TANGER FACTORY OUTLET CENTERS INC
Form 10-Q
May 04, 2016

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2016
OR

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

For the transition period from _________ to _________

Commission file number 1-11986 (Tanger Factory Outlet Centers, Inc.)
Commission file number 333-3526-01 (Tanger Properties Limited Partnership)

TANGER FACTORY OUTLET CENTERS, INC.
TANGER PROPERTIES LIMITED PARTNERSHIP
(Exact name of Registrant as specified in its charter)

North Carolina (Tanger Factory Outlet Centers, Inc.)	56-1815473
North Carolina (Tanger Properties Limited Partnership)	56-1822494
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3200 Northline Avenue, Suite 360, Greensboro, NC 27408
(Address of principal executive offices)

(336) 292-3010
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Tanger Factory Outlet Centers, Inc. Yes x No o
Tanger Properties Limited Partnership Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Tanger Factory Outlet Centers, Inc. Yes x No o
Tanger Properties Limited Partnership Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer: and “smaller reporting company” (as defined in Rule 12b-2 of the Securities and Exchange Act of 1934).

Tanger Factory Outlet Centers, Inc.
x Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company
Tanger Properties Limited Partnership
o Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company

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

Tanger Factory Outlet Centers, Inc.	Yes o	No x
Tanger Properties Limited Partnership	Yes o	No x

As of May 2, 2016, there were 96,127,107 common shares of Tanger Factory Outlet Centers, Inc. outstanding, $.01 par value.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended March 31, 2016 of Tanger Factory Outlet Centers, Inc. and Tanger Properties Limited Partnership. Unless the context indicates otherwise, the term "Company", refers to Tanger Factory Outlet Centers, Inc. and subsidiaries and the term "Operating Partnership" refers to Tanger Properties Limited Partnership and subsidiaries. The terms “we”, “our” and “us” refer to the Company or the Company and the Operating Partnership together, as the text requires.

Tanger Factory Outlet Centers, Inc. and subsidiaries is one of the largest owners and operators of outlet centers in the United States and Canada. The Company is a fully-integrated, self-administered and self-managed real estate investment trust ("REIT") which, through its controlling interest in the Operating Partnership, focuses exclusively on developing, acquiring, owning, operating and managing outlet shopping centers. The outlet centers and other assets are held by, and all of the operations are conducted by, the Operating Partnership and its subsidiaries. Accordingly, the descriptions of the business, employees and properties of the Company are also descriptions of the business, employees and properties of the Operating Partnership. As the Operating Partnership is the issuer of our registered debt securities, we are required to present a separate set of financial statements for this entity.

The Company owns the majority of the units of partnership interest issued by the Operating Partnership through its two wholly-owned subsidiaries, Tanger GP Trust and Tanger LP Trust. Tanger GP Trust controls the Operating Partnership as its sole general partner. Tanger LP Trust holds a limited partnership interest. As of March 31, 2016, the Company, through its ownership of Tanger GP Trust and Tanger LP Trust, owned 96,126,507 units of the Operating Partnership and other limited partners (the "Non-Company LPs") collectively owned 5,052,743 Class A common limited partnership units. Each Class A common limited partnership unit held by the Non-Company LPs is exchangeable for one of the Company's common shares, subject to certain limitations to preserve the Company's status as a REIT. Class B common limited partnership units, which are held by Tanger LP Trust, are not exchangeable for common shares of the Company.

Management operates the Company and the Operating Partnership as one enterprise. The management of the Company consists of the same members as the management of the Operating Partnership. These individuals are officers of the Company and employees of the Operating Partnership. The individuals that comprise the Company's Board of Directors are also the same individuals that make up Tanger GP Trust's Board of Trustees.

We believe combining the quarterly reports on Form 10-Q of the Company and the Operating Partnership into this single report results in the following benefits:

- enhancing investors' understanding of the Company and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;

- eliminating duplicative disclosure and providing a more streamlined and readable presentation since a substantial portion of the disclosure applies to both the Company and the Operating Partnership; and

- creating time and cost efficiencies through the preparation of one combined report instead of two separate reports.

There are only a few differences between the Company and the Operating Partnership, which are reflected in the disclosure in this report. We believe it is important, however to understand these differences between the Company and the Operating Partnership in the context of how the Company and the Operating Partnership operate as an interrelated consolidated company.

As stated above, the Company is a REIT, whose only material asset is its ownership of partnership interests of the Operating Partnership through its wholly-owned subsidiaries, the Tanger GP Trust and Tanger LP Trust. As a result, the Company does not conduct business itself, other than issuing public equity from time to time and incurring expenses required to operate as a public company. However, all operating expenses incurred by the Company are reimbursed by the Operating Partnership, thus the only material item on the Company's income statement is its equity in the earnings of the Operating Partnership. Therefore, the assets and liabilities and the revenues and expenses of the Company and the Operating Partnership are the same on their respective financial statements, except for immaterial differences related to cash, other assets and accrued liabilities that arise from public company expenses paid by the Company. The Company itself does not hold any indebtedness but does guarantee certain debt of the Operating Partnership, as disclosed in this report.

The Operating Partnership holds all of the outlet centers and other assets, including the ownership interests in consolidated and unconsolidated joint ventures. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for net proceeds from public equity issuances by the Company, which are contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates the capital required through its operations, its incurrence of indebtedness or through the issuance of partnership units.

Noncontrolling interests, shareholder's equity and partners' capital are the main areas of difference between the consolidated financial statements of the Company and those of the Operating Partnership. The limited partnership interests in the Operating Partnership held by the Non-Company LPs are accounted for as partners' capital in the Operating Partnership's financial statements and as noncontrolling interests in the Company's financial statements.

To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections, as applicable, for each of the Company and the Operating Partnership:

- Consolidated financial statements;
- The following notes to the consolidated financial statements:
- Debt of the Company and the Operating Partnership;
- Shareholders' Equity and Partners' Equity;
- Earnings Per Share and Earnings Per Unit;
- Accumulated Other Comprehensive Income of the Company and the Operating Partnership;
- Liquidity and Capital Resources in the Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report also includes separate Item 4. Controls and Procedures sections and separate Exhibit 31 and 32 certifications for each of the Company and the Operating Partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the Company and

Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

The separate sections in this report for the Company and the Operating Partnership specifically refer to the Company and the Operating Partnership. In the sections that combine disclosure of the Company and the Operating Partnership, this report refers to actions or holdings as being actions or holdings of the Company. Although the Operating Partnership is generally the entity that enters into contracts and joint ventures and holds assets and debt, reference to the Company is appropriate because the business is one enterprise and the Company operates the business through the Operating Partnership.

The Company currently consolidates the Operating Partnership because it has (1) the power to direct the activities of the Operating Partnership that most significantly impact the Operating Partnership’s economic performance and (2) the obligation to absorb losses and the right to receive the residual returns of the Operating Partnership that could be potentially significant. 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 data, unaudited)

	March 31, 2016	December 31, 2015
Assets		
Rental property		
Land	$235,622	$240,267
Buildings, improvements and fixtures	2,219,955	2,249,417
Construction in progress	42,287	23,533
	2,497,864	2,513,217
Accumulated depreciation	(749,325)	(748,341)
Total rental property, net	1,748,539	1,764,876
Cash and cash equivalents	18,877	21,558
Restricted cash	—	121,306
Investments in unconsolidated joint ventures	218,732	201,083
Deferred lease costs and other intangibles, net	123,404	127,089
Prepaids and other assets	81,054	78,913
Total assets	$2,190,606	$2,314,825
Liabilities and Equity		
Liabilities		
Debt		
Senior, unsecured notes, net	$789,635	$789,285
Unsecured term loans, net	258,540	265,832
Mortgages payable, net	167,603	310,587
Unsecured lines of credit, net	259,890	186,220
Total debt	1,475,668	1,551,924
Accounts payable and accrued expenses	67,608	97,396
Deferred financing obligation	—	28,388
Other liabilities	31,758	31,085
Total liabilities	1,575,034	1,708,793
Commitments and contingencies	—	—
Equity		
Tanger Factory Outlet Centers, Inc.		
Common shares, $.01 par value, 300,000,000 shares authorized, 96,126,507 and 95,880,825 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	961	959
Paid in capital	808,779	806,379
Accumulated distributions in excess of net income	(195,654)	(195,486)
Accumulated other comprehensive loss	(29,814)	(36,715)
Equity attributable to Tanger Factory Outlet Centers, Inc.	584,272	575,137
Equity attributable to noncontrolling interests		
Noncontrolling interests in Operating Partnership	30,711	30,309
Noncontrolling interests in other consolidated partnerships	589	586
Total equity	615,572	606,032

Total liabilities and equity	$2,190,606	$2,314,825

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 share data, unaudited)

	Three months ended March 31, 2016	Three months ended March 31, 2015
Revenues		
Base rentals	$72,623	$67,629
Percentage rentals	2,150	2,229
Expense reimbursements	33,242	33,364
Management, leasing and other services	1,121	1,283
Other income	1,669	1,421
Total revenues	110,805	105,926
Expenses		
Property operating	37,874	37,732
General and administrative	11,565	11,305
Depreciation and amortization	26,567	23,989
Total expenses	76,006	73,026
Operating income	34,799	32,900
Other income/(expense)		
Interest expense	(14,884)	(13,089)
Gain on sale of assets and interests in unconsolidated joint ventures	4,887	13,726
Other nonoperating income	316	306
Income before equity in earnings of unconsolidated joint ventures	25,118	33,843
Equity in earnings of unconsolidated joint ventures	3,499	2,543
Net income	28,617	36,386
Noncontrolling interests in Operating Partnership	(1,444)	(1,855)
Noncontrolling interests in other consolidated partnerships	(23)	(19)
Net income attributable to Tanger Factory Outlet Centers, Inc.	$27,150	$34,512
Basic earnings per common share		
Net income	$0.28	$0.36
Diluted earnings per common share		
Net income	$0.28	$0.36
Dividends declared per common share	$0.285	$0.240

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

TANGER FACTORY OUTLET CENTERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands, unaudited)

	Three months ended March 31,	
	2016	2015
Net income	$28,617	$36,386
Other comprehensive income (loss)		
Foreign currency translation adjustments	8,654	(11,076)
Change in fair value of cash flow hedges	(1,386)	(1,287)
Other comprehensive income (loss)	7,268	(12,363)
Comprehensive income	35,885	24,023
Comprehensive income attributable to noncontrolling interests	(1,834)	(1,243)
Comprehensive income attributable to Tanger Factory Outlet Centers, Inc.	$34,051	$22,780

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

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

	Common shares	Paid in capital	Accumulated distributions in excess of earnings	Accumulated other comprehensive loss	Total Tanger Factory Outlet Centers, Inc. equity	Noncontrolling interests in Operating Partnership	Noncontrolling interests in other consolidated partnerships	Total equity
Balance, December 31, 2014	$ 955	$ 791,566	$ (281,679)	$ (14,023)	$ 496,819	$ 26,417	$ 650	$ 523,886
Net income	—	—	34,512	—	34,512	1,855	19	36,386
Other comprehensive loss	—	—	—	(11,732)	(11,732)	(631)	—	(12,363)
Compensation under Incentive Award Plan	—	3,801	—	—	3,801	—	—	3,801
Issuance of 8,300 common shares upon exercise of options	—	233	—	—	233	—	—	233
Issuance of 348,844 restricted common shares	3	(3)	—	—	—	—	—	—
Withholding of 30,578 common shares for employee income taxes	—	(1,084)	—	—	(1,084)	—	—	(1,084)
Adjustment for noncontrolling interests in Operating Partnership	—	(59)	—	—	(59)	59	—	—
Adjustment for noncontrolling interests in other consolidated partnerships	—	198	—	—	198	—	(1)	197
Common dividends ($0.240 per share)	—	—	(22,957)	—	(22,957)	—	—	(22,957)
Distributions to noncontrolling interests	—	—	—	—	—	(1,219)	(29)	(1,248)
Balance, March 31, 2015	$ 958	$ 794,652	$ (270,124)	$ (25,755)	$ 499,731	$ 26,481	$ 639	$ 526,851

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

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

	Common shares	Paid in capital	Accumulated distributions in excess of earnings	Accumulated other comprehensive loss	Total Tanger Factory Outlet Centers, Inc. equity	Noncontrolling interests in Operating Partnership	Noncontrolling interests in other consolidated partnerships	Total equity
Balance, December 31, 2015	$ 959	$ 806,379	$ (195,486)	$ (36,715)	$ 575,137	$ 30,309	$ 586	$ 606,032
Net income	—	—	27,150	—	27,150	1,444	23	28,617
Other comprehensive income	—	—	—	6,901	6,901	367	—	7,268
Compensation under Incentive Award Plan	—	4,230	—	—	4,230	—	—	4,230
Issuance of 4,500 common shares upon exercise of options	—	123	—	—	123	—	—	123
Issuance of 277,524 restricted common shares	3	(3)	—	—	—	—	—	—
Issuance of 24,040 deferred shares	—	—	—	—	—	—	—	—
Withholding of 60,382 common shares for employee income taxes	(1)	(1,920)	—	—	(1,921)	—	—	(1,921)
Adjustment for noncontrolling interests in Operating Partnership	—	(31)	—	—	(31)	31	—	—
Adjustment for noncontrolling interests in other consolidated partnerships	—	1	—	—	1	—	(1)	—
Common dividends ($.285 per share)	—	—	(27,318)	—	(27,318)	—	—	(27,318)
Distributions to noncontrolling interests	—	—	—	—	—	(1,440)	(19)	(1,459)
Balance, March 31, 2016	$ 961	$ 808,779	$ (195,654)	$ (29,814)	$ 584,272	$ 30,711	$ 589	$ 615,572

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

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

	Three months ended March 31, 2016	2015
OPERATING ACTIVITIES		
Net income	$28,617	$36,386
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	26,567	23,989
Amortization of deferred financing costs	744	599
Gain on sale of assets and interests in unconsolidated entities	(4,887)	(13,726)
Equity in earnings of unconsolidated joint ventures	(3,499)	(2,543)
Share-based compensation expense	4,001	3,613
Amortization of debt (premiums) and discounts, net	959	14
Amortization (accretion) of market rent rate adjustments, net	664	916
Straight-line rent adjustments	(1,607)	(1,269)
Distributions of cumulative earnings from unconsolidated joint ventures	2,709	2,719
Changes in other assets and liabilities:		
Other assets	732	1,885
Accounts payable and accrued expenses	(969)	1,806
Net cash provided by operating activities	54,031	54,389
INVESTING ACTIVITIES		
Additions to rental property	(34,896)	(51,044)
Additions to investments in unconsolidated joint ventures	(12,161)	(16,419)
Net proceeds on sale of assets and interests in unconsolidated entities	25,785	15,495
Change in restricted cash	121,306	—
Proceeds from insurance reimbursements	72	103
Additions to non-real estate assets	(2,144)	(208)
Distributions in excess of cumulative earnings from unconsolidated joint ventures	4,394	4,837
Additions to deferred lease costs	(1,520)	(2,338)
Net cash provided by (used in) investing activities	100,836	(49,574)
FINANCING ACTIVITIES		
Cash dividends paid	(47,447)	(22,957)

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Inflation and Seasonality

Inflation in recent years has not had a material effect on our costs of goods or labor, or the prices for our products or services. Traditionally, our business has been seasonal, with strongest demand in the fourth quarter of our fiscal year.

Critical Accounting Policies and Estimates

Refer to our Annual Report on Form 10-K for the year ended December 31, 2011 for a complete discussion of our significant accounting policies and estimates. There have been no material changes in the current period regarding our critical accounting policies and estimates.

Credit and Foreign Sales Risks

The majority of our foreign sales are denominated in United States dollars. Product revenues are allocated to geographical locations on the basis of the ultimate destination of the equipment, if known. If the ultimate destination of such equipment is not known, product revenues are allocated to the geographical location of initial shipment. Service revenues, which primarily relate to our Solutions division, are allocated based upon the billing location of the customer. For the three months ended March 31, 2012, international sales comprised 67% of total net revenues. For the three months ended March 31, 2012, we recognized $43.7 million of sales to customers in Europe, $12.7 million of sales to customers in Asia Pacific, $7.3 million of sales to customers in the Middle East, $7.7 million of sales to customers in Latin American countries, $1.3 million of sales to customers in the Commonwealth of Independent States, or former Soviet Union (CIS), and $2.4 million of sales to customers in Africa. For a number of years, certain countries have experienced economic problems and uncertainties. Due to the global downturn that commenced in 2008, the countries and areas of the world affected by these conditions has increased. To the extent that world events or economic conditions negatively affect our future sales to customers in regions of the world affected by economic problems and uncertainties, the collectability of our existing receivables, our future results of operations, liquidity, and financial condition may be adversely affected.

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

Refer to Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2011 for a discussion regarding our quantitative and qualitative disclosures about market risk. There have been no material changes to those disclosures during the three months ended March 31, 2012.

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

Disclosure Controls and Procedures. Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file with or submit to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time period specified by the SEC s rules and forms. Disclosure controls and procedures, include, without limitation, controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of March 31, 2012. Based upon that evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2012.

Changes in Internal Control over Financial Reporting. There was not any change in our internal control over financial reporting that occurred during the three months ended March 31, 2012, which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II   OTHER INFORMATION

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

WesternGeco

In June 2009, WesternGeco L.L.C. (WesternGeco) filed a lawsuit against us in the United States District Court for the Southern District of Texas, Houston Division. In the lawsuit, styled *WesternGeco L.L.C. v. ION Geophysical Corporation*, WesternGeco alleges that we have infringed several method and apparatus claims contained in United States patents regarding marine seismic streamer steering devices that are owned by WesternGeco. WesternGeco is seeking unspecified monetary damages and an injunction prohibiting us from making, using, selling, offering for sale or supplying any infringing products in the United States.

In June 2009, we filed an answer and counterclaims against WesternGeco, in which we deny that we have infringed WesternGeco s patents and assert that the WesternGeco patents are invalid or unenforceable. We also asserted that WesternGeco s Q-Marine system, components and technology infringe upon a United States patent owned by us related to marine seismic streamer steering devices. In addition, we claim that the lawsuit by WesternGeco is an illegal attempt by WesternGeco to control and restrict competition in the market for marine seismic surveys performed using laterally steerable streamers. In our counterclaims, we are requesting various remedies and relief, including a declaration that the WesternGeco patents are invalid or unenforceable, an injunction prohibiting WesternGeco from making, using, selling, offering for sale or supplying any infringing products in the United States, a declaration that the WesternGeco patents should be co-owned by us, and an award of unspecified monetary damages.

In June 2010, WesternGeco filed a lawsuit against various subsidiaries and affiliates of Fugro N.V. (Fugro), one of our seismic contractor customers, accusing Fugro of infringing the same United States patents regarding marine seismic streamer steering devices by planning to use certain equipment purchased from us on a survey located outside of U.S. territorial waters. The court approved the consolidation of the Fugro case with the case against us. Fugro filed a motion to dismiss the lawsuit, and in March 2011 the presiding judge granted Fugro s motion to dismiss in part, on the basis that the alleged activities of Fugro would occur more than 12 miles from the U.S. coast and therefore are not actionable under U.S. patent infringement law. On February 21, 2012, the Court granted WesternGeco s motions for summary judgment related to our claims as plaintiff against WesternGeco for infringement, inventorship and inequitable conduct. In response to a Motion for Summary Judgment filed jointly by us and Fugro, the Court ruled on April 25, 2012 that ION did not infringe WesternGeco s method patent claims.

Based on our review of the lawsuit filed by WesternGeco and the WesternGeco patents at issue, we believe that our products do not infringe the WesternGeco patents, that the claims asserted against us by WesternGeco are without merit and that the ultimate outcome of the claims against us will not result in a material adverse effect on our financial condition or results of operations. We intend to defend the claims against us vigorously.

Fletcher

In November 2009, Fletcher International Ltd. (Fletcher), the holder of the shares of our outstanding Series D Preferred Stock, filed a lawsuit against us and certain of our directors in the Delaware Court of Chancery. In the lawsuit, styled *Fletcher International, Ltd. v. ION Geophysical Corporation, et al,* Fletcher alleged, among other things, that we violated Fletcher s consent rights contained in the Series D Preferred Stock Certificates of Designation, by ION Sàrl s execution and delivery of a convertible promissory note to the Bank of China, New York Branch, in connection with a bridge loan funded in October 2009 by Bank of China, and that our directors violated their fiduciary duty to us by allowing ION Sàrl to deliver the convertible note without Fletcher s consent. A total of $10.0 million was advanced to ION Sàrl under the bridge loan, and ION Sàrl repaid $10.0 million on the first business day following the delivery of the note. Fletcher sought a court order requiring ION Sàrl to repay the $10 million advanced to ION Sàrl under the bridge loan and unspecified monetary damages. In March 2010, the presiding judge in the case denied Fletcher s request for the court order. In a Memorandum Opinion issued in May 2010 in response to a motion for partial summary judgment, the judge dismissed all of Fletcher s claims against our named directors but also concluded that, because the bridge loan note issued by ION Sàrl was convertible into our common stock, Fletcher technically had the right to consent to the issuance of the note and that we violated Fletcher s consent right by ION Sàrl issuing the note without Fletcher s consent. In December 2010, the presiding judge in the case recused himself from the case and a new presiding judge was appointed to the case. We believe that the remaining claims asserted by Fletcher in the lawsuit are without merit. We further believe that the monetary damages suffered by Fletcher as a result of ION Sàrl issuing the bridge loan note without Fletcher s consent are nonexistent or nominal, and that the ultimate outcome of the lawsuit will not result in a material adverse effect on our financial condition or results of operations. We intend to defend the remaining claims against us in this lawsuit vigorously.

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Sercel

In January 2010, the jury in a patent infringement lawsuit filed by us against seismic equipment provider Sercel, Inc. in the United States District Court for the Eastern District of Texas returned a verdict in our favor. In the lawsuit, styled *Input/Output, Inc. et al v. Sercel, Inc., (5-06-cv-00236)*, we alleged that Sercel s 408, 428 and SeaRay digital seismic sensor units infringe our United States Patent No. 5,852,242, which is incorporated in our VectorSeis sensor technology. Products of our company or INOVA Geophysical that are compatible with the VectorSeis technology include Scorpion, ARIES II, FireFly, Hawk and VectorSeis Ocean seismic acquisition systems. The jury concluded that Sercel infringed our patent and that our patent was valid, and the jury awarded us $25.2 million in compensatory past damages. In response to post-verdict motions made by the parties, in September 2010, the presiding judge issued a series of rulings that (a) granted our motion for a permanent injunction to be issued prohibiting the manufacture, use or sale of the infringing Sercel products, (b) confirmed that our patent was valid, (c) confirmed that the jury s finding of infringement was supported by the evidence and (d) disallowed $5.4 million of lost profits that were based on infringing products that were manufactured and delivered by Sercel outside of the United States, but were offered for sale by Sercel in the United States and involved underlying orders and payments received by Sercel in the United States. In addition, the judge concluded that the evidence supporting the jury s finding that we were entitled to be awarded $9.0 million in lost profits associated with certain infringing pre-verdict marine sales by Sercel was too speculative and therefore disallowed that award of lost profits. As a result of the judge s ruling, we are now entitled to be awarded an additional amount of damages equal to a reasonable royalty on the infringing pre-verdict Sercel marine sales. After we learned that Sercel continued to make sales of infringing products after the January 2010 jury verdict was rendered, we filed motions with the court to seek additional compensatory damages for the post-verdict infringing sales and enhanced damages as a result of the willful nature of Sercel s post-verdict infringement. In February 2011, the Court entered a final judgment and permanent injunction in the case. The final judgment awarded us $10.7 million in damages, plus interest, and the permanent injunction prohibits Sercel and parties acting in concert with Sercel from making, using, offering to sell, selling, or importing in the United States (which includes territorial waters of the United States) Sercel s 408UL, 428XL and SeaRay digital sensor units, and all other products that are only colorably different from those products. The Court ordered that the additional damages to be paid by Sercel as a reasonable royalty on the infringing pre-verdict Sercel marine sales and the additional damages to be paid by Sercel resulting from post-verdict infringing sales would be determined in a separate future proceeding. Each of the parties appealed portions of the final judgment, and on February 17, 2012, the appellate court upheld the final judgment. In April 2012, Sercel paid us $12.0 million pursuant to the final judgment and we will record this gain in our second quarter financial results.

Other

We have been named in various other lawsuits and threatened claims that are incidental to our ordinary business. Such lawsuits and claims could increase in number in the event our business continues to expand and we grow larger. Litigation is inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, cause us to incur costs and expenses, require significant amounts of management time and result in the diversion of significant operational resources. The results of these lawsuits and actions cannot be predicted with certainty. We currently believe that the ultimate resolution of these matters will not have a material adverse impact on our financial condition, results of operations or liquidity.

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

This report contains or incorporates by reference statements concerning our future results and performance and other matters that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). These statements involve known and unknown risks, uncertainties, and other factors that may cause our or our industry s results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, will, would, should, intend, expect, plan, anticipate, believe, estimate, predict, potential, or continue or the negative of such terms or other comparable terminology. Examples of other forward-looking statements contained or incorporated by reference in this report include statements regarding:

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the effects of current and future worldwide economic conditions and demand for oil and natural gas and seismic equipment and services;

the effects of current and future unrest in the Middle East, North Africa and other regions;

future benefits to be derived from our INOVA Geophysical joint venture;

expected continued industry-wide increases in capital expenditures for seismic activities;

the expected outcome of litigation and other claims against us (see Item 1 *Legal Proceedings Other* above);

the timing of anticipated sales and associated realized revenues;

anticipated improvements in INOVA Geophysical results of operations in sequential reporting periods;

future levels of spending by our customers;

future oil and gas commodity prices, including the effects of the recent declines in spot prices for U.S. natural gas;

the timing of future revenue realization of anticipated orders for seismic data processing work in our Solutions segment;

the duration of the slowdown in exploration and development activities in the Gulf of Mexico resulting from the April 2010 Deepwater Horizon incident, which affects us and our customers;

expected net revenues, income from operations and net income;

expected improved revenues from data processing services in our Solutions segment;

expected gross margins for our products and services;

future seismic industry fundamentals, including future demand for seismic services and equipment;

future benefits to our customers to be derived from new products and services;

future benefits to be derived from our investments in technologies and acquired companies;

future growth rates for our products and services;

the degree and rate of future market acceptance of our new products and services;

expectations regarding oil and gas exploration and production companies and contractor end-users purchasing our more technologically-advanced products and services;

anticipated timing and success of commercialization and capabilities of products and services under development and start-up costs associated with their development;

future cash needs and future availability of cash to fund our operations and pay our obligations;

potential future acquisitions;

future levels of our capital expenditures;

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our ability to maintain our costs at consistent percentages of our revenues in the future;

future opportunities for new products and projected research and development expenses;

future success in integrating acquired businesses;

expected continued compliance with our debt financial covenants;

expectations regarding realization of deferred tax assets; and

anticipated results regarding accounting estimates we make.

These forward-looking statements reflect our best judgment about future events and trends based on the information currently available to us. Our results of operations can be affected by inaccurate assumptions we make or by risks and uncertainties known or unknown to us. Therefore, we cannot guarantee the accuracy of the forward-looking statements. Actual events and results of operations may vary materially from our current expectations and assumptions.

Information regarding factors that may cause actual results to vary from our expectations, referred to as risk factors, appears in our Annual Report on Form 10-K for the year ended December 31, 2011 in Part II, Item 1A. Risk Factors. There have been no material changes from the risk factors previously disclosed in that Form 10-K.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds.***

(c) During the three months ended March 31, 2012, in connection with the vesting of (or lapse of restrictions on) shares of our restricted stock held by certain employees, we acquired shares of our common stock in satisfaction of minimum tax withholding obligations that were incurred on the vesting date. The date of acquisition, number of shares and average effective acquisition price per share were as follows:

Period	(a) Total Number of Shares Acquired	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Program	(d) Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Program
January 1, 2012 to January 31, 2012		$	Not applicable	Not applicable
February 1, 2012 to February 29, 2012		$	Not applicable	Not applicable
March 1, 2012 to March 31, 2012	5,276	$ 7.25	Not applicable	Not applicable
Total	5,276	$ 7.25		

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Item 6. ***Exhibits***

31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. §1350.
101	The following materials are formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets at March 31, 2012 and December 31, 2011, (ii) Condensed Consolidated Statements of Operations for the three-months ended March 31, 2012 and 2011, (iii) Condensed Consolidated Statements of Comprehensive Income for the three-months ended March 31, 2012 and 2011, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011, and (v) Notes to Condensed Consolidated Financial Statements.*

* In accordance with Rule 406T of Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, is deemed not filed for purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

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SIGNATURES

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

ION GEOPHYSICAL CORPORATION

By /s/ Gregory J. Heinlein
Gregory J. Heinlein

Senior Vice President and Chief Financial Officer

Date: May 3, 2012

EXHIBIT INDEX

Exhibit No.	Description
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