

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
-----

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1998

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NO. 1-11986

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

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

1400 WEST NORTHWOOD STREET, GREENSBORO, NORTH CAROLINA 27408  
(Address of principal executive offices)  
(Zip code)

(336) 274-1666  
(Registrant's telephone number, including area code)

-----  
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No \_\_\_\_\_

7,900,040 shares of Common Stock,  
\$.01 par value, outstanding as of July 31, 1998

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TANGER FACTORY OUTLET CENTERS, INC.

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

ENDED	THREE MONTHS ENDED		SIX MONTHS
	1998	JUNE 30, 1997	JUNE 30, 1998
1997			
-----			
		(Unaudited)	(Unaudited)
--		-----	-----
<S> <C>			
REVENUES			
Base rentals	\$16,469	\$13,710	\$32,124
\$26,958			
Percentage rentals	381	305	875
703			
Expense reimbursements	7,125	6,202	13,485
11,599			
Other income	375	239	672
421			
-----			
Total revenues	24,350	20,456	47,156
39,681			
-----			
EXPENSES			
Property operating	7,397	6,523	14,049
12,148			
General and administrative	1,640	1,504	3,339
3,028			
Interest	5,433	3,957	10,225
7,779			
Depreciation and amortization	5,545	4,615	10,679
8,904			
-----			
Total expenses	20,015	16,599	38,292
31,859			
-----			
INCOME BEFORE GAIN ON SALE OF REAL ESTATE, MINORITY INTEREST AND EXTRAORDINARY ITEM	4,335	3,857	8,864
7,822			
Gain on sale of real estate	---	---	994
---			
-----			
INCOME BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEM	4,335	3,857	9,858
7,822			
Minority interest	(1,070)	(1,043)	(2,478)
(2,150)			
-----			
INCOME BEFORE EXTRAORDINARY ITEM	3,265	2,814	7,380
5,672			
Extraordinary item - Loss on early extinguishment of debt, net of minority interest of \$128	---	---	(332)
---			
-----			
NET INCOME	\$3,265	\$2,814	\$7,048
\$5,672			
=====	=====	=====	=====
=====			
BASIC EARNINGS PER COMMON SHARE			
Income before extraordinary item	\$ .35	\$ .34	\$ .82
\$.71			

Extraordinary item	---	---	(.05)
---			
-----	-----	-----	-----
Net income	\$ .35	\$ .34	\$ .77
.71			
=====	=====	=====	=====
DILUTED EARNINGS PER COMMON SHARE:			
Income before extraordinary item	\$ .34	\$ .34	\$ .80
\$ .70			
Extraordinary item	---	---	(.04)
---			
-----	-----	-----	-----
Net income	\$ .34	\$ .34	\$ .76
\$ .70			
=====	=====	=====	=====
DIVIDENDS PAID PER COMMON SHARE	\$ .60	\$ .55	\$ 1.15
\$1.07			
=====	=====	=====	=====
</TABLE>			

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

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TANGER FACTORY OUTLET CENTERS, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share data)

<TABLE>  
<CAPTION>  
<S>      <C>

	JUNE 30, 1998	DECEMBER 31, 1997
---	-----	-----
	(Unaudited)	
ASSETS		
Rental property		
Land	\$49,036	
\$48,059		
Buildings, improvements and fixtures	427,960	
379,842		
Developments under construction	3,457	
26,807		
---	-----	-----
	480,453	
454,708		
Accumulated depreciation	(73,887)	
(64,177)		
---	-----	-----
Rental property, net	406,566	
390,531		
Cash and cash equivalents	2,956	
3,607		
Deferred charges, net	8,707	
8,651		
Other assets	14,178	
13,225		
---	-----	-----
TOTAL ASSETS	\$432,407	
\$416,014		
=====	=====	
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Long-term debt		
Senior, unsecured notes	\$150,000	
\$150,000		
Mortgages payable	73,434	
74,050		
Lines of credit	33,400	
5,000		
---	-----	-----

229,050	256,834
Construction trade payables	6,924
12,913	
Accounts payable and accrued expenses	11,265
13,526	
---	-----
TOTAL LIABILITIES	275,023
255,489	-----
---	-----
Commitments	
Minority interest	37,477
38,406	-----
---	-----
SHAREHOLDERS' EQUITY	
Preferred shares, \$.01 par value, 1,000,000 shares authorized, 89,310 and 90,689 shares issued and outstanding at June 30, 1998 and December 31, 1997	1
1	
Common shares, \$.01 par value, 50,000,000 shares authorized, 7,897,878 and 7,853,936 shares issued and outstanding at June 30, 1998 and December 31, 1997	79
78	
Paid in capital	137,732
137,020	
Distributions in excess of net income	(17,905)
(14,980)	-----
---	-----
TOTAL SHAREHOLDERS' EQUITY	119,907
122,119	-----
---	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$432,407
\$416,014	=====

=====

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

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TANGER FACTORY OUTLET CENTERS, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

<TABLE>		
<CAPTION>		
<S>	<C>	
	SIX MONTHS ENDED	
	JUNE 30,	
	1998	
1997	-----	
----		
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	\$7,048	
\$5,672		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,679	
8,904		
Amortization of deferred financing costs	542	
504		
Minority interest	2,350	
2,150		
Loss on early extinguishment of debt	460	-
--		
Gain on sale of real of estate	(994)	
---		
Straight-line base rent adjustment	(470)	
(207)		
Compensation under Unit Option Plan	168	
169		
Increase (decrease) due to changes in:		
Other assets	(793)	
(469)		
Accounts payable and accrued expenses	(2,261)	
(184)	-----	

----		
16,539	NET CASH PROVIDED BY OPERATING ACTIVITIES	16,729
		-----
----		
INVESTING ACTIVITIES		
Acquisition of rental properties	(17,000)	
(18,000)		
Additions to rental properties	(16,298)	
(23,010)		
Additions to deferred lease costs	(1,313)	
(1,015)		
Net proceeds from sale of real estate	2,411	-
--		
		-----
----		
(42,025)	NET CASH USED IN INVESTING ACTIVITIES	(32,200)
		-----
----		
FINANCING ACTIVITIES		
Cash dividends paid	(9,973)	
(8,091)		
Distributions to minority interest	(3,488)	
(3,245)		
Proceeds from notes payable	---	
----		
Repayments on notes payable	(616)	
(564)		
Proceeds from revolving lines of credit	56,190	
61,875		
Repayments on revolving lines of credit	(27,790)	
(24,425)		
Additions to deferred financing costs	(257)	
(46)		
Proceeds from exercise of unit options	754	-
--		
		-----
----		
25,504	NET CASH PROVIDED BY FINANCING ACTIVITIES	14,820
		-----
----		
Net increase (decrease) in cash and cash equivalents	(651)	
18		
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,607	
2,585		
		-----
----		
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$2,956	
\$2,603		
		=====

=====

</TABLE>

#### Supplemental schedule of non-cash investing activities:

The Company purchases capital equipment and incurs costs relating to construction of new facilities, including tenant finishing allowances. Expenditures included in construction trade payables as of June 30, 1998 and 1997 amounted to \$6,924 and \$13,226, respectively.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

#### TANGER FACTORY OUTLET CENTERS, INC. AND SUBSIDIARY

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1998

(In thousands, except per share and square feet data)

(Unaudited)

#### 1. INTERIM FINANCIAL STATEMENTS

The unaudited Consolidated Financial Statements of Tanger Factory Outlet Centers, Inc., a North Carolina corporation (the "Company"), have been prepared pursuant to generally accepted accounting principles and should be read in conjunction with the Financial Statements and Notes thereto of the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 1997. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the Securities and Exchange Commission's ("SEC") rules and regulations, although management believes that the disclosures are

adequate to make the information presented not misleading.

The accompanying Consolidated Financial Statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements. All such adjustments are of a normal and recurring nature.

## 2. ACQUISITIONS, DISPOSITIONS AND DEVELOPMENT OF RENTAL PROPERTIES

On March 31, 1998, the Company completed the acquisition of Dalton Factory Stores, a factory outlet center in Dalton, GA containing approximately 173,000 square feet, for an aggregate purchase price of \$17,000. The acquisition was accounted for using the purchase method whereby the purchase price was allocated to assets acquired based on their fair values. The results of operations of the acquired property have been included in the consolidated results of operations since the acquisition date.

On March 31, 1998, the Company also completed the sale of its 8,000 square foot, single tenant property in Manchester, VT for \$1,850 and the sale of two outparcels at other centers for sales prices aggregating \$690. As a result of these dispositions, the Company recognized a gain on sale of real estate of \$994 for the six months ended June 30, 1998.

During the first six months, the Company placed in service the related assets of the expansions which were significantly underway at December 31, 1997 totaling approximately 297,000 square feet. As a result, the balance sheet caption Developments under Construction decreased from \$26,807 as of December 31, 1997 to \$3,457 at June 30, 1998. In addition, the Company has begun construction on additional expansions to the properties in Branson, MO (25,000 square feet) and Sevierville, TN (96,000 square feet). Commitments to complete construction of the expansions to the existing properties and other capital expenditure requirements amounted to approximately \$800 at June 30, 1998. Commitments for construction represent only those costs contractually required to be paid by the Company.

Interest costs capitalized during the three months ended June 30, 1998 and 1997 amounted to \$63 and \$651, respectively, and during the six months ended June 30, 1998 and 1997 amounted to \$399 and \$1,052, respectively.

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## 3. LONG-TERM DEBT

During the first six months, the Company amended certain of its unsecured lines of credit to increase the maximum borrowing capacity by an aggregate amount of \$25,000. In addition, the Company terminated its \$50,000 secured line of credit and expensed the related unamortized deferred financing costs, recognizing an extraordinary loss, net of minority interest, of \$332 in the accompanying statements of operations.

At June 30, 1998, the Company had revolving lines of credit with an unsecured borrowing capacity of \$100,000, of which \$66,600 was available for additional borrowings.

## 4. INCOME PER SHARE

The following table sets forth a reconciliation of the numerators and denominators in computing earnings per share in accordance with STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 128, which the Company adopted in its financial statements for the year ended December 31, 1997.

<TABLE>

<CAPTION>

ENDED	THREE MONTHS ENDED		SIX MONTHS
	JUNE 30, 1998	1997	JUNE 30, 1998
1997			
-----			
<S>      <C>			
BASIC EARNINGS PER SHARE			
Income before extraordinary item	\$3,265	\$2,814	\$7,380
\$5,672			
Less: Preferred Share dividends	(484)	(496)	(952)
(908)			
-----			
Income available to common shareholders	\$2,781	\$2,318	\$6,428
\$4,764			
Weighted average Common Shares	7,883	6,743	7,871
6,725			

-----			
Basic earnings per share	\$ .35	\$ .34	\$ .82
\$ .71			
=====			
DILUTED EARNINGS PER SHARE			
Income before extraordinary item	\$3,265	\$2,814	\$7,380
\$5,672			
Less: Preferred Share dividends	(484)	(496)	(952)
(908)			
-----			
Income available to common shareholders	\$2,781	\$2,318	\$6,428
\$4,764			
-----			
Shares:			
Weighted average Common Shares	7,883	6,743	7,871
6,725			
Effect of outstanding share and unit options	193	73	186
68			
-----			
Weighted average Common Shares plus			
assumed conversions	8,076	6,816	8,057
6,793			
-----			
Diluted earnings per share	\$ .34	\$ .34	\$ .80
\$ .70			

</TABLE>

Options to purchase Common Shares which were excluded from the computation of diluted earnings per share because the exercise price was greater than the average market price of the Common Shares totaled 6 and 129 for both the three and six months ended June 30, 1998 and 1997, respectively. The assumed conversion of Preferred Shares to Common Shares as of the beginning of the year would have been anti-dilutive. The assumed conversion of the partnership Units held by the limited partner as of the beginning of the year, which would result in the elimination of earnings allocated to the minority interest, would have no impact on earnings per share since the allocation of earnings to a partnership Unit is equivalent to earnings allocated to a Common Share.

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### 5. SUBSEQUENT EVENTS

On July 31, 1998, the Company completed the acquisition of Sanibel Factory Stores, a factory outlet center on the Gulf coast of Florida between Fort Myers and Sanibel Island containing approximately 186,000 square feet, for a purchase price of \$27.65 million. The acquisition will be accounted for using the purchase method whereby the purchase price is allocated to assets acquired based on their fair values. The acquisition was financed primarily with additional borrowings under available lines of credit.

In addition, on July 30, 1998, the Company's Board of Directors declared a distribution of one Preferred Share Purchase Right (a "Right") for each then outstanding Common Share of the Company. The Rights and the redemption price are payable to shareholders of record on August 27, 1998.

Each Right will entitle shareholders to buy one one-hundredth of a share of a new series of Junior Participating Preferred Shares of the Company at an exercise price of \$120. The Rights will expire on August 26, 2008.

Under certain circumstances, if an acquiring person or group acquires 15% or more of the Company's outstanding Common Shares, an exercisable Right will entitle its holder (other than the acquirer) to buy, at the Right's then-current exercise price, Common Shares of the Company having a market value of two times the exercise price of one Right. If an acquirer acquires at least 15%, but less than 50%, of the Company's Common Shares, the Board may exchange each Right (other than those of the acquirer) for one Common Share (or one one-hundredth of a Class B Preferred Share) per Right. In addition, under certain circumstances, if the Company is involved in a merger or other business combination where it is not the surviving corporation, an exercisable Right will entitle its holder to buy, at the Right's then-current exercise price, Common Shares of the acquiring company having a market value of two times the exercise price of one Right. The Company may redeem the Rights at \$.01 per Right at any time prior to a person or group acquiring a 15% position.

The Rights were not adopted in response to any specific takeover threat.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### CAUTIONARY STATEMENTS

Certain statements contained in the discussion below, including, without limitation, statements containing the words "believes," "anticipates," "expects," and words of similar import, constitute "forward-looking statements" within the meaning of the Private Securities Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: the effects of future events on the Company's financial performance; the risk that the Company may not be able to finance its planned development, acquisition and expansion activities; risks related to the retail industry in which the Company's outlet centers compete, including the potential adverse impact of external factors such as inflation, tenant demand for space, consumer confidence, unemployment rates and consumer tastes and preferences; risks associated with the Company's development, acquisition and expansion activities, such as the potential for cost overruns, delays and lack of predictability with respect to the financial returns associated with these development activities; the risk of potential increase in market interest rates from current rates; risks associated with real estate ownership, such as the potential

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adverse impact of changes in the local economic climate on the revenues and the value of the Company's properties; and the risks that a significant number of tenants may become unable to meet their lease obligations or that the Company may be unable to renew or re-lease a significant amount of available space on economically favorable terms. Given these uncertainties, current and prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

### OVERVIEW

The discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and Notes thereto. Historical results and percentage relationships set forth in the Consolidated Statements of Operations, including trends which might appear, are not necessarily indicative of future operations.

The discussion of the Company's results of operations reported in the Consolidated Statements of Operations compares the three and six months ended June 30, 1998 with the three and six months ended June 30, 1997. Certain comparisons between the periods are also made on a percentage basis as well as on a weighted average gross leasable area ("GLA") basis, a technique which adjusts for certain increases or decreases in the number of centers and corresponding square feet related to the development, acquisition, expansion or disposition of rental properties. The computation of weighted average GLA, however, does not adjust for fluctuations in occupancy since GLA is not reduced when original occupied space subsequently becomes vacant.

The Company continues to grow principally through acquisitions and expansions of existing factory outlet centers. On March 31, 1998, the Company completed the acquisition of Dalton Factory Stores, a factory outlet center in Dalton, GA, containing approximately 173,000 square feet, for an aggregate purchase price of \$17 million. On March 31, 1998, the Company also completed the sale of its 8,000 square foot, single tenant property in Manchester, VT for \$1.85 million.

During the first six months, the Company placed in service the related assets of the expansions which were significantly underway at December 31, 1997 totaling approximately 297,000 square feet. As a result, the balance sheet caption Developments under Construction decreased from \$26.8 million as of December 31, 1997 to \$3.5 million at June 30, 1998. In addition, the Company has begun construction on additional expansions to the properties in Branson, MO (25,000 square feet) and Sevierville, TN (96,000 square feet).

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A summary of the operating results for three and six months ended June 30, 1998 and 1997, calculated on a weighted average GLA basis, is presented in the following table.

<TABLE>  
<CAPTION>

Three Months Ended

Six Months Ended



	June 30, 1998	1997	June 30, 1998	
1997				
---				
<S> <C>				
GLA at end of period (000's)	4,734	3,993	4,734	
3,993				
Weighted Average GLA(a) (000's)	4,729	3,917	4,615	
3,850				
Outlet centers in operation	30	28	30	
28				
New centers opened	---	---	---	-
--				
New centers acquired	---	---	1	
1				
Centers sold	---	---	1	-
--				
Centers expanded	---	1	---	
1				
States operated in at end of period	22	22	22	
22				
Per square foot				
Revenues				
Base rentals	\$3.48	\$3.50	\$6.96	
\$7.00				
Percentage rentals	.08	.08	.19	
.18				
Expense reimbursements	1.51	1.58	2.92	
3.01				
Other income	.08	.06	.15	
.11				
---				
Total revenue	5.15	5.22	10.22	
10.30				
---				
Expenses				
Property operating	1.56	1.67	3.04	
3.16				
General and administrative	.35	.38	.72	
.79				
Interest	1.15	1.01	2.22	
2.02				
Depreciation and amortization	1.17	1.18	2.31	
2.31				
---				
Total expenses	4.23	4.24	8.29	
8.28				
---				
Income before gain on sale of real estate, minority interest and extraordinary item	\$0.92	\$0.98	\$1.93	
\$2.02				

(A) GLA WEIGHTED BY MONTHS OF OPERATIONS. GLA IS NOT ADJUSTED FOR FLUCTUATIONS IN OCCUPANCY AS IT IS NOT REDUCED WHEN ORIGINAL OCCUPIED SPACE SUBSEQUENTLY BECOMES VACANT.

</TABLE>

#### RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS ENDED JUNE 30, 1998 TO THE THREE MONTHS ENDED JUNE 30, 1997

Base rentals increased \$2.8 million, or 20%, in the 1998 period when compared to the same period in 1997 primarily as a result of a 21% increase in weighted average GLA. The increase in weighted average GLA is due to the acquisitions in October 1997 (180,000 square feet) and March 1998 (173,000 square feet), as well as expansions completed in the fourth quarter of 1997 and first quarter 1998. The decrease in base rentals per weighted average GLA of \$.02 in the three months ended June 30, 1998 compared to the same period in 1997 reflects the impact of these acquisitions, which collectively have a lower average base rental rate per square

foot. Base rentals per weighted average GLA, excluding these acquisitions, during the 1998 period remained level with the 1997 period at \$3.50 per square foot.

Percentage rentals, which represent revenues based on a percentage of tenants' sales volume above predetermined levels (the "breakpoint"), increased \$76,000, or 25%, due primarily to the expansions completed in 1997. On a weighted average GLA basis, percentage rentals were level with the prior year.

Expense reimbursements, which represent the contractual recovery from tenants of certain common area maintenance, insurance, property tax, promotional, advertising and management expenses generally fluctuates consistently with the reimbursable property operating expenses to which it relates. Expense reimbursements, expressed as a percentage of property operating expenses, increased slightly from 95% in the 1997 period to 96% in the 1998 period.

Property operating expenses increased by \$874,000, or 13%, in the 1998 period as compared to the 1997 period but, on a weighted average GLA basis, decreased \$.11 per square foot to \$1.56 from \$1.67. The decrease was primarily due to a decrease in expenses for advertising and promotion and common area maintenance incurred during the 1998 period compared to the 1997 period.

General and administrative expenses increased \$136,000, or 9%, in the 1998 quarter as compared to the 1997 quarter. As a percentage of revenues, general and administrative expenses decreased in the 1998 period compared to the 1997 period from 7.4% to 6.7%, and on a weighted average GLA basis, decreased \$.03 per square foot to \$.35 in 1998.

Interest expense increased \$1.5 million during the 1998 period as compared to the 1997 period due to higher average borrowings outstanding during the period and due to less interest capitalized during the 1998 period as a result of a decrease in ongoing construction activity relative to the 1997 period. Average borrowings have increased principally to finance the acquisitions and expansions to existing centers (see "Overview" above). Depreciation and amortization per weighted average GLA decreased slightly from \$1.18 per square foot in the 1997 period to \$1.17 per square foot in the 1998 period.

#### COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 1998 TO THE SIX MONTHS ENDED JUNE 30, 1997

Base rentals increased \$5.2 million, or 19%, in the 1998 period when compared to the same period in 1997 primarily as a result of a 20% increase in weighted average GLA. The increase in weighted average GLA is due to the acquisitions in February 1997 (approximately 123,000 square feet), October 1997 (180,000 square feet) and March 1998 (173,000 square feet), as well as expansions completed in the fourth quarter of 1997 and first quarter 1998. The decrease in base rentals per weighted average GLA of \$.04 in the first six months of 1998 compared to the same period in 1997 reflects the impact of these acquisitions, which collectively have a lower average base rental rate per square foot. Base rentals per weighted average GLA, excluding these acquisitions, during the 1998 period remained level with the 1997 period at \$7.00 per square foot.

Percentage rentals increased \$172,000, or 24%, due to the acquisitions and expansions completed in 1997. On a weighted average GLA basis, percentage rentals increased slightly from \$.18 to \$.19 per square foot. For the six months ended June 30, 1998, reported same-store sales, defined as the weighted average sales per square foot reported by tenants for stores open since January 1, 1997, were level with that of the previous year. Total tenant sales for all centers increased approximately 21% for the first six months in 1998 to \$422 million compared to \$348 million for the same period in 1997.

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Expense reimbursements, which represent the contractual recovery from tenants of certain common area maintenance, insurance, property tax, promotional, advertising and management expenses generally fluctuates consistently with the reimbursable property operating expenses to which it relates. Expense reimbursements, expressed as a percentage of property operating expenses, remained level at 96% in each of the 1998 and 1997 periods.

Property operating expenses increased by \$1.9 million, or 16%, in the 1998 period as compared to the 1997 period but, on a weighted average GLA basis, decreased \$.12 per square foot to \$3.04 from \$3.16. The decrease is primarily due to improved operating efficiencies and lower other non-reimbursable operating costs per square foot.

General and administrative expenses increased \$311,000, or 10%, in the 1998 quarter as compared to the 1997 quarter. As a percentage of revenues, general and administrative expenses decreased from approximately 7.6% of revenues in the 1997 period to 7.1% in the 1998 period and, on a weighted average GLA basis, decreased \$.07 per square foot to \$.72 in 1998.

Interest expense increased \$2.4 million during the 1998 period as compared to the 1997 period due to higher average borrowings outstanding during the period and due to less interest capitalized during the 1998 period as a result of a decrease in ongoing construction activity relative to the 1997 period. Average borrowings have increased principally to finance the acquisitions and expansions to existing centers (see "Overview" above). Depreciation and amortization per

weighted average GLA remained level in the 1998 period when compared with the 1997 period at \$2.31 per square foot.

The gain on sale of real estate for the six months ended June 30, 1998 represents the sale of an 8,000 square foot, single tenant property in Manchester, VT for \$1.85 million and the sale of two outparcels at other centers for sales prices aggregating \$690,000.

The extraordinary loss for the six months ended June 30, 1998 represents a write-off of the unamortized deferred financing costs due to the termination of a \$50 million secured line of credit.

#### LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$16.7 and \$16.5 million for the six months ended June 30, 1998 and 1997, respectively. Net cash used in investing activities amounted to \$32.2 and \$42.0 million during the first six months of 1998 and 1997, respectively, reflecting lower levels of construction activity in the 1998 period compared to the 1997 period. The net decrease in the 1998 period is also attributable to the proceeds received from the sale of one factory outlet center and two outparcels located at other existing centers. Net cash from financing activities amounted to \$14.8 and \$25.5 million during the first six months of 1998 and 1997, respectively, and has decreased consistently with the capital needs of the current acquisition and expansion activity. The net decrease of \$10.7 million in the 1998 period compared with the 1997 period also reflects additional dividends paid as a result of additional Common Shares outstanding and a \$.08 per share increase in the quarterly dividend distributions.

During the first six months, the Company placed in service the related assets of the expansions which were significantly underway at December 31, 1997 totaling approximately 297,000 square feet. As a result, the balance sheet caption Developments under Construction decreased from \$26.8 million as of December 31, 1997 to \$3.5 million at June 30, 1998. In addition, the Company has begun construction on additional expansions to the properties in Branson, MO (25,000 square feet) and Sevierville, TN (96,000 square feet). Commitments to complete construction of the expansions to the existing properties and other capital

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expenditure requirements amounted to approximately \$800,000 at June 30, 1998. Commitments for construction represent only those costs contractually required to be paid by the Company.

The Company also is in the process of developing plans for additional expansions and new centers for completion in 1999 and beyond and will consider other acquisitions that are suitable for its portfolio. The Company is continuing the preleasing of two planned sites located in Concord, North Carolina (Charlotte) and Romulus, Michigan (Detroit). However, there can be no assurance that any of these anticipated or planned developments or expansions will be started or completed as scheduled, or that any development or expansion will result in accretive funds from operations. In addition, the Company regularly evaluates acquisition proposals, engages from time to time in negotiations for acquisitions and may from time to time enter into letters of intent for the purchase of properties. No assurance can be given that any of the prospective acquisitions that are being evaluated or which are subject to a letter of intent will be consummated, or if consummated, will result in accretive funds from operations.

Management intends to continually have access to the capital resources necessary to expand and develop its business and, accordingly, may seek to obtain additional funds through equity offerings or debt financing. The Company has an active shelf registration with the SEC providing for the issuance of up to \$100 million in additional equity securities and \$100 million in additional debt securities. In addition, the Company maintains revolving lines of credit which provide for unsecured borrowings of up to \$100 million, of which \$66.6 million was available for additional borrowings as of June 30, 1998. Subsequent to June 30, 1998, the Company used a portion of these available borrowings to finance the acquisition of Sanibel Factory Stores, which was acquired for a purchase price of \$27.65 million. Based on existing credit facilities, ongoing negotiations with certain financial institutions and funds available under the shelf registration, management believes that the Company has access to the necessary financing to fund the planned remaining capital expenditures during 1998.

Management is continuing its strategy of unencumbering the Company's real estate assets to improve its access to capital with more favorable interest rates. During the first six months of 1998, the Company terminated a \$50 million secured line of credit and increased the unsecured lines of credit by \$25 million. At June 30, 1998, approximately 71% of the outstanding long-term debt represented unsecured borrowings and approximately 78% of the Company's real estate portfolio was unencumbered. The weighted average interest rate on debt outstanding on June 30, 1998 was 8.4%.

The Company anticipates that adequate cash will be available to fund its

operating and administrative expenses, regular debt service obligations, and the payment of dividends in accordance with REIT requirements in both the short and long term. Although the Company receives most of its rental payments on a monthly basis, distributions are made quarterly. Amounts accumulated for distribution will be used to reduce the outstanding borrowings under the existing lines of credit or invested in short-term money market or other suitable instruments. Certain of the Company's debt agreements or instruments limit the payment of dividends such that dividends will not exceed funds from operations ("FFO"), as defined in the agreements, on an annual basis or 95% of FFO on a cumulative basis from the date of the agreement.

On July 9, 1998, the Board of Directors of the Company declared a \$.60 cash dividend per common share payable on August 14, 1998 to each shareholder of record on July 30, 1998, and caused a \$.60 per Operating Partnership unit cash distribution to be paid to the minority interests. The Board of Directors of the Company also declared a cash dividend of \$.5406 per preferred depositary share payable on August 14, 1998 to each shareholder of record on July 30, 1998.

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#### NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 requires public business enterprises to adopt its provisions for fiscal years beginning after December 15, 1997, and to report certain information about operating segments in complete sets of financial statements of the enterprise issued to shareholders. Segment disclosures will also be required in interim financial statements beginning in the second year of application. The Company is evaluating the provisions of SFAS No. 131, and has determined the impact, if any, will not be significant to the financial statements.

In May 1998, the Emerging Issues Task Force of the FASB reached a consensus on Issue 98-9, "Accounting for Contingent Rent in Interim Financial Periods". The consensus states that a lessor should defer recognition of contingent rental income until specified targets that trigger the contingent rent are met. Since the Company is currently, and has historically followed this practice when recognizing percentage rental income, the adoption of this consensus is expected to have no impact on the Company's current accounting practices.

On June 15, 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities (FAS 133)". FAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. FAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. Management of the Company anticipates that, due to its limited use of derivative instruments, the adoption of FAS 133 will not have a significant effect on the Company's results of operations or its financial position.

#### FUNDS FROM OPERATIONS

Management believes that to facilitate a clear understanding of the consolidated historical operating results of the Company, FFO should be considered in conjunction with net income as presented in the unaudited consolidated financial statements included elsewhere in this report. FFO is presented because it is a widely accepted financial indicator used by certain investors and analysts to analyze and compare one equity real estate investment trust ("REIT") with another on the basis of operating performance. FFO is generally defined as net income (loss), computed in accordance with generally accepted accounting principles, before extraordinary items and gains (losses) on sale of properties, plus depreciation and amortization uniquely significant to real estate. The Company cautions that the calculation of FFO may vary from entity to entity and as such the presentation of FFO by the Company may not be comparable to other similarly titled measures of other reporting companies. FFO does not represent net income or cash flow from operations as defined by generally accepted accounting principles and should not be considered an alternative to net income as an indication of operating performance or to cash from operations as a measure of liquidity. FFO is not necessarily indicative of cash flows available to fund dividends to shareholders and other cash needs.

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Below is a computation of FFO for the three and six months ended June 30, 1998 and 1997 as well as actual cash flow and other data for those respective periods:

<TABLE>  
<CAPTION>  
<S>      <C>

THREE MONTHS ENDED  
JUNE 30

SIX MONTHS ENDED  
JUNE 30

-----

	1998	1997	1998
1997			
-----	-----	-----	-----
			(In thousands)
Income before gain on sale or real estate, minority interest and extraordinary item \$7,822	\$4,335	\$3,857	\$8,864
Adjusted for depreciation and amortization uniquely significant to real estate 8,811	5,503	4,574	10,589
-----	-----	-----	-----
Funds from operations before minority interest \$16,633	\$9,838	\$8,431	\$19,453
=====			
Diluted weighted average shares outstanding(1) 10,663	11,915	10,667	11,900
=====			
Cash flows provided by (used in):			
Operating activities 16,539			\$ 16,729
Investing activities \$(42,025)			\$ (32,200)
Financing activities 25,504			\$ 14,820
</TABLE>			\$

(1) ASSUMES THE OPERATING PARTNERSHIP UNITS HELD BY THE MINORITY INTEREST, PREFERRED SHARES OF THE COMPANY AND STOCK AND UNIT OPTIONS ARE CONVERTED TO COMMON SHARES OF THE COMPANY.

#### ECONOMIC CONDITIONS AND OUTLOOK

Substantially all of the Company's leases contain provisions designed to mitigate the impact of inflation. Such provisions include clauses for the escalation of base rent and clauses enabling the Company to receive percentage rentals based on tenants' gross sales (above predetermined levels, which the Company believes 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, advertising and promotion, thereby reducing exposure to increases in costs and operating expenses resulting from inflation.

Approximately 168,000 square feet of space is up for renewal during the remaining part of 1998 and approximately 733,000 square feet will come up for renewal in 1999. In addition, 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. There can be no assurance that any tenant whose lease expires will renew such lease or that renewals or terminated leases will be released on economically favorable terms. Also, certain tenants have requested, or may request, and management may grant, from time to time, a reduction in rent to remain in operation.

The Company's portfolio is currently 97% leased. Existing tenants' sales have remained stable and renewals by existing tenants have remained strong. In addition, the Company has continued to attract and retain additional tenants. The Company's factory outlet centers typically include well known, national, brand name companies. By maintaining a broad base of credit tenants and a geographically diverse portfolio of properties located across the United States, the Company reduces its operating and leasing risks. No one tenant (including affiliates) accounts for more than 10% of the Company's combined base and percentage rental revenues. Accordingly, management currently does not expect any material adverse impact on the Company's results of operation and financial condition as a result of leases to be renewed or stores to be released.

The Company has evaluated its computer systems and applications for potential software failures as a result of recognizing the year 2000 and beyond. Most of the systems are compliant with the year 2000, or will be with normal upgrades currently available to the Company. Therefore, the Company believes the costs to bring the remaining systems and applications in compliance will be insignificant. While the Company believes its planning efforts are adequate to address its Year 2000 concerns, there can be no guarantee that the systems of other companies on which the Company's systems and operations rely will be converted on a timely basis and will not have a material effect on the Company's results of operations or financial condition.

#### CONTINGENCIES

There are no recorded amounts resulting from environmental liabilities as there are no known material loss contingencies with respect thereto. Future claims for environmental liabilities are not measurable given the uncertainties surrounding whether there exists a basis for any such claims to be asserted and, if so, whether any claims will, in fact, be asserted. Furthermore, no condition is known to exist that would give rise to a material environmental liability for site restoration, post-closure and monitoring commitments, or other costs that may be incurred upon the sale or disposal of a property. Management has no plans to abandon any of the properties and is unaware of any other material loss contingencies.

## 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 the liability insurance.

### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On July 30, 1998, the Company's Board of Directors declared a distribution of one Preferred Share Purchase Right (a "Right") for each then outstanding Common Share of the Company. The Rights and the redemption price are payable to shareholders of record on August 27, 1998.

Each Right will entitle shareholders to buy one one-hundredth of a share of a new series of Junior Participating Preferred Shares of the Company at an exercise price of \$120. The Rights will expire on August 26, 2008.

Under certain circumstances, if an acquiring person or group acquires 15% or more of the Company's outstanding Common Shares, an exercisable Right will entitle its holder (other than the acquirer) to buy, at the Right's then-current exercise price, Common Shares of the Company having a market value of two times the exercise price of one Right. If an acquirer acquires at least 15%, but less than 50%, of the Company's Common Shares, the Board may exchange each Right (other than those of the acquirer) for one Common Share (or one one-hundredth of a Class B Preferred Share) per Right. In addition, under certain circumstances, if the Company is involved in a merger or other business combination where it is not the surviving corporation, an exercisable Right will entitle its holder to buy, at the Right's then-current exercise price, Common Shares of the acquiring company having a market value of two times the exercise price of one Right. The Company may redeem the Rights at \$.01 per Right at any time prior to a person or group acquiring a 15% position.

The Rights were not adopted in response to any specific takeover threat.

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### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 8, 1998, the Company held its Annual Meeting of Shareholders. The matters on which common shareholders voted were the election of five directors to serve until the next Annual Meeting of Shareholders; to ratify the amendment and restatement of the Share Option Plan and the Unit Option Plan (the "Plans") in order to (i) reflect amendments previously approved by shareholders, (ii) conform the Plans to changes to Rule 16b-3 of the Exchange Act with respect to Options granted to officers and directors of the Company, (iii) permit the grant of Options intended to qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code, (iv) permit discretionary Option grants to Independent Directors and (v) amend the Plans in certain other respects; and the ratification of an amendment to the 1993 Share Option Plan and the 1993 Unit Option Plan to increase from 1,500,000 to 1,750,000 the number of Common Shares and Units which may be issued under the Share Option Plan and the Unit Option Plan. The results of the voting are shown below:

#### ELECTION OF DIRECTORS

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Nominees	Votes For	Votes Withheld
-----	-----	-----
Stanley K. Tanger	7,336,119	40,807
Steven B. Tanger	7,336,565	40,361
Jack Africk	7,328,640	48,286
William G. Benton	7,331,842	45,084
Thomas E. Robinson	7,330,642	46,284

#### AMENDMENT AND RESTATEMENT TO SHARE AND UNIT OPTION PLANS

Votes cast for amendment	6,186,628
Votes cast against amendment	1,143,239
Votes abstained	47,058

AMENDMENT TO PLANS TO INCREASE NUMBER OF AVAILABLE SHARES AND UNITS

Votes cast for amendment	5,296,486
Votes cast against amendment	2,033,446
Votes abstained	46,994

</TABLE>

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

None

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SIGNATURES

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

TANGER FACTORY OUTLET CENTERS, INC.

By: /s/ FRANK C. MARCHISELLO, JR.  
-----  
Frank C. Marchisello, Jr.  
Vice President, Chief Financial Officer

DATED: August 10, 1998

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