is being recognized in accordance with the vesting schedule of the restricted shares.

Also during the first quarter of 2010, the Company's Compensation Committee approved the general terms of the Tanger Factory Outlet Centers, Inc. 2010 Multi-Year Performance Plan, or the 2010 Multi-Year Performance Plan. The 2010 Multi-Year Performance Plan is a long-term incentive compensation plan pursuant to which award recipients, as a group, may earn up to approximately 615,000 restricted common shares of the Company based on our share price appreciation over four years beginning on January 1, 2010. The maximum number of shares will be earned under this plan if we achieve 60% or higher share price appreciation over the four-year performance period. We expect that the value of the awards, if we achieve 60% share price appreciation, will equal between approximately \$35 million and \$39 million. After the awards are earned, they will remain subject to a one-year vesting period. For notional amounts granted in 2010, any shares earned on December 31, 2013 will vest on December 31, 2014 contingent on continued employment through the vesting date.

Under the 2010 Multi-Year Performance Plan, we will grant 205,000 notional units to award recipients as a group. If our aggregate share price appreciation during this period equals or exceeds the minimum threshold of 40%, then the notional units will convert into the Company's common shares on a one-for-one basis. The notional units will convert into common shares on a one-for-two basis if the share price appreciation exceeds the target threshold of 50% and on a one-for-three basis if the share price appreciation exceeds the maximum threshold of 60%. The notional amounts will convert on a pro rata basis between share price appreciation thresholds. The share price targets will be reduced on a dollar-for-dollar basis with respect to any dividend payments made during the measurement period, subject to a minimum level price target.

The notional units, prior to the date they are converted into restricted common shares, will not entitle award recipients to receive any dividends or other distributions. If the notional units are earned, and thereby converted into restricted common shares, then award recipients will be entitled to receive a payment of all dividends and other distributions that would have been paid had the number of earned common shares been issued at the beginning of the performance period. Thereafter, dividends and other distributions will be paid currently with respect to all restricted common shares that were earned.





At the end of the four-year performance period, if the minimum share price threshold is not achieved but the Company's share performance exceeds the 50th percentile of the share performance of its peer group, the notional units will convert into restricted common shares on a one-for-one basis. All determinations, interpretations and assumptions relating to the vesting and calculation of the performance awards will be made by our Compensation Committee.

We recorded equity-based compensation expense in our statements of operations as follows (in thousands):

As of June 30, 2010, there was \$20.9 million of total unrecognized compensation cost related to unvested equity-based compensation arrangements granted under the Plan.

#### **14. 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):

The senior exchangeable notes are included in the diluted earnings per share computation, if the effect is dilutive, using the treasury stock method. In applying the treasury stock method, the effect will be dilutive if the average market price of our common shares for at least 20 trading days in the 30 consecutive trading days at the end of each quarter is higher than the exchange rate of \$35.83 per share.

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. No options were excluded from the computations for the three months ended June 30, 2010 and 2009, respectively. The assumed conversion of the partnership units held by the noncontrolling interest limited partner 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 converted, is equivalent to earnings allocated to a common share.

The Company's unvested restricted share awards contain non-forfeitable rights to dividends or dividend equivalents. The impact of the unvested restricted share awards on earnings per share has been calculated using the two-class method whereby earnings are allocated to the unvested restricted share awards based on dividends declared and the unvested restricted shares' participation rights in undistributed earnings.

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 notional units were issued in January 2010 and all have been excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2010 as none of the contingent conditions were satisfied as of the end of the reporting period.

### **15. Earnings Per Unit of the Operating Partnership**

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

When the Company issues common shares pursuant to a public offering or upon exercise of options or issuance of restricted share awards, the Operating Partnership issues a corresponding unit to the Company on a two shares for one unit basis. The senior exchangeable notes are included in the diluted earnings per unit computation, if the effect is dilutive, using the treasury stock method. In applying the treasury stock method, the effect will be dilutive if the average market price of the Company's common shares for at least 20 trading days in the 30 consecutive trading days at the end of each quarter is higher than the exchange rate of \$35.83 per Company common share.

The computation of diluted earnings per unit excludes options to purchase common units when the exercise price is greater than the average market price of the common units for the period. The market price of a common unit is considered to be equivalent to twice the market price of a Company common share. No options were excluded from the computations for the three and six months ended June 30, 2010 and 2009, respectively.

The Company's unvested restricted share awards contain non-forfeitable rights to distributions or distribution equivalents. The impact of the unvested restricted share awards on earnings per unit has been calculated using the two-class method whereby earnings are allocated to the unvested restricted share awards based on distributions declared and the unvested restricted shares' participation rights in undistributed earnings.

The notional units are considered contingently issuable common units and are included in earnings per unit if the effect is dilutive using the treasury stock method. The notional units were issued in January 2010 and all have been excluded from the computation of diluted earnings per unit for the three and six months ended June 30, 2010 as none of the contingent conditions were satisfied as of the end of the reporting period.

## 16. Derivatives

We are exposed to various market risks, including changes in interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates. We may periodically enter into certain interest rate protection and interest rate swap agreements to effectively convert floating rate debt to a fixed rate basis. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

In accordance with our derivatives policy, all derivatives are assessed for effectiveness at the time the contracts are entered into and are assessed for effectiveness on an on-going basis at each quarter end. All of our derivatives have been designated as cash flow hedges. Unrealized gains and losses related to the effective portion of our derivatives are recognized in other comprehensive income and gains or losses related to ineffective portions are recognized in the income statement.

In June 2010, we terminated with a combined cash payment of \$6.1 million our two LIBOR based interest rate swap agreements with Wells Fargo Bank, N.A. and BB&T with notional amounts of \$118.0 million and \$117.0 million, respectively. The purpose of these swaps was to fix the interest rate on the \$235.0 million outstanding under the term loan facility completed in June 2008. The swaps fixed the one month LIBOR rate at 3.605% and 3.70%, respectively. The term loan was repaid with proceeds from our \$300.0 million 6.125% unsecured bond offering. Since the debt underlying the interest rate swaps was retired, we terminated the related interest rate swap agreements. As of June 30, 2010, we were not a party to any interest rate protection agreements.

Prior to when they were terminated, the swaps were designated as cash flow hedges. Unrealized gains and losses related to the effective portion of the swaps were recognized in other comprehensive income. Because the swaps were highly effective, the amount included in accumulated other comprehensive income when the swaps were terminated was equal to the amount recorded as a liability on the balance sheet of \$6.1 million. The contemporaneous termination of the swaps and the related debt caused the amounts in accumulated other comprehensive income to be reclassified to earnings. Additionally, a payment of \$6.1 million, which was considered to be an investing activity in the statement of cash flows, was made to relieve the obligation that was recorded as a liability.

The table below presents the fair value of our derivative financial instruments as well as their classification on the Consolidated Balance Sheet as of June 30, 2010 and December 31, 2009, respectively (in millions).

(1) Note that no derivatives were outstanding as of June 30, 2010.

(2) The derivative not designated as a hedging instrument was the interest rate swap agreement assumed when we purchased the remaining 50% interest in the joint venture that owned the outlet center in Myrtle Beach, SC on Hwy 17. We could not qualify for hedge accounting for this assumed derivative which had a fair value of \$1.7 million upon acquisition and was recorded in other liabilities in the balance sheet. Changes in fair value of this derivative were recorded through the statement of operations until its expiration in March 2010.

We recorded the following amounts as a reduction of interest expense related to the change in fair value of derivatives not designated as hedging instruments for the three and six months ended June 30, 2010 and 2009, respectively (in thousands):

The remaining net benefit from a derivative settled during 2005 in accumulated other comprehensive income was an unamortized balance as of June 30, 2010 of \$2.0 million which will amortize into the statement of operations through October 2015.

### **17. Fair Value Measurements**

Accounting guidance on fair value measurements includes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers are defined as follows:

The valuation of our financial instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. We have determined that our derivative valuations are classified in Level 2 of the fair value hierarchy.

For assets and liabilities measured at fair value on a recurring basis, quantitative disclosure of the fair value for each major category of assets and liabilities is presented below as of June 30, 2010 and December 31, 2009:

(1) Included in "Other liabilities" in the accompanying consolidated balance sheet.

For assets and liabilities measured at fair value on a non-recurring basis, quantitative disclosure of the fair value for each major category of assets and liabilities is presented below:

The estimated fair value of our debt, consisting of senior notes, senior exchangeable notes, unsecured term credit facilities and unsecured lines of credit, at June 30, 2010 and December 31, 2009 was \$646.5 million and \$567.0 million, respectively, and its recorded value was \$605.2 million and \$584.6 million, respectively. Fair values were determined, based on level 2 inputs, using discounted cash flow analyses with an interest rate or credit spread similar to that of current market borrowing arrangements.

### **18. Non-Cash Activities**

Non-cash financing activities that occurred during the 2009 period included the assumption of mortgage debt in the amount of \$35.8 million, including a debt discount of \$1.5 million related to the acquisition of the remaining 50% interest in the Myrtle Beach Hwy 17 joint venture. In addition, rental property increased by \$32.0 million related to the fair market valuation of our previously held interest in excess of carrying amount.

We also completed a non-cash exchange offering, as described in Note 8, which resulted in the retirement of \$142.3 million in principal amount of senior exchangeable notes which had a carrying value of \$135.3 million. These notes were retired with the issuance of approximately 4.9 million Company common shares.

We purchase capital equipment and incur costs relating to construction of facilities, including tenant finishing allowances. Expenditures included in construction trade payables as of June 30, 2010 and 2009 amounted to \$30.8 million and \$6.3 million, respectively.

### **19. Subsequent Events**

In July 2010, we sold a major portion of our Commerce I, Georgia property for net proceeds of approximately \$1.4 million. We still retain one building on the property which we are actively marketing that is still classified as held for sale.

Also in July 2010, Liz Claiborne, Inc. announced a plan to exit the Liz Claiborne branded outlet store concept in the United States and Puerto Rico over the next six to twelve months. Over the past five years we have reduced the Liz Claiborne branded outlet stores footprint in our centers by approximately one-third (from 316,000 to 233,000 square feet). We currently have in our portfolio twenty-two Liz Claiborne branded outlet stores totaling 233,000 square feet, which represents 2.6% of our total portfolio. The combined annualized base and percentage rental revenue to us from these Liz Claiborne branded outlet stores currently represents less than 1.5% of our total base and percentage rental revenues.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The discussion of our results of operations reported in the unaudited, consolidated statements of operations compares the three and six months ended June 30, 2010 with the three and six months ended June 30, 2009. The results of operations discussion is combined for Tanger Factory Outlet Centers, Inc. and Tanger Properties Limited Partnership because the results are virtually identical for both entities. The following discussion should be read in conjunction with the unaudited consolidated financial statements appearing elsewhere in this report. Historical results and percentage relationships set forth in the unaudited, consolidated statements of operations, including trends which might appear, are not necessarily indicative of future operations. 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.

### **Cautionary Statements**

Certain statements made below are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend for such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995 and included this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "believe", "expect", "intend", "anticipate", "estimate", "project", or similar expressions. You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could materially affect our actual results, performance or achievements. Factors which may cause actual results to differ materially from current expectations include, but are not limited to, those set forth under Item 1A - "Risk Factors" in the Company's and the Operating Partnership's Annual Reports on Form 10-K for the year ended December 31, 2009. There have been no material changes to the risk factors listed there through June 30, 2010.

### **General Overview**

At June 30, 2010, our consolidated portfolio included 31 wholly owned outlet centers in 21 states totaling 9.1 million square feet compared to 31 wholly owned outlet centers in 21 states totaling 9.2 million square feet at June 30, 2009. The changes in the number of outlet centers, square feet and number of states are due to the following events:

The following table summarizes certain information for our existing outlet centers in which we have an ownership interest as of June 30, 2010. Except as noted, all properties are fee owned.

- (1) Excludes the occupancy rate at our Commerce I, Georgia center which was held for sale as of June 30, 2010.
- (2) These properties or a portion thereof are subject to a ground lease.
- (3) Includes a 29,253 square foot warehouse adjacent to the shopping center.



## RESULTS OF OPERATIONS

### Comparison of the three months ended June 30, 2010 to the three months ended June 30, 2009

#### BASE RENTALS

Base rentals increased \$750,000, or 2%, in the 2010 period compared to the 2009 period. The following table sets forth the changes in various components of base rentals from the 2010 and 2009 periods (in thousands):

Base rental income generated from existing properties in our portfolio increased due to higher rental rates on lease renewals and incremental rents from re-tenanting vacant spaces. In addition, the 2010 period included base rentals from the tenants that occupy space in the 23,000 square foot expansion which was first occupied late in the second quarter of 2009 at our Commerce II, Georgia property.

During the second quarter of 2010, we completed the demolition of approximately 162,000 square feet at our center in Hilton Head, South Carolina. The redevelopment of this site began during the second quarter with the opening of a new 176,000 square foot outlet center expected in the second half of 2011.

Also, included in base rentals are termination fees which represent payments received from the early termination of leases and are recognized as revenue from the time the payment is receivable until the tenant vacates the space.

Finally, included in base rentals is the amortization from the value of above and below market leases recorded as a result of our property acquisitions as either an increase (in the case of below market leases) or a decrease (in the case of above market leases) to rental income over the remaining term of the associated lease. The net amortization of above and below market leases decreased for the 2010 period compared to the 2009 period due to the aging of the portfolio of leases that is accounted for under the business combination accounting guidance.

At June 30, 2010, the net liability representing the amount of unrecognized combined above and below market lease values totaled approximately \$2.0 million. If a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related above or below market lease value will be written off and could materially impact our net income positively or negatively.

#### PERCENTAGE RENTALS

Percentage rentals, which represent revenues based on a percentage of tenants' sales volume above predetermined levels, the breakpoint, increased \$108,000 or 11% from the 2009 period to the 2010 period. Reported tenant comparable sales for our wholly owned properties for the rolling twelve months ended June 30, 2009 increased 4.6% to \$345 per square foot. Reported tenant comparable sales is defined as the weighted average sales per square foot reported in space open for the full duration of each comparison period.

#### PROPERTY OPERATING

Property operating expenses increased \$1.5 million, or 7%, in the 2010 period as compared to the 2009 period. The increase is due primarily to the following items from the 2010 period: (1) write-off of approximately \$365,000 of predevelopment and due diligence costs associated with a project in Irving, Texas; (2) approximately \$641,000 in demolition costs related to our center redevelopment in Hilton Head, South Carolina and (3) an increase in various common area maintenance projects throughout our portfolio. These increases were partially offset by a decrease in our property insurance costs due to lower premiums upon renewal of our policies during the third quarter of 2009 and the savings in property operating expenses as a result of the demolition of our center in Hilton Head.



### DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased \$2.3 million, or 12%, in the 2010 period compared to the 2009 period. As of March 31, 2010, approximately 162,000 square feet of our center in Hilton Head, South Carolina was vacant of all tenants in preparation for the demolition and redevelopment of the center. At that point the depreciable assets of the center had been fully depreciated. Therefore, depreciation and amortization for the 2010 period decreased approximately \$1.5 million related to the redevelopment activities in Hilton Head. The remainder of the decrease relates to lower levels of intangible lease cost amortization from acquired outlet centers in 2003 and 2005.

### INTEREST EXPENSE

Interest expense decreased \$1.6 million, or 17%, in the 2010 period compared to the 2009 period. This decrease was due to the significant reduction in the average amount of debt outstanding which was accomplished through an exchange offering in May 2009 and a common share offering in August 2009. These two equity transactions in essence retired approximately \$259.1 million of outstanding debt.

### GAIN (LOSS) ON EARLY EXTINGUISHMENT OF DEBT

The 2010 period includes the write-off of approximately \$563,000 of unamortized loan origination costs. These assets were written-off due to the repayment of the \$235.0 million term loan facility in the 2010 period with a portion of the proceeds from the \$300.0 million unsecured bond offering in June 2010. In May 2009, senior exchangeable notes of the Operating Partnership in the principal amount of \$142.3 million and a carrying amount of \$135.3 million were exchanged for Company common shares, representing approximately 95.2% of the total senior exchangeable notes outstanding prior to the exchange offer. In the aggregate, the exchange offer resulted in the issuance of approximately 4.9 million Company common shares and the payment of approximately \$1.2 million in cash for accrued and unpaid interest and in lieu of fractional shares. Following settlement of the exchange offer, senior exchangeable notes in the principal amount of approximately \$7.2 million remained outstanding. In connection with the exchange offering, we recognized in income from continuing operations and net income a gain on the early extinguishment of debt in the amount of \$10.5 million.

### LOSS ON TERMINATION OF INTEREST RATE SWAPS

During the second quarter of 2010, we terminated two interest rate swap agreements with a total notional amount of \$235.0 million originally entered into in 2008 for the purpose of fixing the LIBOR based interest rate on the \$235.0 million term loan facility originally completed in June 2008. We paid approximately \$6.1 million to terminate the two interest rate swap agreements. The agreements were terminated because the underlying debt for the derivative transaction was repaid with a portion of the proceeds from the \$300.0 million bond offering mentioned above.

Prior to when they were terminated, the swaps were designated as cash flow hedges. Unrealized gains and losses related to the effective portion of the swaps were recognized in other comprehensive income. Because the swaps were highly effective, the amount included in accumulated other comprehensive income when the swaps were terminated was equal to the amount recorded as a liability on the balance sheet of \$6.1 million. The contemporaneous termination of the swaps and the related debt caused the amounts in accumulated other comprehensive income to be reclassified to earnings. Additionally, a payment of \$6.1 million, which was considered to be an investing activity in the statement of cash flows, was made to relieve the obligation that was recorded as a liability.

### EQUITY IN EARNINGS (LOSSES) OF UNCONSOLIDATED JOINT VENTURES

Our equity in the earnings and losses of unconsolidated joint ventures improved by \$466,000, or 90%, in the 2010 period compared to the 2009 period. The improvement is due to the natural expiration of \$170.0 million of interest rate swaps at the Deer Park joint venture in June 2009. The expiration of these swaps enabled the construction loan for

the joint venture to incur interest at a variable rate based on a LIBOR index that is currently at historically low levels.

DISCONTINUED OPERATIONS

In May 2010, the Company's Board of Directors approved the plan for our management to sell our Commerce I, Georgia center. The facts and circumstances of the plan met the accounting requirements to classify the results of operations of the center as discontinued operations for the 2010 and 2009 periods. The 2009 period included an impairment charge for this property of \$5.2 million which equaled the excess of the property's carrying value over its estimated fair value at that time.

**Comparison of the six months ended June 30, 2010 to the six months ended June 30, 2009**

**BASE RENTALS**

Base rentals increased \$1.6 million, or 2%, in the 2010 period compared to the 2009 period. The following table sets forth the changes in various components of base rentals from the 2010 and 2009 periods (in thousands):

Base rental income generated from existing properties in our portfolio increased due to higher rental rates on lease renewals and incremental rents from re-tenanting vacant spaces. In addition, the 2010 period included base rentals from the tenants that occupy space in the 23,000 square foot expansion which was first occupied late in the second quarter of 2009 at our Commerce II, Georgia property.

During the second quarter of 2010, we completed the demolition of approximately 162,000 square feet at our center in Hilton Head, South Carolina. The redevelopment of this site began during the second quarter with the opening of a new 176,000 square foot outlet center expected in the second half of 2011.

Also, included in base rentals are termination fees which represent payments received from the early termination of leases and are recognized as revenue from the time the payment is receivable until the tenant vacates the space.

Finally, included in base rentals is the amortization from the value of above and below market leases recorded as a result of our property acquisitions as either an increase (in the case of below market leases) or a decrease (in the case of above market leases) to rental income over the remaining term of the associated lease. The net amortization of above and below market leases increased for the 2010 period due to the 2009 period including the recognition of a large above market lease amount from the early termination of a single tenant.

At June 30, 2010, the net liability representing the amount of unrecognized combined above and below market lease values totaled approximately \$2.0 million. If a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related above or below market lease value will be written off and could materially impact our net income positively or negatively.

**PERCENTAGE RENTALS**

Percentage rentals, which represent revenues based on a percentage of tenants' sales volume above predetermined levels, the breakpoint, increased \$105,000 or 5% from the 2010 period to the 2009 period. Reported tenant comparable sales for our wholly owned properties for the rolling twelve months ended June 30, 2009 increased 4.6% to \$345 per square foot. Reported tenant comparable sales is defined as the weighted average sales per square foot reported in space open for the full duration of each comparison period.

**PROPERTY OPERATING**

Property operating expenses increased \$2.2 million, or 5%, in the 2010 period as compared to the 2009 period. The increase is due primarily to the following items from the 2010 period: (1) write-off of approximately \$365,000 of predevelopment and due diligence costs associated with a project in Irving, Texas; (2) approximately \$699,000 in demolition costs related to our center redevelopment in Hilton Head, South Carolina; (3) increases in snow removal costs of approximately \$367,000 and (4) an increase in various common area maintenance projects throughout our portfolio. These increases were partially offset by a decrease in our property insurance costs due to lower premiums upon renewal of our policies during the third quarter of 2009 and the savings in property operating expenses as a result of the demolition of our center in Hilton Head.

**DEPRECIATION AND AMORTIZATION**

Depreciation and amortization increased \$4.0 million, or 10%, in the 2010 period compared to the 2009 period. During the first quarter of 2010, we accelerated the depreciation and amortization of our Hilton Head I, South Carolina center in order to fully depreciate its assets by the time demolition and redevelopment began in April 2010. As a result of this acceleration, we incurred

approximately \$6.2 million more depreciation and amortization in the 2010 period compared to the 2009 period related to our Hilton Head I center. This increase was partially offset by lower levels of intangible lease cost amortization from acquired outlet centers in 2003 and 2005.

#### IMPAIRMENT CHARGE

In 2005 we sold our outlet center located in Seymour, Indiana, but retained various outparcels of land at the development site, some of which we had sold in recent years. In February 2010, our Board of Directors approved the sale of the remaining parcels of land in Seymour. As a result of this Board approval and an approved plan to actively market the land, we accounted for the land as "held for sale" and recorded a non-cash impairment charge of approximately \$735,000 in our consolidated statement of operations which equaled the excess of the carrying amount of the land over its current fair value. We determined the estimated fair value using a market approach considering offers that we have obtained for all the various parcels less estimated closing costs.

#### INTEREST EXPENSE

Interest expense decreased \$4.9 million, or 23%, in the 2010 period compared to the 2009 period. This decrease was due to the significant reduction in the average amount of debt outstanding which was accomplished through an exchange offering in May 2009 and a common share offering in August 2009. These two equity transactions in essence retired approximately \$259.1 million of outstanding debt.

#### GAIN (LOSS) ON EARLY EXTINGUISHMENT OF DEBT

The 2010 period includes the write-off of approximately \$563,000 of unamortized loan origination costs. These assets were written-off due to the repayment of the \$235.0 million term loan facility in the 2010 period with a portion of the proceeds from the June 2010 \$300.0 million unsecured bond offering. In May 2009, senior exchangeable notes of the Operating Partnership in the principal amount of \$142.3 million and a carrying amount of \$135.3 million were exchanged for Company common shares, representing approximately 95.2% of the total senior exchangeable notes outstanding prior to the exchange offer. In the aggregate, the exchange offer resulted in the issuance of approximately 4.9 million Company common shares and the payment of approximately \$1.2 million in cash for accrued and unpaid interest and in lieu of fractional shares. Following settlement of the exchange offer, senior exchangeable notes in the principal amount of approximately \$7.2 million remained outstanding. In connection with the exchange offering, we recognized in income from continuing operations and net income a gain on early extinguishment of debt in the amount of \$10.5 million.

#### LOSS ON TERMINATION OF INTEREST RATE SWAPS

During the second quarter of 2010, we terminated two interest rate swap agreements with a total notional amount of \$235.0 million originally entered into in 2008 for the purpose of fixing the LIBOR based interest rate on the \$235.0 million term loan facility originally completed in June 2008. We paid approximately \$6.1 million to terminate the two interest rate swap agreements. The agreements were terminated because the underlying debt for the derivative transaction was repaid with a portion of the proceeds from the \$300.0 million bond offering mentioned above.

Prior to when they were terminated, the swaps were designated as cash flow hedges. Unrealized gains and losses related to the effective portion of the swaps were recognized in other comprehensive income. Because the swaps were highly effective, the amount included in accumulated other comprehensive income when the swaps were terminated was equal to the amount recorded as a liability on the balance sheet of \$6.1 million. The contemporaneous termination of the swaps and the related debt caused the amounts in accumulated other comprehensive income to be reclassified to earnings. Additionally, a payment of \$6.1 million, which was considered to be an investing activity in the statement of cash flows, was made to relieve the obligation that was recorded as a liability.

GAIN ON FAIR VALUE MEASUREMENT OF PREVIOUSLY HELD INTEREST IN ACQUIRED JOINT VENTURE

On January 5, 2009, we purchased the remaining 50% interest in the Myrtle Beach Hwy 17 joint venture for a cash price of \$32.0 million which was net of the assumption of the existing mortgage loan of \$35.8 million. The acquisition was funded by amounts available under our unsecured lines of credit. We had owned a 50% interest in the Myrtle Beach Hwy 17 joint venture since its formation in 2001 and accounted for it under the equity method. The joint venture is now 100% owned by us and consolidated. The acquisition was accounted for under the new guidance for acquisitions that was effective January 1, 2009. Under this guidance, we recorded a gain of \$31.5 million which represented the difference between the fair market value of our previously owned interest and its cost basis.

EQUITY IN EARNINGS (LOSSES) OF UNCONSOLIDATED JOINT VENTURES

Our equity in the earnings and losses of unconsolidated joint ventures improved by \$1.3 million, or 92%, in the 2010 period compared to the 2009 period. The improvement is due to the natural expiration of \$170.0 million of interest rate swaps at the Deer Park joint venture in June 2009. The expiration of these swaps enabled the construction loan for the joint venture to incur interest at a variable rate based on a LIBOR index that is currently at historically low levels.



## DISCONTINUED OPERATIONS

In May 2010, the Company's Board of Directors approved the plan for our management to sell our Commerce I, Georgia center. The facts and circumstances of the plan met the accounting requirements to classify the results of operations of the center as discontinued operations for the 2010 and 2009 periods. The 2009 period included an impairment charge for this property of \$5.2 million which equaled the excess of the property's carrying value over its estimated fair value at that time.

## **LIQUIDITY AND CAPITAL RESOURCES OF THE COMPANY**

In this "Liquidity and Capital Resources of the Company" section, the term, the Company, refers only to Tanger Factory Outlet Centers, Inc. on an unconsolidated basis, excluding the Operating Partnership.

The Company's business is operated primarily through the Operating Partnership. The Company issues public equity from time to time, but does not otherwise generate any capital itself or conduct any business itself, other than incurring certain expenses in operating as a public company which are fully reimbursed by the Operating Partnership. The Company itself does not hold any indebtedness, and its only material asset is its ownership of partnership interests of the Operating Partnership. The Company's principal funding requirement is the payment of dividends on its common and preferred shares. The Company's principal source of funding for its dividend payments is distributions it receives from the Operating Partnership.

Through its ownership of the sole general partner of the Operating Partnership, the Company has the full, exclusive and complete responsibility for the Operating Partnership's day-to-day management and control. The Company causes the Operating Partnership to distribute all, or such portion as the Company may in its discretion determine, of its available cash in the manner provided in the Operating Partnership's partnership agreement. The Company receives proceeds from equity issuances from time to time, but is required by the Operating Partnership's partnership agreement to contribute the proceeds from its equity issuances to the Operating Partnership in exchange for partnership units of the Operating Partnership.

The Company is a well-known seasoned issuer with an effective shelf registration statement which was updated in July 2009 that allows the Company to register unspecified various classes of equity securities and the Operating Partnership to register unspecified and various classes of debt securities. As circumstances warrant, the Company may issue equity from time to time on an opportunistic basis, dependent upon market conditions and available pricing. The Operating Partnership may use the proceeds to repay debt, including borrowings under its lines of credit, develop new or existing properties, to make acquisitions of properties, portfolios of properties, to invest in existing or newly created joint ventures or for general corporate purposes.

The liquidity of the Company is dependent on the Operating Partnership's ability to make sufficient distributions to the Company. The primary cash requirement of the Company is its payment of dividends to its shareholders. The Company also guarantees some of the Operating Partnership's debt. If the Operating Partnership fails to fulfill its debt requirements, which trigger Company guarantee obligations, then the Company will be required to fulfill its cash payment commitments under such guarantees. However, the Company's only asset is its investment in the Operating Partnership.

The Company believes the Operating Partnership's sources of working capital, specifically its cash flow from operations, and borrowings available under its unsecured credit facilities, are adequate for it to make its distribution payments to the Company and, in turn, for the Company to make its dividend payments to its shareholders. However, there can be no assurance that the Operating Partnership's sources of capital will continue to be available at all or in amounts sufficient to meet its needs, including its ability to make distribution payments to the Company. The unavailability of capital could adversely affect the Operating Partnership's ability to pay its distributions to the Company, which would in turn, adversely affect the Company's ability to pay cash dividends to its shareholders.

For the Company to maintain its qualification as a real estate investment trust, it must pay dividends to its shareholders aggregating annually at least 90% of its REIT taxable income. While historically the Company has satisfied this distribution requirement by making cash distributions to its shareholders, it may choose to satisfy this requirement by making distributions of cash or other property, including, in limited circumstances, the Company's own shares. As a result of this distribution requirement, the Operating Partnership cannot rely on retained earnings to fund its on-going operations to the same extent that other companies whose parent companies are not real estate investment trusts can. The Company may need to continue to raise capital in the equity markets to fund the Operating Partnership's working capital needs, as well as potential developments at new or existing properties, acquisitions or investments in existing or newly created joint ventures.

As the sole owner of the general partner with control of the Operating Partnership, the Company consolidates the Operating Partnership for financial reporting purposes, and the Company does not have significant assets other than its investment in 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 REIT. However, all debt is held directly or indirectly

at the Operating Partnership level, and the Company has guaranteed some of the Operating Partnership's unsecured debt as discussed below. Because the Company consolidates the Operating Partnership, the section entitled "Liquidity and Capital Resources of the Operating Partnership" should be read in conjunction with this section to understand the liquidity and capital resources of the Company on a consolidated basis and how the Company is operated as a whole.

On July 8, 2010, the Company's Board of Directors declared a \$.3875 cash dividend per common share payable on August 13, 2010 to each shareholder of record on July 30, 2010, and caused a \$.7750 per Operating Partnership unit cash distribution to be paid to the Operating Partnership's noncontrolling interest. The Board of Directors also declared a \$.46875 cash dividend per 7.5% Class C Cumulative Preferred Share payable on August 16, 2010 to holders of record on July 30, 2010.

## **LIQUIDITY AND CAPITAL RESOURCES OF THE OPERATING PARTNERSHIP**

### *General Overview*

In this "Liquidity and Capital Resources of the Operating Partnership" section, the terms "we", "our" and "us" refer to the Operating Partnership or the Operating Partnership and the Company together, as the text requires.

Property rental income represents our primary source to pay property operating expenses, debt service, capital expenditures and dividends, excluding non-recurring capital expenditures and acquisitions. To the extent that our cash flow from operating activities is insufficient to cover such non-recurring capital expenditures and acquisitions, we finance such activities from borrowings under our unsecured lines of credit or from the proceeds from the Operating Partnership's debt and the Company's equity offerings.

We believe we achieve a strong and flexible financial position by attempting to: (1) maintain a conservative leverage position relative to our portfolio when pursuing new development and expansion opportunities, (2) extend and sequence debt maturities, (3) manage our interest rate risk through a proper mix of fixed and variable rate debt, (4) maintain access to liquidity by using our lines of credit in a conservative manner and (5) preserve internally generated sources of capital by strategically divesting of underperforming assets and maintaining a conservative distribution payout ratio. We manage our capital structure to reflect a long term investment approach and utilize multiple sources of capital to meet our requirements.

The following table sets forth our changes in cash flows for the six months ended June 30, 2010 and 2009, respectively (in thousands):

### *Operating Activities*

The decrease in cash provided by operating activities due to the change in accounts payable and accrued expenses in the 2010 period. This decrease in cash was partially offset by increases in net operating income at existing centers in the 2010 period versus the 2009 period.

### *Investing Activities*

Cash flow used in investing activities was lower in the 2010 period by approximately \$20.8 million due to the 2009 period including the acquisition of the remaining 50% interest in the joint venture that held the Myrtle Beach Hwy 17, South Carolina outlet center. We acquired our partners' interest for a cash purchase price of \$32.0 million. The 2010 period did have higher additions to rental property due to the on-going construction at our Mebane, North Carolina development which we plan on opening in the fourth quarter of 2010. Finally, the 2010 period included a cash payment of \$6.1 million for the termination of two interest rate swap agreements associated with the underlying debt obligation which was repaid during the 2010 period.



### ***Financing Activities***

Dividends and distributions paid in the 2010 period were higher by \$7.0 million compared to the 2009 period due to a higher number of outstanding common shares from the May 2009 exchange offering and August 2009 common share offering and an increase in the dividend rate paid on our common shares. In addition during the 2010 period we issued \$300 million of senior, unsecured notes which included a cash outflow of \$2.5 million for debt origination fees.

### ***Current Developments and Dispositions***

We intend to continue to grow our portfolio by developing, expanding or acquiring additional outlet centers. In the section below, we describe the new developments that are either currently planned, underway or recently completed. However, you should note that any developments or expansions that we, or a joint venture that we are involved in, have planned or anticipated may not be started or completed as scheduled, or may not result in accretive net income or funds from operations. In addition, we regularly evaluate acquisition or disposition proposals and engage from time to time in negotiations for acquisitions or dispositions of properties. We may also enter into letters of intent for the purchase or sale of properties. Any prospective acquisition or disposition that is being evaluated or which is subject to a letter of intent may not be consummated, or if consummated, may not result in an increase in liquidity, net income or funds from operations.

#### ***WHOLLY OWNED CURRENT DEVELOPMENTS***

##### **New Development**

During the second quarter of 2010, construction continued on our development site in Mebane, North Carolina. We have signed leases or leases out for signature for approximately 91% of the total square feet. Currently, we expect the 317,000 square foot outlet center will be funded by operating cash flows and amounts available under our unsecured lines of credit. We also expect the center to open in early November 2010.

Commitments to complete construction of our renovations and other capital expenditure requirements amounted to approximately \$30.0 million at June 30, 2010. Commitments for construction represent only those costs contractually required to be paid by us.

##### **Redevelopment at Existing Outlet Centers**

During the second quarter of 2010, we completed the demolition of our Hilton Head I center in Bluffton, South Carolina. The redevelopment of the outlet center is currently underway and we have leases signed or out for signature on 54.6% of the leasable square feet. When completed, the new 176,000 square foot center, with an additional four outparcel pads, will be the first LEED certified green shopping center in Beaufort County. Our \$50.0 million redevelopment is projected to open during the second half of 2011. Currently, we expect the outlet center will be funded by operating cash flows and amounts available under our unsecured lines of credit.

##### **Potential Future Developments**

In April 2010, we decided to terminate our option contract for a new development site located in Irving, Texas. As the development was deemed no longer probable, we wrote-off approximately \$365,000 of predevelopment and due diligence costs associated with the project in the second quarter of 2010.

At this time, we are in the initial study period on several potential new locations. There can be no assurance that any potential sites will ultimately be developed. These projects, if realized, would be primarily funded by amounts available under our unsecured lines of credit but could also be funded by other sources of capital such as collateralized construction loans, public debt or equity offerings as necessary or available. We may also consider the use of

additional operational or developmental joint ventures.

### **Financing Arrangements**

At June 30, 2010, 100% of our outstanding debt represented unsecured borrowings and approximately 100% of the gross book value of our real estate portfolio was unencumbered. We maintain unsecured, revolving lines of credit that provide for unsecured borrowings of up to \$325.0 million.

We intend to retain the ability to raise additional capital, including public debt or equity, to pursue attractive investment opportunities that may arise and to otherwise act in a manner that we believe to be in our shareholders' best interests. We have no significant debt maturities until June 2011 when our unsecured lines of credit expire. We are actively working on extending these lines of credit but there can be no assurance that we will be able to do so on favorable terms or at all. The Company is a well-known seasoned issuer with an effective joint shelf registration statement with the Operating Partnership that allows us to register unspecified amounts of different classes of securities on Form S-3. To generate capital to reinvest into other attractive investment opportunities, we may also consider the use of additional operational and developmental joint ventures, the sale or lease of outparcels on our existing properties and the sale of certain properties that do not meet our long-term investment criteria. Based on cash provided by operations, existing credit facilities, ongoing negotiations with certain financial institutions and our ability to sell debt or issue equity subject to market conditions, we believe that we have access to the necessary financing to fund the planned capital expenditures during 2010.

We anticipate that adequate cash will be available to fund our operating and administrative expenses, regular debt service obligations, and the payment of dividends in accordance with Real Estate Investment Trust, or REIT, requirements in both the short and long-term. Although we receive most of our rental payments on a monthly basis, distributions to shareholders are made quarterly and interest payments on the senior, unsecured notes are made semi-annually. Amounts accumulated for such payments will be used in the interim to reduce the outstanding borrowings under our existing lines of credit or invested in short-term money market or other suitable instruments.

We believe our current balance sheet position is financially sound; however, due to the current weakness in and unpredictability of the capital and credit markets, we can give no assurance that affordable access to capital will exist between now and 2015 when our next significant debt maturities occur. As a result, our current primary focus is to strengthen our capital and liquidity position by controlling and reducing construction and overhead costs, generating positive cash flows from operations to cover our dividend and reducing outstanding debt.

The Operating Partnership's debt agreements 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% on a cumulative basis. We have historically been and currently are in compliance with all of our debt covenants. We expect to remain in compliance with all of our existing debt covenants; however, should circumstances arise that would cause us to be in default, the various lenders would have the ability to accelerate the maturity on our outstanding debt.

The Operating Partnership's senior unsecured notes contain covenants and restrictions requiring us to meet certain financial ratios and reporting requirements. Key financial covenants and their covenant levels include:

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The following table details certain information as of June 30, 2010 about various unconsolidated real estate joint ventures in which we have an ownership interest:

We may issue guarantees for the debt of a joint venture in order for the joint venture to obtain funding or to obtain funding at a lower cost than could be obtained otherwise. We are party to a limited joint and several guarantee with respect to Wisconsin Dells joint venture loan, which currently has a balance of \$24.8 million. We are also party to limited joint and several guarantees with respect to the loans obtained by the Deer Park joint venture which currently have a balance of \$269.3 million.

Each of the above ventures contains provisions where a venture partner can trigger certain provisions and force the other partners to either buy or sell their investment in the joint venture. Should this occur, we may be required to sell the property to the venture partner or incur a significant cash outflow in order to maintain ownership of these outlet centers.

The following table details our share of the debt maturities of the unconsolidated joint ventures as of June 30, 2010 (in thousands):

(1) The Deer Park mortgage has a one-year extension option which is exercisable at the May 17, 2011 initial maturity date, subject to certain qualifications.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Refer to our 2009 Annual Reports on Form 10-K of the Company and the Operating Partnership for a discussion of our critical accounting policies which include principles of consolidation, acquisition of real estate, cost capitalization, impairment of long-lived assets and revenue recognition. There have been no material changes to these policies in 2010.

### **RELATED PARTY TRANSACTIONS**

As noted above in "Off-Balance Sheet Arrangements", we are 50% owners of the Wisconsin Dells joint venture and a 33.3% owner in the Deer Park joint venture. These joint ventures pay us management, leasing, marketing and development fees, which we believe approximate current market rates, for services provided to the joint ventures. During the three and six months ended June 30, 2010 and 2009, respectively, we recognized the following fees (in thousands):

Tanger Family Limited Partnership is a related party which holds a limited partnership interest in and is the noncontrolling interest of the Operating Partnership. Stanley K. Tanger, a member of the Company's Board of Directors, is the sole general partner of the Tanger Family Limited Partnership. The only material related party transaction with the Tanger Family Limited Partnership is the payment of quarterly distributions of earnings which were \$4.7 million and \$4.6 million for the six months ended June 30, 2010 and 2009, respectively.



## SUPPLEMENTAL EARNINGS MEASURES

### Funds From Operations

Funds from Operations, or FFO, represents income before extraordinary items and gains (losses) on sale or disposal of depreciable operating properties, plus depreciation and amortization uniquely significant to real estate and after adjustments for unconsolidated partnerships and joint ventures.

FFO is intended to exclude historical cost depreciation of real estate as required by Generally Accepted Accounting Principles, or GAAP, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income.

We present FFO because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO is widely used by us and others in our industry to evaluate and price potential acquisition candidates. The National Association of Real Estate Investment Trusts, Inc., of which we are a member, has encouraged its member companies to report their FFO as a supplemental, industry-wide standard measure of REIT operating performance. In addition, a percentage of bonus compensation to certain members of management is based on our FFO performance.

FFO has significant limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- FFO does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- FFO does not reflect changes in, or cash requirements for, our working capital needs;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and FFO does not reflect any cash requirements for such replacements;
- FFO, which includes discontinued operations, may not be indicative of our ongoing operations; and
- Other companies in our industry may calculate FFO differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, FFO should not be considered as a measure of discretionary cash available to us to invest in the growth of our business or our dividend or distribution paying capacity. We compensate for these limitations by relying primarily on our GAAP results and using FFO only supplementally.

Below is a reconciliation of net income to FFO for the three and six months ended June 30, 2010 and 2009 as well as other data for those respective periods (in thousands):

(1) Includes gain on sale of outparcel of land of \$161 for the six months ended June 30, 2010.

(2) Includes the dilutive effect of options and senior exchangeable notes and assumes the partnership units of the Operating Partnership held by the noncontrolling interest are converted to common shares of the Company.

### **Adjusted Funds From Operations**

We present Adjusted Funds From Operations, or AFFO, as a supplemental measure of our performance. We define AFFO as FFO further adjusted to eliminate the impact of certain items that we do not consider indicative of our ongoing operating performance. These further adjustments are itemized below. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating AFFO you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of AFFO should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

We present AFFO because we believe it assists investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. In addition, we use AFFO as a factor in evaluating management's performance when determining incentive compensation and to evaluate the effectiveness of our business strategies.

AFFO has limitations as an analytical tool. Some of these limitations are:

- AFFO does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- AFFO does not reflect changes in, or cash requirements for, our working capital needs;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and AFFO does not reflect any cash requirements for such replacements;

- AFFO does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; and
- other companies in our industry may calculate AFFO differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, AFFO should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using AFFO only supplementally.

Below is a reconciliation of FFO to AFFO for the three and six months ended June 30, 2010 and 2009 as well as other data for those respective periods (in thousands):

(1) Includes the dilutive effect of options and senior exchangeable notes and assumes the partnership units of the Operating Partnership held by the noncontrolling interest are converted to common shares of the Company.

## **ECONOMIC CONDITIONS AND OUTLOOK**

The majority of our leases contain provisions designed to mitigate the impact of inflation. Such provisions include clauses for the escalation of base rent and clauses enabling us to receive percentage rentals based on tenants' gross sales (above predetermined levels, which we believe often are lower than traditional retail industry standards) which generally increase as prices rise. Most of the leases require the tenant to pay their share of property operating expenses, including common area maintenance, real estate taxes, insurance and advertising and promotion, thereby reducing exposure to increases in costs and operating expenses resulting from inflation.

While we believe outlet stores will continue to be a profitable and fundamental distribution channel for many brand name manufacturers, some retail formats are more successful than others. As typical in the retail industry, certain tenants have closed, or will close, certain stores by terminating their lease prior to its natural expiration or as a result of filing for protection under bankruptcy laws.

In July 2010, Liz Claiborne, Inc. announced a plan to exit the Liz Claiborne branded outlet store concept in the United States and Puerto Rico over the next six to twelve months. Over the past five years we have reduced the Liz Claiborne branded outlet stores footprint in our centers by approximately one-third (from 316,000 to 233,000 square feet). We currently have in our portfolio

twenty-two Liz Claiborne branded outlet stores totaling 233,000 square feet, which represents 2.6% of our total portfolio. The combined annualized base and percentage rental revenue to us from these Liz Claiborne branded outlet stores currently represents less than 1.5% of our total base and percentage rental revenues.

During 2010, we have approximately 1.5 million square feet, or 16%, of our wholly-owned portfolio coming up for renewal. During the first six months of 2010, we renewed approximately 60% of the 1.5 million square feet that came up for renewal with the existing tenants at a 9% increase in the average base rental rate compared to the expiring rate. We also re-tenanted 323,000 square feet at a 22% increase in the average base rental rate. In addition, we continue to attract and retain additional tenants. If we were unable to successfully renew or release a significant amount of this space on favorable economic terms, the loss in rent could have a material adverse effect on our results of operations.

Given current economic conditions it may take longer to re-lease the remaining space and more difficult to achieve similar increases in base rental rates. Also, there may be additional tenants that have not informed us of their intentions and which may close stores in the coming year. There can be no assurances that we will be able to re-lease such space. While the timing of an economic recovery is unclear and these conditions may not improve quickly, we believe in our business and our long-term strategy.

Our outlet centers typically include well-known, national, brand name companies. By maintaining a broad base of well-known tenants and a geographically diverse portfolio of properties located across the United States, we reduce our operating and leasing risks. No one tenant (including affiliates) accounts for more than 9% of our square feet or 7% of our combined base and percentage rental revenues. Accordingly, we do not expect any material adverse impact on our results of operations and financial condition as a result of leases to be renewed or stores to be released. As of June 30, 2010 and 2009, respectively, occupancy at our wholly-owned centers was 97% and 95%.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### **Market Risk**

We are exposed to various market risks, including changes in interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates. We may periodically enter into certain interest rate protection and interest rate swap agreements to effectively convert floating rate debt to a fixed rate basis. We do not enter into derivatives or other financial instruments for trading or speculative purposes. In June 2010, we terminated our two LIBOR based interest rate swap agreements with Wells Fargo Bank, N.A. and BB&T for notional amounts of \$118.0 million and \$117.0 million, respectively. The purpose of these swaps was to fix the interest rate on the \$235.0 million outstanding under the term loan facility completed in June 2008. The swaps fixed the one month LIBOR rate at 3.605% and 3.70%, respectively. The term loan was repaid with proceeds from our \$300.0 million 6.125% unsecured bond offering. Because the debt underlying the interest rate swaps was retired, we terminated the related interest rate swap agreements. As of June 30, 2010, we were not a party to any interest rate protection agreements.

As of June 30, 2010, approximately 8% of our outstanding debt had a variable interest rate and was therefore subject to market fluctuations. An increase in the LIBOR rate of 100 basis points would result in an increase of approximately \$508,000 in interest expense on an annual basis. The information presented herein is merely an estimate and has limited predictive value. As a result, the ultimate effect upon our operating results of interest rate fluctuations will depend on the interest rate exposures that arise during the period, our hedging strategies at that time and future changes in the level of interest rates.

The estimated fair value of our debt, consisting of senior notes, senior exchangeable notes, unsecured term credit facilities and unsecured lines of credit, at June 30, 2010 and December 31, 2009 was \$646.5 million and \$567.0 million, respectively, and its recorded value was \$605.2 million and \$584.6 million, respectively. A 1% increase from prevailing interest rates at June 30, 2010 and December 31, 2009 would result in a decrease in fair value of total debt

of approximately \$36.8 million and \$17.1 million, respectively. Fair values were determined, based on level 2 inputs, using discounted cash flow analyses with an interest rate or credit spread similar to that of current market borrowing arrangements.

#### **Item 4. Controls and Procedures**

##### *Tanger Factory Outlet Centers, Inc. Controls and Procedures*

Based on the most recent evaluation, the Company's Chief Executive Officer and Chief Financial Officer, have concluded the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective as of June 30, 2010. There were no changes to the Company's internal controls over financial reporting during the quarter ended June 30, 2010, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

##### *Tanger Properties Limited Partnership Controls and Procedures*

Based on the most recent evaluation, the Chief Executive Officer of the Operating Partnership's general partner, and the Vice-President, Treasurer and Assistant Secretary (Principal Financial and Accounting Officer) of the Operating Partnership's general partner, have concluded the Operating Partnership's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective as of June 30, 2010. There were no changes to the Operating Partnership's internal controls over financial reporting during the quarter ended June 30, 2010, that materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

Neither the Company nor the Operating Partnership is presently involved in any material litigation nor, to their knowledge, is any material litigation threatened against the Company or the Operating Partnership or its properties, other than routine litigation arising in the ordinary course of business and which is expected to be covered by liability insurance.

#### **Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of our Annual Reports on Form 10-K for the year ended December 31, 2009.

#### **Item 6. Exhibits**

32.3 Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002 for Tanger Properties Limited Partnership.

32.4 Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002 for Tanger Properties Limited Partnership.

#### Interactive Data File

The following financial statements from Tanger Factory Outlet Centers, Inc. and Tanger Properties Limited Partnership's dual Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, formatted in XBRL:

(i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Operations (unaudited), (iii) Consolidated Statements of Cash Flows (unaudited), and (iv) Notes to Consolidated Financial Statements (unaudited), tagged as blocks of text.

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In accordance with Rule 406T of Regulation S-T, this interactive file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

#### SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrants has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

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