

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, 2017  
Commission File No. 1-11530

**Taubman Centers, Inc.**

(Exact name of registrant as specified in its charter)

Michigan	38-2033632
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 East Long Lake Road, Suite 300, Bloomfield Hills, Michigan	48304-2324
(Address of principal executive offices)	(Zip code)
(248) 258-6800	

(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  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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  (Do not check if a smaller reporting company)  
Smaller Reporting Company  Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

As of July 27, 2017, there were outstanding 60,710,404 shares of common stock, par value \$0.01 per share.

TAUBMAN CENTERS, INC.  
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TAUBMAN CENTERS, INC.  
CONSOLIDATED BALANCE SHEET  
(in thousands, except share data)

	June 30, 2017	December 31, 2016
<b>Assets:</b>		
Properties	\$ 4,304,273	\$ 4,173,954
Accumulated depreciation and amortization	(1,211,672)	(1,147,390)
	<u>\$ 3,092,601</u>	<u>\$ 3,026,564</u>
Investment in Unconsolidated Joint Ventures (Notes 2 and 4)	564,496	604,808
Cash and cash equivalents	42,260	40,603
Restricted cash (Note 5)	7,968	932
Accounts and notes receivable, less allowance for doubtful accounts of \$8,513 and \$4,311 in 2017 and 2016	61,088	60,174
Accounts receivable from related parties	2,504	2,103
Deferred charges and other assets	290,821	275,728
<b>Total Assets</b>	<u><u>\$ 4,061,738</u></u>	<u><u>\$ 4,010,912</u></u>
<b>Liabilities:</b>		
Notes payable, net (Note 5)	\$ 3,351,212	\$ 3,255,512
Accounts payable and accrued liabilities	316,086	336,536
Distributions in excess of investments in and net income of Unconsolidated Joint Ventures (Note 4)	506,165	480,863
	<u>\$ 4,173,463</u>	<u>\$ 4,072,911</u>
<b>Commitments and contingencies (Notes 5, 6, 7, 8, and 9)</b>		
Redeemable noncontrolling interest (Note 6)	\$ 9,150	\$ 8,704
<b>Equity (Deficit):</b>		
<b>Taubman Centers, Inc. Shareowners' Equity:</b>		
Series B Non-Participating Convertible Preferred Stock, \$0.001 par and liquidation value, 40,000,000 shares authorized, 24,942,655 and 25,029,059 shares issued and outstanding at June 30, 2017 and December 31, 2016	\$ 25	\$ 25
Series J Cumulative Redeemable Preferred Stock, 7,700,000 shares authorized, no par, \$192.5 million liquidation preference, 7,700,000 shares issued and outstanding at both June 30, 2017 and December 31, 2016		
Series K Cumulative Redeemable Preferred Stock, 6,800,000 shares authorized, no par, \$170.0 million liquidation preference, 6,800,000 shares issued and outstanding at both June 30, 2017 and December 31, 2016		
Common Stock, \$0.01 par value, 250,000,000 shares authorized, 60,706,101 and 60,430,613 shares issued and outstanding at June 30, 2017 and December 31, 2016	607	604
Additional paid-in capital	664,182	657,281
Accumulated other comprehensive income (loss) (Note 12)	(30,998)	(35,916)
Dividends in excess of net income	(595,264)	(549,914)
	<u>\$ 38,552</u>	<u>\$ 72,080</u>
Noncontrolling interests (Note 6)	(159,427)	(142,783)
	<u>\$ (120,875)</u>	<u>\$ (70,703)</u>
<b>Total Liabilities and Equity</b>	<u><u>\$ 4,061,738</u></u>	<u><u>\$ 4,010,912</u></u>

See notes to consolidated financial statements.

TAUBMAN CENTERS, INC.  
CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME  
(in thousands, except share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<b>Revenues:</b>				
Minimum rents	\$ 86,787	\$ 82,694	\$ 171,090	\$ 164,671
Percentage rents	1,179	924	3,754	3,696
Expense recoveries	49,413	47,380	102,425	95,140
Management, leasing, and development services (Note 2)	1,375	23,196	2,292	24,924
Other	15,922	4,696	24,198	9,914
	<u>\$ 154,676</u>	<u>\$ 158,890</u>	<u>\$ 303,759</u>	<u>\$ 298,345</u>
<b>Expenses:</b>				
Maintenance, taxes, utilities, and promotion	\$ 39,519	\$ 35,917	\$ 79,230	\$ 70,855
Other operating	22,098	20,482	41,417	39,190
Management, leasing, and development services	595	894	1,174	1,766
General and administrative	9,416	11,693	20,167	23,073
Restructuring charge (Note 1)	416		2,312	
Costs associated with shareowner activism (Note 1)	5,000		8,500	
Interest expense	26,746	20,588	52,292	39,716
Depreciation and amortization	39,442	29,716	77,153	59,462
	<u>\$ 143,232</u>	<u>\$ 119,290</u>	<u>\$ 282,245</u>	<u>\$ 234,062</u>
Nonoperating income, net	3,074	2,676	5,853	4,146
Income before income tax expense and equity in income of Unconsolidated Joint Ventures	\$ 14,518	\$ 42,276	\$ 27,367	\$ 68,429
Income tax expense (Note 3)	(113)	(442)	(321)	(744)
Equity in income of Unconsolidated Joint Ventures (Note 4)	13,258	15,910	33,376	34,388
Net income	\$ 27,663	\$ 57,744	\$ 60,422	\$ 102,073
Net income attributable to noncontrolling interests (Note 6)	(7,819)	(16,717)	(17,053)	(30,137)
Net income attributable to Taubman Centers, Inc.	\$ 19,844	\$ 41,027	\$ 43,369	\$ 71,936
Distributions to participating securities of TRG (Note 8)	(576)	(524)	(1,147)	(1,036)
Preferred stock dividends	(5,785)	(5,785)	(11,569)	(11,569)
Net income attributable to Taubman Centers, Inc. common shareowners	<u>\$ 13,483</u>	<u>\$ 34,718</u>	<u>\$ 30,653</u>	<u>\$ 59,331</u>
Net income	\$ 27,663	\$ 57,744	\$ 60,422	\$ 102,073
<b>Other comprehensive income (Note 12):</b>				
Unrealized loss on interest rate instruments	(2,394)	(4,684)	(3,787)	(16,544)
Fair value adjustment for marketable equity securities	(2,568)		(3,978)	
Cumulative translation adjustment	1,003	(5,635)	10,452	307
Reclassification adjustment for amounts recognized in net income	1,042	2,334	4,277	5,371
	<u>\$ (2,917)</u>	<u>\$ (7,985)</u>	<u>\$ 6,964</u>	<u>\$ (10,866)</u>
Comprehensive income	\$ 24,746	\$ 49,759	\$ 67,386	\$ 91,207
Comprehensive income attributable to noncontrolling interests	(6,967)	(14,618)	(19,082)	(27,193)
Comprehensive income attributable to Taubman Centers, Inc.	<u>\$ 17,779</u>	<u>\$ 35,141</u>	<u>\$ 48,304</u>	<u>\$ 64,014</u>
Basic earnings per common share (Note 10)	<u>\$ 0.22</u>	<u>\$ 0.58</u>	<u>\$ 0.51</u>	<u>\$ 0.98</u>
Diluted earnings per common share (Note 10)	<u>\$ 0.22</u>	<u>\$ 0.57</u>	<u>\$ 0.50</u>	<u>\$ 0.98</u>
Cash dividends declared per common share	<u>\$ 0.6250</u>	<u>\$ 0.5950</u>	<u>\$ 1.2500</u>	<u>\$ 1.1900</u>
Weighted average number of common shares outstanding – basic	<u>60,694,727</u>	<u>60,353,080</u>	<u>60,625,481</u>	<u>60,314,042</u>

See notes to consolidated financial statements.



TAUBMAN CENTERS, INC.  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIT)  
SIX MONTHS ENDED JUNE 30, 2017 AND 2016  
(in thousands, except share data)

	Taubman Centers, Inc. Shareowners' Equity								
	Preferred Stock		Common Stock		Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Dividends in Excess of Net Income	Non- Redeemable Noncontrolling Interests	Total Equity (Deficit)
	Shares	Amount	Shares	Amount					
Balance, January 1, 2016	39,544,939	\$ 25	60,233,561	\$ 602	\$652,146	\$ (27,220)	\$ (512,746)	\$ 8,004	\$ 120,811
Issuance of common stock pursuant to Continuing Offer (Notes 8 and 9)	(2,809)		2,809						—
Share-based compensation under employee and director benefit plans (Note 8)			153,779	2	9,278				9,280
Former Taubman Asia President redeemable equity adjustment (Note 6)					(13,310)				(13,310)
Adjustments of noncontrolling interests (Note 6)					2,191	1		(2,437)	(245)
Dividends and distributions (excludes \$7,150 of distributions attributable to redeemable noncontrolling interest) (Note 6)							(84,453)	(167,869)	(252,322)
Other					1		(338)		(337)
Net income (excludes \$245 of net loss attributable to redeemable noncontrolling interest) (Note 6)							71,936	30,382	102,318
Other comprehensive income (Note 12):									
Unrealized loss on interest rate instruments and other						(11,689)		(4,855)	(16,544)
Cumulative translation adjustment						217		90	307
Reclassification adjustment for amounts recognized in net income						3,795		1,576	5,371
Balance, June 30, 2016	<u>39,542,130</u>	<u>\$ 25</u>	<u>60,390,149</u>	<u>\$ 604</u>	<u>\$650,306</u>	<u>\$ (34,896)</u>	<u>\$ (525,601)</u>	<u>\$ (135,109)</u>	<u>\$ (44,671)</u>
Balance, January 1, 2017	39,529,059	\$ 25	60,430,613	\$ 604	\$657,281	\$ (35,916)	\$ (549,914)	\$ (142,783)	\$ (70,703)
Issuance of common stock pursuant to Continuing Offer (Notes 8 and 9)	(86,404)		86,409	1	(1)				—
Share-based compensation under employee and director benefit plans (Note 8)			189,079	2	7,543				7,545
Former Taubman Asia President redeemable equity adjustment (Note 6)					(446)				(446)
Adjustments of noncontrolling interests (Note 6)					(198)	(18)		(211)	(427)
Dividends and distributions							(88,579)	(35,941)	(124,520)
Other					3		(140)		(137)
Net income (excludes \$427 of net loss attributable to redeemable noncontrolling interest) (Note 6)							43,369	17,480	60,849
Other comprehensive income (Note 12):									
Unrealized loss on interest rate instruments						(2,683)		(1,104)	(3,787)
Fair value adjustment for marketable equity securities						(2,819)		(1,159)	(3,978)
Cumulative translation adjustment						7,407		3,045	10,452
Reclassification adjustment for amounts recognized in net income						3,031		1,246	4,277
Balance, June 30, 2017	<u>39,442,655</u>	<u>\$ 25</u>	<u>60,706,101</u>	<u>\$ 607</u>	<u>\$664,182</u>	<u>\$ (30,998)</u>	<u>\$ (595,264)</u>	<u>\$ (159,427)</u>	<u>\$ (120,875)</u>

See notes to consolidated financial statements.

TAUBMAN CENTERS, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(in thousands)

	Six Months Ended June 30	
	2017	2016
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 60,422	\$ 102,073
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	77,153	59,462
Provision for bad debts	5,230	4,009
Gain on sale of peripheral land		(403)
Other	9,280	8,249
Increase (decrease) in cash attributable to changes in assets and liabilities:		
Receivables, restricted cash, deferred charges, and other assets	(9,427)	341
Accounts payable and accrued liabilities	(1,478)	(14,014)
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 141,180</b>	<b>\$ 159,717</b>
<b>Cash Flows From Investing Activities:</b>		
Additions to properties	\$ (159,257)	\$ (190,980)
Proceeds from sale of peripheral land		5,415
Cash provided to escrow or deposits related to center construction projects	(10,511)	(103,588)
Funding development deposit (Note 2)	(10,998)	
Contributions to Unconsolidated Joint Ventures	(1,298)	(10,149)
Contribution for acquisition of Country Club Plaza (Note 2)		(314,245)
Distributions from Unconsolidated Joint Ventures in excess of income (Note 2)	76,622	176,149
Other	43	42
<b>Net Cash Used In Investing Activities</b>	<b>\$ (105,399)</b>	<b>\$ (437,356)</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from revolving lines of credit, net	\$ 77,490	\$ 97,534
Debt proceeds	323,429	679,110
Debt payments	(305,500)	(364,475)
Debt issuance costs	(6,665)	(1,620)
Issuance of common stock and/or TRG Units in connection with incentive plans	1,642	1,843
Distributions to noncontrolling interests	(35,941)	(175,019)
Distributions to participating securities of TRG	(1,147)	(1,036)
Contributions from noncontrolling interests (Note 6)		2,000
Cash dividends to preferred shareowners	(11,569)	(11,569)
Cash dividends to common shareowners	(75,863)	(71,836)
<b>Net Cash (Used In) Provided By Financing Activities</b>	<b>\$ (34,124)</b>	<b>\$ 154,932</b>
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	<b>\$ 1,657</b>	<b>\$ (122,707)</b>
Cash and Cash Equivalents at Beginning of Period	40,603	206,635
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 42,260</b>	<b>\$ 83,928</b>

See notes to consolidated financial statements.

TAUBMAN CENTERS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1 - Interim Financial Statements**

General

Taubman Centers, Inc. (the Company or TCO) is a Michigan corporation that operates as a self-administered and self-managed real estate investment trust (REIT). The Taubman Realty Group Limited Partnership (the Operating Partnership or TRG) is a majority-owned partnership subsidiary of TCO that owns direct or indirect interests in all of the Company's real estate properties. In this report, the term "Company" refers to TCO, the Operating Partnership, and/or the Operating Partnership's subsidiaries as the context may require. The Company engages in the ownership, management, leasing, acquisition, disposition, development, and expansion of regional and super-regional retail shopping centers and interests therein. The Company's owned portfolio as of June 30, 2017 included 24 urban and suburban shopping centers operating in 11 U.S. states, Puerto Rico, South Korea, and China.

Taubman Properties Asia LLC and its subsidiaries (Taubman Asia), which is the platform for the Company's operations and developments in China and South Korea, is headquartered in Hong Kong.

The unaudited interim financial statements should be read in conjunction with the audited financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial statements for the interim periods have been made. The results of interim periods are not necessarily indicative of the results for a full year.

Dollar amounts presented in tables within the notes to the financial statements are stated in thousands, except share data or as otherwise noted.

Consolidation

The consolidated financial statements of the Company include all accounts of the Company, the Operating Partnership, and its consolidated subsidiaries, including The Taubman Company LLC (the Manager) and Taubman Asia. All intercompany transactions have been eliminated. The entities included in these consolidated financial statements are separate legal entities and maintain records and books of account separate from any other entity. However, inclusion of these separate entities in the consolidated financial statements does not mean that the assets and credit of each of these legal entities are available to satisfy the debts or other obligations of any other such legal entity included in the consolidated financial statements.

In determining the method of accounting for partially owned joint ventures, the Company evaluates the characteristics of associated entities and determines whether an entity is a variable interest entity (VIE), and, if so, determines whether the Company is the primary beneficiary by analyzing whether the Company has both the power to direct the entity's significant economic activities and the obligation to absorb potentially significant losses or receive potentially significant benefits. Significant judgments and assumptions inherent in this analysis include the nature of the entity's operations, the entity's financing and capital structure, and contractual relationship and terms, including consideration of governance and decision making rights. The Company consolidates a VIE when it has determined that it is the primary beneficiary. All of the Company's consolidated joint ventures, including the Operating Partnership, meet the definition and criteria as VIEs, as either the Company or an affiliate of the Company is the primary beneficiary of each VIE.

The Company's sole significant asset is its investment in the Operating Partnership and, consequently, substantially all of the Company's consolidated assets and liabilities are assets and liabilities of the Operating Partnership. All of the Company's debt (Note 5) is an obligation of the Operating Partnership or its consolidated subsidiaries. Note 5 also provides disclosure of guarantees provided by the Operating Partnership to certain consolidated joint ventures. Note 6 provides additional disclosures of the carrying balance of the noncontrolling interests in its consolidated joint ventures and other information, including a description of certain rights of the noncontrolling owners.

TAUBMAN CENTERS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investments in entities not controlled but over which the Company may exercise significant influence (Unconsolidated Joint Ventures or UJVs) are accounted for under the equity method. The Company has evaluated its investments in the Unconsolidated Joint Ventures under guidance for determining whether an entity is a VIE and has concluded that the ventures are not VIEs. Accordingly, the Company accounts for its interests in these entities under general accounting standards for investments in real estate ventures (including guidance for determining effective control of a limited partnership or similar entity). The Company's partners or other owners in these Unconsolidated Joint Ventures have substantive participating rights including approval rights over annual operating budgets, capital spending, financing, admission of new partners/members, or sale of the properties and the Company has concluded that the equity method of accounting is appropriate for these interests. Specifically, the Company's 79% and 50.1% investments in Westfarms and International Plaza, respectively, are through general partnerships in which the other general partners have participating rights over annual operating budgets, capital spending, refinancing, or sale of the property. The Company provides its beneficial interest in certain financial information of its Unconsolidated Joint Ventures (Notes 4 and 5). This beneficial information is derived as the Company's ownership interest in the investee multiplied by the specific financial statement item being presented. Investors are cautioned that deriving the Company's beneficial interest in this manner may not accurately depict the legal and economic implications of holding a noncontrolling interest in the investee.

#### Ownership

In addition to common stock, there were three classes of preferred stock outstanding (Series B, J, and K) as of June 30, 2017. Dividends on the 6.5% Series J Cumulative Redeemable Preferred Stock (Series J Preferred Stock) and the 6.25% Series K Cumulative Redeemable Preferred Stock (Series K Preferred Stock) are cumulative and are paid on the last business day of each calendar quarter. The Company owns corresponding Series J and Series K Preferred Equity interests in the Operating Partnership that entitle the Company to income and distributions (in the form of guaranteed payments) in amounts equal to the dividends payable on the Company's Series J and Series K Preferred Stock.

The Company also is obligated to issue to partners in the Operating Partnership other than the Company, upon subscription, one share of nonparticipating Series B Preferred Stock per each unit of limited partnership in TRG (TRG Unit). The Series B Preferred Stock entitles its holders to one vote per share on all matters submitted to the Company's shareowners and votes together with the common stock on all matters as a single class. The holders of Series B Preferred Stock are not entitled to dividends or earnings. The Series B Preferred Stock is convertible into common stock at a ratio of 14,000 shares of Series B Preferred Stock for one share of common stock.

Outstanding voting securities of the Company at June 30, 2017 consisted of 24,942,655 shares of Series B Preferred Stock and 60,706,101 shares of common stock.

#### The Operating Partnership

At June 30, 2017, the Operating Partnership's equity included two classes of preferred equity (Series J and K) and the net equity of the TRG unitholders. Net income and distributions of the Operating Partnership are allocable first to the preferred equity interests, and the remaining amounts to the general and limited partners in the Operating Partnership in accordance with their percentage ownership. The Series J and Series K Preferred Equity are owned by the Company and are eliminated in consolidation.

The Company's ownership in the Operating Partnership at June 30, 2017 consisted of a 71% managing general partnership interest, as well as the Series J and Series K Preferred Equity interests. The Company's average ownership percentage in the Operating Partnership for both the six months ended June 30, 2017 and 2016 was 71%. At June 30, 2017, the Operating Partnership had 85,665,976 TRG Units outstanding, of which the Company owned 60,706,101 TRG Units. Disclosures about TRG Units outstanding exclude TRG Profits Units granted or other share-based grants for which TRG Units may eventually be issued (Note 8).

#### Restructuring Charge

During 2017, the Company underwent a restructuring plan to reduce its workforce across various areas of the organization in response to the completion of another major development cycle. During the three and six months ended June 30, 2017, the Company incurred \$0.4 million and \$2.3 million, respectively, of expenses related to the reduction in the workforce. These expenses have been separately classified as Restructuring Charge on the Consolidated Statement of Operations and Comprehensive Income. As of June 30, 2017, substantially all of the restructuring costs recognized in the first half of the year were paid.

TAUBMAN CENTERS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Costs Associated with Shareowner Activism

During the three and six months ended June 30, 2017, the Company incurred \$5.0 million and \$8.5 million, respectively, of expense associated with activities related to a shareowner activist campaign, largely legal and advisory services. Due to the unusual and infrequent nature of these expenses in the Company's history, they have been separately classified as Costs Associated with Shareowner Activism in the Company's Consolidated Statement of Operations and Comprehensive Income.

Management's Responsibility to Evaluate the Company's Ability to Continue as a Going Concern

When preparing financial statements for each annual and interim reporting period, management has the responsibility to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. No such conditions or events were identified as of the issuance date of the financial statements contained in this Quarterly Report on Form 10-Q.

**Note 2 - Acquisition, Redevelopments, Developments, and Service Agreement**

Acquisition

*Country Club Plaza*

In March 2016, a joint venture that the Company formed with The Macerich Company acquired Country Club Plaza, a mixed-use retail and office property in Kansas City, Missouri, from Highwood Properties for \$660 million (\$330 million at TRG's share) in cash, excluding transaction costs. The Company has a 50% ownership interest in the center, which is jointly managed by both companies. The Company's ownership interest in the center is accounted for as an Unconsolidated Joint Venture under the equity method. The joint venture determined the fair value of assets acquired and liabilities assumed upon acquisition. Also, in March 2016, a 10-year, \$320 million (\$160 million at TRG's share) non-recourse financing was completed for this center. The proceeds from the financing were distributed to the joint venture partners based on the partnership agreement ownership percentages. In March 2017, the joint venture sold the Valencia Place office tower for \$75.2 million (\$37.6 million at TRG's share), which was a component of the mixed-use property acquired.

U.S. Redevelopments

*Redevelopments*

The Company has ongoing redevelopment projects at Beverly Center and The Mall at Green Hills, which are expected to be completed in 2018 and 2019, respectively. In total, these two redevelopment projects are expected to cost approximately \$700 million. As of June 30, 2017, the Company's total capitalized costs related to these redevelopment projects were \$257.9 million.

U.S. Development

*International Market Place*

The International Market Place shopping center, located in Waikiki, Honolulu, Hawaii, opened in August 2016.

Asia Developments

*Operating Centers*

The Company has opened three shopping centers in Asia: CityOn.Xi'an, located in Xi'an, China; Starfield Hanam, located in Hanam, South Korea; and CityOn.Zhengzhou, located in Zhengzhou, China. The centers opened in April 2016, September 2016, and March 2017, respectively (Note 4). These investments are classified within Investment in Unconsolidated Joint Ventures on the Consolidated Balance Sheet.

TAUBMAN CENTERS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*South Korea Project*

The Company is exploring a second development opportunity in South Korea with Shinsegae Group, the Company's partner in Starfield Hanam. In March 2017, the Company made an initial refundable deposit of \$11 million relating to a potential development site. The Company is continuing its due diligence and preliminary planning. The potential return of the deposit, including a 5% return, is secured by a letter of credit from Shinsegae Group. The Company's \$11 million deposit is classified within Deferred Charges and Other Assets on the Consolidated Balance Sheet.

*Restricted Deposits*

During the six months ended June 30, 2017 and 2016, the Company provided \$3.5 million and \$108.3 million, respectively, of restricted deposits related to its Asia joint ventures and other investments. These deposits are classified within Deferred Charges and Other Assets on the Consolidated Balance Sheet.

Service Agreement

*The Shops at Crystals*

In April 2016, the third party leasing agreement for The Shops at Crystals was terminated in connection with a change in ownership of the center. As a result, the Company recognized management, leasing, and development services revenue for the lump sum payment of \$21.7 million received in May 2016 in connection with the termination.

TAUBMAN CENTERS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 3 - Income Taxes**Income Tax Expense

The Company's income tax expense (benefit) for the three and six months ended June 30, 2017 and 2016 consisted of the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Federal current	\$ (1,356)	\$ 682	\$ (1,356)	\$ 1,797
Federal deferred	875	(425)	1,027	(1,186)
Foreign current	254	16	342	150
Foreign deferred	161	141	40	(69)
State current	55	80	141	207
State deferred	124	(52)	127	(155)
Total income tax expense	<u>\$ 113</u>	<u>\$ 442</u>	<u>\$ 321</u>	<u>\$ 744</u>

Deferred Taxes

Deferred tax assets and liabilities as of June 30, 2017 and December 31, 2016 were as follows:

	2017	2016
Deferred tax assets:		
Federal	\$ 1,109	\$ 3,230
Foreign	1,866	1,673
State	608	935
Total deferred tax assets	<u>\$ 3,583</u>	<u>\$ 5,838</u>
Valuation allowances	(1,655)	(1,812)
Net deferred tax assets	<u>\$ 1,928</u>	<u>\$ 4,026</u>
Deferred tax liabilities:		
Foreign	\$ 1,315	\$ 1,124
Total deferred tax liabilities	<u>\$ 1,315</u>	<u>\$ 1,124</u>

The Company believes that it is more likely than not that the results of future operations will generate sufficient taxable income to recognize the net deferred tax assets. These future operations are primarily dependent upon the Manager's profitability, the timing and amounts of gains on peripheral land sales, the profitability of Taubman Asia's operations, and other factors affecting the results of operations of the taxable REIT subsidiaries. The valuation allowances relate to net operating loss carryforwards and tax basis differences where there is uncertainty regarding their realizability.

TAUBMAN CENTERS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 4 - Investments in Unconsolidated Joint Ventures**General Information

The Company owns beneficial interests in joint ventures that own shopping centers. The Operating Partnership is the sole direct or indirect managing general partner or managing member of Fair Oaks, International Plaza, Stamford Town Center, Sunvalley, The Mall at University Town Center, and Westfarms. The Operating Partnership also provides certain management, leasing, and/or development services to the other shopping centers noted below.

Shopping Center	Ownership as of June 30, 2017 and December 31, 2016
CityOn.Xi'an	50%
CityOn.Zhengzhou	49
Country Club Plaza	50
Fair Oaks	50
International Plaza	50.1
The Mall at Millenia	50
Stamford Town Center	50
Starfield Hanam	34.3
Sunvalley	50
The Mall at University Town Center	50
Waterside Shops	50
Westfarms	79

The Company's carrying value of its investment in Unconsolidated Joint Ventures differs from its share of the partnership or members' equity reported on the combined balance sheet of the Unconsolidated Joint Ventures due to (i) the Company's cost of its investment in excess of the historical net book values of the Unconsolidated Joint Ventures and (ii) the Operating Partnership's adjustments to the book basis, including intercompany profits on sales of services that are capitalized by the Unconsolidated Joint Ventures. The Company's additional basis allocated to depreciable assets is recognized on a straight-line basis over 40 years. The Operating Partnership's differences in bases are amortized over the useful lives or terms of the related assets and liabilities.

In its Consolidated Balance Sheet, the Company separately reports its investment in Unconsolidated Joint Ventures for which accumulated distributions have exceeded investments in and net income of the Unconsolidated Joint Ventures. The net equity of certain joint ventures is less than zero because distributions are usually greater than net income, as net income includes non-cash charges for depreciation and amortization. In addition, any distributions related to refinancing of the centers further decrease the net equity of the centers.

TAUBMAN CENTERS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Combined Financial Information

Combined balance sheet and results of operations information is presented in the following table for the Unconsolidated Joint Ventures, followed by the Operating Partnership's beneficial interest in the combined operations information. The combined information of the Unconsolidated Joint Ventures as of December 31, 2016 excludes the balances of CityOn.Zhengzhou, which opened in March 2017. Beneficial interest is calculated based on the Operating Partnership's ownership interest in each of the Unconsolidated Joint Ventures.

	June 30, 2017	December 31, 2016
<b>Assets:</b>		
Properties	\$ 3,660,407	\$ 3,371,216
Accumulated depreciation and amortization	(706,521)	(661,611)
	\$ 2,953,886	\$ 2,709,605
Cash and cash equivalents	112,965	83,882
Accounts and notes receivable, less allowance for doubtful accounts of \$4,077 and \$1,965 in 2017 and 2016	107,962	87,612
Deferred charges and other assets	122,982	67,167
	<u>\$ 3,297,795</u>	<u>\$ 2,948,266</u>
<b>Liabilities and accumulated equity (deficiency) in assets:</b>		
Notes payable, net <sup>(1)</sup>	\$ 2,832,586	\$ 2,706,628
Accounts payable and other liabilities	516,230	359,814
TRG's accumulated deficiency in assets	(99,890)	(166,226)
Unconsolidated Joint Venture Partners' accumulated equity in assets	48,869	48,050
	<u>\$ 3,297,795</u>	<u>\$ 2,948,266</u>
TRG's accumulated deficiency in assets (above)	\$ (99,890)	\$ (166,226)
TRG's investment in and advances to CityOn.Zhengzhou	44,052	112,861
TRG basis adjustments, including elimination of intercompany profit	64,072	126,240
TCO's additional basis	50,097	51,070
Net investment in Unconsolidated Joint Ventures	<u>\$ 58,331</u>	<u>\$ 123,945</u>
Distributions in excess of investments in and net income of Unconsolidated Joint Ventures	506,165	480,863
Investment in Unconsolidated Joint Ventures	<u>\$ 564,496</u>	<u>\$ 604,808</u>

(1) The Notes Payable, Net amounts exclude the construction financing outstanding for CityOn.Zhengzhou of \$70.5 million ( \$34.5 million at TRG's share) as of December 31, 2016 .

TAUBMAN CENTERS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Revenues	\$ 142,673	\$ 109,191	\$ 283,273	\$ 205,954
Maintenance, taxes, utilities, promotion, and other operating expenses	\$ 51,980	\$ 43,390	\$ 100,360	\$ 71,712
Interest expense	34,721	25,490	65,090	47,086
Depreciation and amortization	33,429	19,824	63,196	35,123
Total operating costs	\$ 120,130	\$ 88,704	\$ 228,646	\$ 153,921
Nonoperating income, net	360	860	2,211	1,106
Income tax expense	(920)		(3,863)	
Gain on disposition, net of tax <sup>(1)</sup>			3,713	
Net income	\$ 21,983	\$ 21,347	\$ 56,688	\$ 53,139
Net income attributable to TRG	\$ 11,826	\$ 12,334	\$ 30,248	\$ 29,793
Realized intercompany profit, net of depreciation on TRG's basis adjustments	1,917	4,061	4,100	5,567
Depreciation of TCO's additional basis	(485)	(485)	(972)	(972)
Equity in income of Unconsolidated Joint Ventures	\$ 13,258	\$ 15,910	\$ 33,376	\$ 34,388
Beneficial interest in Unconsolidated Joint Ventures' operations:				
Revenues less maintenance, taxes, utilities, promotion, and other operating expenses	\$ 49,146	\$ 40,786	\$ 100,247	\$ 80,127
Interest expense	(17,849)	(13,207)	(33,630)	(24,735)
Depreciation and amortization	(17,521)	(11,669)	(33,173)	(21,004)
Income tax expense	(518)		(2,151)	
Gain on disposition, net of tax <sup>(1)</sup>			2,083	
Equity in income of Unconsolidated Joint Ventures	\$ 13,258	\$ 15,910	\$ 33,376	\$ 34,388

(1) Amount represents the gain related to the sale of the Valencia Place office tower at Country Club Plaza in March 2017.

#### Related Party

In 2016, the Company issued a note receivable to one of its Unconsolidated Joint Ventures for purposes of funding development costs. The balance of the note receivable was \$44.1 million and \$43.2 million as of June 30, 2017 and December 31, 2016, respectively, and was classified within Investments in Unconsolidated Joint Ventures on the Consolidated Balance Sheet.

TAUBMAN CENTERS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 5 - Beneficial Interest in Debt and Interest Expense**

The Operating Partnership's beneficial interest in the debt, capitalized interest, and interest expense of its consolidated subsidiaries and its Unconsolidated Joint Ventures is summarized in the following table. The Operating Partnership's beneficial interest in the consolidated subsidiaries excludes debt and interest related to the noncontrolling interest in Cherry Creek Shopping Center ( 50% ), International Market Place ( 6.5% ), and The Mall of San Juan ( 5% ) through its loan payoff in March 2017.

	At 100%		At Beneficial Interest	
	Consolidated Subsidiaries	Unconsolidated Joint Ventures	Consolidated Subsidiaries	Unconsolidated Joint Ventures
<b>Debt as of:</b>				
June 30, 2017	\$ 3,351,212	\$ 2,832,586	\$ 3,058,686	\$ 1,450,044
December 31, 2016	3,255,512	2,777,162	2,949,440	1,425,511
<b>Capitalized interest:</b>				
Six Months Ended June 30, 2017	\$ 6,834 <sup>(1)</sup>	\$ 456 <sup>(2)</sup>	\$ 6,771 <sup>(1)</sup>	\$ 456 <sup>(2)</sup>
Six Months Ended June 30, 2016	12,375 <sup>(1)</sup>	1,035 <sup>(2)</sup>	12,357 <sup>(1)</sup>	1,035 <sup>(2)</sup>
<b>Interest expense:</b>				
Six Months Ended June 30, 2017	\$ 52,292	\$ 65,090	\$ 46,320	\$ 33,630
Six Months Ended June 30, 2016	39,716	47,086	35,198	24,735

(1) The Company capitalizes interest costs incurred in funding its equity contributions to development projects accounted for as Unconsolidated Joint Ventures. The capitalized interest cost is included in the Company's basis in its investment in Unconsolidated Joint Ventures. Such capitalized interest reduces interest expense on the Company's Consolidated Statement of Operations and Comprehensive Income and in the table above is included within Consolidated Subsidiaries.

(2) Capitalized interest on the Asia Unconsolidated Joint Venture construction financings is presented at the Company's beneficial interest in both the Unconsolidated Joint Ventures (at 100%) and Unconsolidated Joint Ventures (at Beneficial Interest) columns.

**2017 Financings**

In April 2017, the Company extended the \$65.0 million secondary secured revolving line of credit for one year upon maturity. All significant terms remain unchanged as a result of the extension.

In March 2017, the Company repaid the outstanding balance of \$302.4 million on the construction facility for The Mall of San Juan, which was scheduled to mature in April 2017. The Company funded the repayment using its revolving lines of credit.

In February 2017, the Company completed a \$300 million unsecured term loan that matures in February 2022. TRG is the borrower under the loan and the loan bears interest at a range of LIBOR plus 1.25% to LIBOR plus 1.90% based on the Company's total leverage ratio. In March 2017, the Company entered into forward starting swaps to fix the LIBOR rate on the \$300 million unsecured term loan from January 2018 through the term of the loan (Note 7). Also in February 2017, the Company amended its \$1.1 billion primary unsecured revolving line of credit. The amended agreement extends the maturity date to February 2021, with two six-month extension options. The facilities include an accordion feature which would increase the Company's maximum aggregate total commitment to \$2.0 billion between the two facilities if fully exercised, subject to obtaining additional lender commitments, customary closing conditions, and covenant compliance for the unencumbered asset pool.

TAUBMAN CENTERS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Debt Covenants and Guarantees

Certain loan agreements contain various restrictive covenants, including the following corporate covenants on the Company's primary unsecured revolving line of credit, \$475 million and \$300 million unsecured term loans, and the construction facility on International Market Place: a minimum net worth requirement, a maximum total leverage ratio, a maximum secured leverage ratio, a minimum fixed charge coverage ratio, a maximum recourse secured debt ratio, and a maximum payout ratio. In addition, the Company's primary unsecured revolving line of credit and unsecured term loans have unencumbered pool covenants, which currently apply to Beverly Center, Dolphin Mall, The Gardens on El Paseo, and Twelve Oaks Mall on a combined basis. These covenants include a minimum number and minimum value of eligible unencumbered assets, a maximum unencumbered leverage ratio, a minimum unencumbered interest coverage ratio, and a minimum unencumbered asset occupancy ratio. As of June 30, 2017, the corporate total leverage ratio was the most restrictive covenant. The Company was in compliance with all of its covenants and loan obligations as of June 30, 2017. The maximum payout ratio covenant limits the payment of distributions generally to 95% of funds from operations, as defined in the loan agreements, except as required to maintain the Company's tax status, pay preferred distributions, and for distributions related to the sale of certain assets.

In connection with the financing of the construction facility at International Market Place, the Operating Partnership has provided an unconditional guarantee of the construction loan principal balance and all accrued but unpaid interest during the term of the loan. The Operating Partnership has also provided a guarantee as to the completion of construction of the center. The maximum amount of the construction facility is \$330.9 million. The outstanding balance of the International Market Place construction facility as of June 30, 2017 was \$280.5 million. Accrued but unpaid interest as of June 30, 2017 was \$0.6 million. The Company believes the likelihood of a payment under the guarantees to be remote.

In connection with the \$175 million additional financing at International Plaza, which is owned by an Unconsolidated Joint Venture, the Operating Partnership provided an unconditional and several guarantee of 50.1% of all obligations and liabilities related to an interest rate swap that was required on the debt for the term of the loan. As of June 30, 2017, the interest rate swap was in a liability position of \$0.2 million and had unpaid interest of \$0.1 million. The Company believes the likelihood of a payment under the guarantee to be remote.

Other

The Company is required to escrow cash balances for specific uses stipulated by certain of its lenders and other various agreements. As of June 30, 2017 and December 31, 2016, the Company's cash balances restricted for these uses were \$8.0 million and \$0.9 million, respectively.

**Note 6 - Noncontrolling Interests**Redeemable Noncontrolling Interests*Taubman Asia President*

In September 2016, the Company announced the appointment of Peter Sharp (Successor Asia President) as president of Taubman Asia, a consolidated subsidiary, succeeding René Tremblay (Former Asia President) effective January 1, 2017. The Former Asia President continues to be employed by the Company in another capacity.

The Former Asia President has an ownership interest in Taubman Asia. This interest entitles the Former Asia President to 5% of Taubman Asia's dividends, with 85% of his dividends relating to investment activities undergone prior to the Successor Asia President obtaining an ownership interest (see below) being withheld as contributions to capital. These withholdings will continue until he contributes and maintains his capital consistent with his percentage ownership interest, including all capital funded by the Operating Partnership for Taubman Asia's operating and investment activities subsequent to the Former Asia President obtaining his ownership interest. The Operating Partnership has a preferred investment in Taubman Asia to the extent the Former Asia President has not yet contributed capital commensurate with his ownership interest. This preferred investment accrues an annual preferential return equal to the Operating Partnership's average borrowing rate (with the preferred investment and accrued return together being referred to herein as the preferred interest). In addition, Taubman Asia has the ability to call, and the Former Asia President has the ability to put, the Former Asia President's ownership interest upon specified terminations of the Former Asia President's employment, although such put or call right may not be exercised for specified time periods after certain termination events. The redemption price for the ownership interest is the fair value of the ownership interest less the amount required to return the Operating Partnership's preferred interest. The Company has determined that the Former Asia President's ownership interest in Taubman Asia qualifies as an equity award, considering its specific redemption provisions, and accounts for it as a contingently redeemable noncontrolling interest. The Company presents as temporary equity at each balance sheet date an estimate of the redemption value of the ownership interest, therefore falling into level 3 of the fair value hierarchy. As of June 30, 2017 and December 31, 2016, the carrying amount of this redeemable equity was \$9.2 million and \$8.7 million, respectively. Any adjustments to the redemption value are recorded through equity.

In April 2016, the Company reacquired half of the Former Asia President's previous 10% ownership interest in Taubman Asia for \$7.2 million. The Former Asia President contributed \$2 million to Taubman Asia, which may be returned, in part or in whole, upon satisfaction of the re-evaluation of the full liquidation value of Taubman Asia as of April 2016; such re-evaluation will be performed at the Former Asia President's election on or after the third anniversary of the opening of specified Asia projects. The Former Asia President's current 5% interest is puttable beginning in 2019 at the earliest, upon reaching certain specified milestones, and was classified as Redeemable Noncontrolling Interest on the Consolidated Balance Sheet.

The Successor Asia President also has an ownership interest in Taubman Asia. This interest entitles the Successor Asia President to 3% of Taubman Asia's dividends for investment activities undergone by Taubman Asia subsequent to him obtaining his ownership interest, with all of his dividends being withheld as contributions to capital. These withholdings will continue until he contributes and maintains his capital consistent with his percentage ownership interest, including all capital funded by the Operating Partnership for Taubman Asia's operating and investment activities subsequent to the Successor Asia President obtaining his ownership interest. The Operating Partnership has a preferred investment in Taubman Asia to the extent the Successor Asia President has not yet contributed capital commensurate with his ownership interest. This preferred investment accrues an annual preferential return equal to the Operating Partnership's average borrowing rate (with the preferred investment and accrued return together being referred to herein as the preferred interest). In addition, Taubman Asia has the ability to call, and the Successor Asia President has the ability to put, the Successor Asia President's ownership interest upon specified terminations of the Successor Asia President's employment, although such put or call right may not be exercised for specified time periods after certain termination events. The redemption price for the ownership interest is 50% (increasing to 100% as early as January 2022) of the fair value of the ownership interest less the amount required to return the Operating Partnership's preferred interest. The Company has determined that the Successor Asia President's ownership interest in Taubman Asia qualifies as an equity award, considering its specific redemption provisions, and accounts for it as a contingently redeemable noncontrolling interest. As of June 30, 2017, the carrying amount of this redeemable equity was zero. Any adjustments to the redemption value are recorded through equity.

TAUBMAN CENTERS, INC.  
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*International Market Place*

The Company owns a 93.5% controlling interest in a joint venture that owns International Market Place in Waikiki, Honolulu, Hawaii, which opened in August 2016. The 6.5% joint venture partner has no obligation nor the right to contribute capital. The Company is entitled to a preferential return on its capital contributions. The Company has the right to purchase the joint venture partner's interest and the joint venture partner has the right to require the Company to purchase the joint venture partner's interest after the third anniversary of the opening of the center, and annually thereafter. The purchase price of the joint venture partner's interest will be based on fair value. Considering the redemption provisions, the Company accounts for the joint venture partner's interest as a contingently redeemable noncontrolling interest with a carrying value of zero at both June 30, 2017 and December 31, 2016. Any adjustments to the redemption value are recorded through equity.

Reconciliation of Redeemable Noncontrolling Interest

	Six Months Ended June 30	
	2017	2016
Balance, January 1	\$ 8,704	
Former Taubman Asia President vested redeemable equity	446	\$ 13,310
Distributions		(7,150)
Contributions		2,000
Allocation of net loss	(427)	(245)
Adjustments of redeemable noncontrolling interest	427	245
Balance, June 30	\$ 9,150	\$ 8,160

Equity Balances of Non-redeemable Noncontrolling Interests

The net equity balance of the non-redeemable noncontrolling interests as of June 30, 2017 and December 31, 2016 included the following:

	2017	2016
Non-redeemable noncontrolling interests:		
Noncontrolling interests in consolidated joint ventures	\$ (157,052)	\$ (155,919)
Noncontrolling interests in partnership equity of TRG	(2,375)	13,136
	\$ (159,427)	\$ (142,783)

Net Income (Loss) Attributable to Noncontrolling Interests

Net income (loss) attributable to the noncontrolling interests for the three months ended June 30, 2017 and 2016 included the following:

	Three Months Ended June 30	
	2017	2016
Net income (loss) attributable to noncontrolling interests:		
Non-redeemable noncontrolling interests:		
Noncontrolling share of income of consolidated joint ventures	\$ 1,839	\$ 1,875
Noncontrolling share of income of TRG	6,215	15,087
	\$ 8,054	\$ 16,962
Redeemable noncontrolling interest:	(235)	(245)
	\$ 7,819	\$ 16,717

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Net income (loss) attributable to the noncontrolling interests for the six months ended June 30, 2017 and 2016 included the following:

	Six Months Ended June 30	
	2017	2016
Net income (loss) attributable to noncontrolling interests:		
Non-redeemable noncontrolling interests:		
Noncontrolling share of income of consolidated joint ventures	\$ 3,475	\$ 4,396
Noncontrolling share of income of TRG	14,005	25,986
	\$ 17,480	\$ 30,382
Redeemable noncontrolling interest:	(427)	(245)
	\$ 17,053	\$ 30,137

#### Equity Transactions

The following table presents the effects of changes in Taubman Centers, Inc.'s ownership interest in consolidated subsidiaries on Taubman Centers, Inc.'s equity for the six months ended June 30, 2017 and 2016 :

	Six Months Ended June 30	
	2017	2016
Net income attributable to Taubman Centers, Inc. common shareowners	\$ 30,653	\$ 59,331
Transfers (to) from the noncontrolling interest:		
(Decrease) increase in Taubman Centers, Inc.'s paid-in capital for adjustments of noncontrolling interest <sup>(1)</sup>	(198)	2,191
Net transfers (to) from noncontrolling interests	(198)	2,191
Change from net income attributable to Taubman Centers, Inc. and transfers (to) from noncontrolling interests	\$ 30,455	\$ 61,522

- (1) In 2017 and 2016, adjustments of the noncontrolling interest were made as a result of changes in the Company's ownership of the Operating Partnership in connection with the Company's share-based compensation under employee and director benefit plans (Note 8) and issuances of common stock pursuant to the Continuing Offer (Note 9). In 2017 and 2016, adjustments of the noncontrolling interest were also made in connection with the accounting for the Former Asia President's redeemable ownership interest.

#### Finite Life Entities

Accounting Standards Codification (ASC) Topic 480, "Distinguishing Liabilities from Equity" establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. At June 30, 2017, the Company held a controlling interest in a consolidated entity with a specified termination date in 2083. The noncontrolling owners' interest in this entity is to be settled upon termination by distribution or transfer of either cash or specific assets of the underlying entity. The estimated fair value of this noncontrolling interest was approximately \$360 million at June 30, 2017, compared to a book value of \$(157.1) million that is classified in Noncontrolling Interests on the Company's Consolidated Balance Sheet. The fair value of the noncontrolling interest was calculated as the noncontrolling interest's ownership share of the underlying property's fair value. The property's fair value was estimated by considering its in-place net operating income, current market capitalization rate, and mortgage debt outstanding.

**Note 7 - Derivative and Hedging Activities**

Risk Management Objective and Strategies for Using Derivatives

The Company uses derivative instruments, such as interest rate swaps and interest rate caps, primarily to manage exposure to interest rate risks inherent in variable rate debt and refinancings. The Company may also enter into forward starting swaps or treasury lock agreements to set the effective interest rate on a planned fixed-rate financing. The Company's interest rate swaps involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps involve the receipt of variable-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium. In a forward starting swap or treasury lock agreement that the Company cash settles in anticipation of a fixed rate financing or refinancing, the Company will receive or pay an amount equal to the present value of future cash flow payments based on the difference between the contract rate and market rate on the settlement date.

The Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedging instruments under the accounting requirements for derivatives and hedging.

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As of June 30, 2017, the Company had the following outstanding derivatives that were designated and are expected to be effective as cash flow hedges of the interest payments and/or the currency exchange rate on the associated debt.

Instrument Type	Ownership	Notional Amount	Swap Rate	Credit Spread on Loan	Total Swapped Rate on Loan	Maturity Date
<b>Consolidated Subsidiaries:</b>						
Receive variable (LIBOR) /pay-fixed swap <sup>(1)</sup>	100%	\$ 200,000	1.64%	1.60% <sup>(1)</sup>	3.24% <sup>(1)</sup>	February 2019
Receive variable (LIBOR) /pay-fixed swap <sup>(1)</sup>	100%	175,000	1.65%	1.60% <sup>(1)</sup>	3.25% <sup>(1)</sup>	February 2019
Receive variable (LIBOR) /pay-fixed swap <sup>(1)</sup>	100%	100,000	1.64%	1.60% <sup>(1)</sup>	3.24% <sup>(1)</sup>	February 2019
Receive variable (LIBOR) /pay-fixed swap <sup>(2)</sup>	100%	100,000	(2)	(2)	(2)	February 2022
Receive variable (LIBOR) /pay-fixed swap <sup>(2)</sup>	100%	100,000	(2)	(2)	(2)	February 2022
Receive variable (LIBOR) /pay-fixed swap <sup>(2)</sup>	100%	50,000	(2)	(2)	(2)	February 2022
Receive variable (LIBOR) /pay-fixed swap <sup>(2)</sup>	100%	50,000	(2)	(2)	(2)	February 2022
Receive variable (LIBOR) /pay-fixed swap <sup>(3)</sup>	100%	12,000	2.09% <sup>(3)</sup>	1.40% <sup>(3)</sup>	3.49% <sup>(3)</sup>	March 2024
<b>Unconsolidated Joint Ventures:</b>						
Receive variable (LIBOR) /pay-fixed swap <sup>(4)</sup>	50%	131,389	2.40%	1.70%	4.10%	April 2018
Receive variable (LIBOR) /pay-fixed swap <sup>(4)</sup>	50%	131,389	2.40%	1.70%	4.10%	April 2018
Receive variable (LIBOR) /pay-fixed swap <sup>(5)</sup>	50.1%	167,336	1.83%	1.75%	3.58%	December 2021
Receive variable (LIBOR) USD/pay-fixed Korean Won (KRW) cross-currency interest rate swap <sup>(6)</sup>	34.3%	52,065 USD / 60,500,000 KRW	1.52%	1.60%	3.12%	September 2020

(1) The hedged forecasted transaction for each of these swaps is the first previously unhedged one-month LIBOR -indexed interest payments accrued and made each month on a debt principal amount equal to the swap notional amount, regardless of the specific debt agreement from which they may flow. The Company is currently using these swaps to manage interest rate risk on the \$475 million unsecured term loan. The credit spread on this loan can also vary within a range of 1.35% to 1.90% , depending on the Company's total leverage ratio at the measurement date, resulting in an effective rate in the range of 2.99% to 3.55% during the swap period.

(2) The hedged forecasted transaction for each of these swaps is the first previously unhedged one-month LIBOR -indexed interest payments accrued and made each month on a debt principal amount equal to the swap notional amount, regardless of the specific debt agreement from which they may flow, beginning with the January 2018 effective date of the swaps. The Company anticipates using these forward starting swaps to manage interest rate risk on the \$300 million unsecured term loan beginning with the January 2018 effective date. Beginning in January 2018, the LIBOR rate will be swapped to a fixed rate of 2.14% . The credit spread on this loan can vary within a range of 1.25% to 1.90% , depending on the Company's total leverage ratio at the measurement date, resulting in an effective rate in the range of 3.39% to 4.04% during the swap period.

(3) The notional amount on this swap is equal to the outstanding principal balance of the floating rate loan on the U.S. headquarters building.

(4) The notional amount on each of these swaps is equal to 50% of the outstanding principal balance of the loan on Fair Oaks.

(5) The notional amount on this swap is equal to the outstanding principal balance of the floating rate loan on International Plaza.

(6) The notional amount on this swap is equal to the outstanding principal balance of the U.S. dollar construction loan for Starfield Hanam. There is a cross-currency interest rate swap to fix the interest rate on the loan and swap the related principal and interest payments from U.S. dollars to KRW in order to reduce the impact of fluctuations in interest rates and exchange rates on the cash flows of the joint venture. The currency swap exchange rate is 1,162.0 .

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### Cash Flow Hedges

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the unrealized gain or loss on the derivative is reported as a component of Other Comprehensive Income (OCI). The ineffective portion of the change in fair value, if any, is recognized directly in earnings. Net realized gains or losses resulting from derivatives that were settled in conjunction with planned fixed-rate financings or refinancings continue to be included in Accumulated Other Comprehensive Income (Loss) (AOCI) during the term of the hedged debt transaction.

Amounts reported in AOCI related to currently outstanding interest rate derivatives are recognized as an adjustment to income as interest payments are made on the Company's variable-rate debt. Realized gains or losses on settled derivative instruments included in AOCI are recognized as an adjustment to income over the term of the hedged debt transaction. Amounts reported in AOCI related to the cross-currency interest rate swap are recognized as an adjustment to income as transaction gains or losses arising from the remeasurement of foreign currency denominated loans are recognized and as actual interest and principal obligations are repaid.

The Company expects that approximately \$3.9 million of the AOCI of Taubman Centers, Inc. and the noncontrolling interests will be reclassified from AOCI and recognized as a reduction of income in the following 12 months.

The following tables present the effect of derivative instruments on the Company's Consolidated Statement of Operations and Comprehensive Income for the three and six months ended June 30, 2017 and 2016. The tables include the amount of gains or losses on outstanding derivative instruments recognized in OCI in cash flow hedging relationships and the location and amount of gains or losses reclassified from AOCI into income resulting from outstanding derivative instruments.

During the three months ended June 30, 2017 and 2016, the Company recognized an inconsequential amount and \$0.2 million, respectively, of hedge ineffectiveness income related to the swaps used to hedge the \$475 million unsecured term loan. The hedge ineffectiveness for both periods was recorded in Nonoperating Income, Net on the Consolidated Statement of Operations and Comprehensive Income.

	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	
	Three Months Ended June 30			Three Months Ended June 30	
	2017	2016		2017	2016
<b>Derivatives in cash flow hedging relationships:</b>					
Interest rate contracts – consolidated subsidiaries	\$ (1,493)	\$ (1,557)	Interest Expense	\$ (802)	\$ (1,494)
Interest rate contracts – UJVs	197	(603)	Equity in Income of UJVs	(638)	(962)
Cross-currency interest rate contract – UJV	(56)	(190)	Equity in Income of UJVs	398	122
<b>Total derivatives in cash flow hedging relationships</b>	<b>\$ (1,352)</b>	<b>\$ (2,350)</b>		<b>\$ (1,042)</b>	<b>\$ (2,334)</b>

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During the six months ended June 30, 2017 and 2016, the Company recognized an inconsequential amount and \$0.2 million, respectively, of hedge ineffectiveness expense related to the swaps used to hedge the \$475 million unsecured term loan. The hedge ineffectiveness for both periods was recorded in Nonoperating Income, Net on the Consolidated Statement of Operations and Comprehensive Income.

	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	
	Six Months Ended June 30			Six Months Ended June 30	
	2017	2016		2017	2016
<b>Derivatives in cash flow hedging relationships:</b>					
Interest rate contracts – consolidated subsidiaries	\$ (729)	\$ (7,299)	Interest Expense	\$ (1,876)	\$ (3,011)
Interest rate contracts – UJVs	1,239	(3,394)	Equity in Income of UJVs	(1,397)	(1,936)
Cross-currency interest rate contract – UJV	(20)	(480)	Equity in Income of UJVs	(1,004)	(424)
Total derivatives in cash flow hedging relationships	\$ 490	\$ (11,173)		\$ (4,277)	\$ (5,371)

The Company records all derivative instruments at fair value on the Consolidated Balance Sheet. The following table presents the location and fair value of the Company's derivative financial instruments as reported on the Consolidated Balance Sheet as of June 30, 2017 and December 31, 2016.

	Consolidated Balance Sheet Location	Fair Value	
		June 30, 2017	December 31, 2016
<b>Derivatives designated as hedging instruments:</b>			
<b>Asset derivative:</b>			
Cross-currency interest rate swap - UJV	Investment in UJVs	\$	\$ 381
Total assets designated as hedging instruments		\$ —	\$ 381
<b>Liability derivatives:</b>			
Interest rate contracts – consolidated subsidiaries	Accounts Payable and Accrued Liabilities	\$ (4,282)	\$ (3,548)
Interest rate contracts – UJVs	Investment in UJVs	(1,257)	(2,496)
Cross-currency interest rate swap – UJV	Investment in UJVs	(556)	
Total liabilities designated as hedging instruments		\$ (6,095)	\$ (6,044)

#### Contingent Features

All of the Company's outstanding derivatives contain provisions that state if the hedged entity defaults on its indebtedness above a certain threshold, then the derivative obligation could also be declared in default. The cross default thresholds vary for each agreement, ranging from \$0.1 million of any indebtedness to \$50 million of indebtedness on the Operating Partnership's indebtedness. As of June 30, 2017, the Company is not in default on any indebtedness that would trigger a credit-risk-related default on its current outstanding derivatives.

TAUBMAN CENTERS, INC.  
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As of June 30, 2017 and December 31, 2016 , the fair value of derivative instruments with credit-risk-related contingent features that were in a liability position was \$6.1 million and \$6.0 million , respectively. As of June 30, 2017 and December 31, 2016 , the Company was not required to post any collateral related to these agreements. If the Company breached any of these provisions it would be required to settle its obligations under the agreements at their fair value. See Note 5 regarding guarantees and Note 11 for fair value information on derivatives.

**Note 8 - Share-Based Compensation**General

The Taubman Company LLC 2008 Omnibus Long-Term Incentive Plan (2008 Omnibus Plan), as amended, which is shareowner approved, provides for the award to directors, officers, employees, and other service providers of the Company of restricted shares, restricted TRG Units, options to purchase shares or TRG Units, share appreciation rights, performance share units, unrestricted shares or TRG Units, and other awards to acquire up to an aggregate of 8.5 million common shares or TRG Units. TRG Units to be awarded also include "TRG Profits Units", which are intended to constitute "profits interests" within the meaning of Treasury authority under the Internal Revenue Code of 1986, as amended. In addition, non-employee directors have the option to defer their compensation under a deferred compensation plan.

Non-option awards granted after an amendment of the 2008 Omnibus Plan in 2010 are deducted at a ratio of 1.85 common shares or TRG Units. Options are deducted on a one-for-one basis. The amount available for future grants is adjusted when the number of contingently issuable common shares or units are settled, for grants that are forfeited, and for options that expire without being exercised.

2017 Awards - TRG Profits Units

During 2017, the following types of TRG Profits Units awards have been granted to certain senior management individuals: (1) a time-based award with a three-year cliff vesting period (Restricted TRG Profits Units); (2) a performance-based award that is based on the achievement of relative total shareholder return (TSR) over a three-year period (Relative TSR Performance-based TRG Profits Units); and (3) a performance-based award that is based on the achievement of net operating income (NOI) over a three-year period (NOI Performance-based TRG Profits Units). The maximum number of Relative TSR and NOI Performance-based TRG Profits Units are issued at grant, eventually subject to a recovery and cancellation of previously granted amounts depending on actual performance against TSR and NOI measures over the three-year performance measurement period. NOI Performance-based TRG Profits Units provide for a cap on the maximum number of units vested if a specified absolute TSR level is not achieved. Relative TSR and NOI Performance-based TRG Profits Units are generally subject to the same performance measures as the TSR-Based and NOI-Based Performance Share Units (see 2017 Awards - Other Management Employee Grants below). Despite the difference in scaling of the grant programs, the final outcome of the TSR and NOI performance measures will result in similar numbers of TRG Units being issued at vesting under both the TRG Profits Units and the Performance Share Unit programs.

Each such award represents a contingent right to receive a TRG Unit upon vesting and the satisfaction of certain tax-driven requirements and, as to the TSR and NOI Performance-based TRG Profits Units the satisfaction of certain performance-based requirements. Until vested, a TRG Profits Unit entitles the holder to only one-tenth of the distributions otherwise payable by TRG on a TRG Unit. Therefore, the Company accounts for these TRG Profits Units as participating securities in the Operating Partnership. A portion of the TRG Profits Units award represents estimated cash distributions that otherwise would have been payable during the vesting period and, upon vesting, there will be an adjustment in actual number of TRG Profits Units realized under each award to reflect the Operating Partnership's actual cash distributions during the vesting period.

All TRG Profits Units issued in 2017 vest in March 2020, if continuous service has been provided, or upon retirement or certain other events (such as death or disability) if earlier. Each holder of a TRG Profits Unit will be treated as a limited partner in TRG from the date of grant. To the extent the vested TRG Profits Units have not achieved the applicable criteria for conversion to TRG Units, vesting and economic equivalence to a TRG Unit prior to the tenth anniversary of the date of grant, the awards will be forfeited pursuant to the terms of the award agreement.

2017 Awards - Other Management Employee Grants

During 2017, other types of awards granted to management employees include those described below. These vest in March 2020, if continuous service has been provided, or upon retirement or certain other events (such as death or disability) if earlier.

*TSR - Based Performance Share Units (TSR PSU)* - Each TSR PSU represents the right to receive, upon vesting, shares of common stock ranging from 0-300% of the TSR PSU based on the Company's market performance relative to that of a peer group. The 2017 TSR PSU grant includes a cash payment upon vesting equal to the aggregate cash dividends that would have been paid on such shares of common stock during the vesting period.

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*NOI - Based Performance Share Units (NOI PSU)* - Each NOI PSU represents the right to receive, upon vesting, shares of common stock ranging from 0-300% of the NOI PSU based on the Company's NOI performance, as well as a cash payment upon vesting equal to the aggregate cash dividends that would have been paid on such shares of common stock during the vesting period. These awards also provide for a cap on the maximum number of units vested if a specified absolute TSR level is not achieved.

*Restricted Share Units (RSU)* - Each RSU represents the right to receive upon vesting one share of common stock, as well as a cash payment upon vesting equal to the aggregate cash dividends that would have been paid on such shares of common stock during the vesting period .

#### Expensed and Capitalized Costs

The compensation cost charged to income for the Company's share-based compensation plans was \$2.4 million and \$5.5 million for the three and six months ended June 30, 2017 , respectively. The compensation cost charged to income for the Company's share-based compensation plans was \$2.6 million and \$6.0 million for the three and six months ended June 30, 2016 , respectively. Compensation cost capitalized as part of properties and deferred leasing costs was an inconsequential amount and \$0.3 million for the three and six months ended June 30, 2017 , respectively, and \$0.5 million and \$1.3 million for the three and six months ended June 30, 2016 , respectively.

#### Valuation Methodologies

The Company estimated the grant-date fair values of share-based grants using the methods as follows. Expected volatility and dividend yields are based on historical volatility and yields of the Company's common stock, respectively, as well as other factors. The risk-free interest rates used are based on the U.S. Treasury yield curves in effect at the grant date. The Company assumes no forfeitures for failure to meet the service requirement of Performance Share Units (PSU) or TRG Profits Units, due to the small number of participants and low turnover rate.

The valuations of all grants utilized the Company's common stock price at the grant date. Common stock prices when used in valuing TRG Profits Units are further adjusted by the present value of expected differences in dividends payable on the common stock versus the distributions payable on the TRG Profits Units over the vesting period. The Company estimated the value of grants dependent on TSR performance using a Monte Carlo simulation and considering historical returns of the Company and the peer group.

For awards dependent on NOI performance, the Company considers the NOI measure a performance condition under applicable accounting standards, and as such, has estimated a grant-date fair value for each of its possible outcomes. The compensation cost ultimately will be recognized equal to the grant-date fair value of the award that coincides with the actual outcome of the NOI performance. The weighted average grant-date fair value shown for NOI-dependent awards corresponds with management's current expectation of the probable outcome of the NOI performance measure. The product of the NOI-dependent awards outstanding and the grant-date fair value represents the compensation cost being recognized over the service periods.

The valuations of TRG Profits Units consider the possibility that sufficient share price appreciation will not be realized, such that the conversion to TRG Units will not occur and the awards will be forfeited.

#### Summaries of Activity for the Six Months Ended June 30, 2017

##### *Restricted TRG Profits Units*

	Number of Restricted TRG Profits Units	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2017	45,940	\$ 59.49
Granted	46,076	57.84
Outstanding at June 30, 2017	92,016	\$ 58.66

As of June 30, 2017 , there was \$4.0 million of total unrecognized compensation cost related to nonvested Restricted TRG Profits Units outstanding. This cost is expected to be recognized over an average period of 2.3 years .

TAUBMAN CENTERS, INC.  
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*Relative TSR Performance-based TRG Profits Units*

	Number of relative TSR Performance-based TRG Profits Units	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2017	103,369	\$ 26.42
Granted	103,666	23.14
Outstanding at June 30, 2017	<u>207,035</u>	<u>\$ 24.78</u>

As of June 30, 2017, there was \$3.8 million of total unrecognized compensation cost related to nonvested Relative TSR Performance-based TRG Profits Units outstanding. This cost is expected to be recognized over an average period of 2.3 years.

*NOI Performance-based TRG Profits Units*

	Number of NOI Performance- based TRG Profits Units	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2017	103,369	\$ 19.41
Granted	103,666	19.35
Outstanding at June 30, 2017	<u>207,035</u>	<u>\$ 19.38</u>

As of June 30, 2017, there was \$3.0 million of total unrecognized compensation cost related to nonvested NOI Performance-based TRG Profits Units outstanding. This cost is expected to be recognized over an average period of 2.3 years.

*TSR - Based Performance Share Units*

	Number of TSR PSU	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2017	166,027	\$ 138.93
Vested - 2015 three-year grant	(2,885) <sup>(1)</sup>	112.30
Vested - 2014 three-year grant	(43,803) <sup>(1)</sup>	88.10
Vested - 2012 and 2013 special grants	(79,764) <sup>(1)</sup>	181.99
Granted	5,046	80.16
Outstanding at June 30, 2017	<u>44,621</u>	<u>\$ 106.91</u>

- (1) Based on the Company's market performance relative to that of a peer group, the actual number of shares of common stock issued upon vesting during the six months ended June 30, 2017 was 2,193 shares (0.76x), 27,166 shares (0.62x), and zero shares for the 2015 TSR PSU three-year grant, 2014 TSR PSU three-year grant, and the 2012 and 2013 TSR PSU special grants, respectively. That is, despite the completion of the applicable employee service requirements, the number of shares ultimately considered earned is determined by the extent to which the TSR market performance measure was achieved during the performance period. These 2015 TSR PSU three-year grants vested due to a retirement.

As of June 30, 2017, there was \$1.2 million of total unrecognized compensation cost related to nonvested TSR PSU outstanding. This cost is expected to be recognized over an average period of 0.9 years.

*NOI - Based Performance Share Units*

	Number of NOI PSU	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2017		
Granted	5,046	\$ 67.04
Outstanding at June 30, 2017 <sup>(1)</sup>	<u>5,046</u>	<u>\$ 67.04</u>

As of June 30, 2017, there was \$0.3 million of total unrecognized compensation cost related to nonvested NOI PSU outstanding. This cost is expected to be recognized over an average period of 2.7 years.

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Restricted Share Units

	Number of RSU	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2017	231,903	\$ 70.40
Vested	(111,617)	66.33
Granted	69,775	67.43
Forfeited	(6,922)	71.42
Outstanding at June 30, 2017	183,139	\$ 71.71

As of June 30, 2017, there was \$6.5 million of total unrecognized compensation cost related to nonvested RSU outstanding. This cost is expected to be recognized over an average period of 2.0 years.

Options

As of June 30, 2017, the Company has 107,997 options outstanding at an exercise price of \$45.90 and a remaining contractual term of 0.7 years. All options outstanding are fully vested and there is no unrecognized compensation cost related to options. No options were granted during the six months ended June 30, 2017. Cash received from option exercises for the six months ended June 30, 2017 and 2016 was \$4.8 million and \$3.8 million, respectively.

Unit Option Deferral Election

Under both a prior option plan and the 2008 Omnibus Plan, vested unit options can be exercised by tendering mature units with a market value equal to the exercise price of the unit options. In 2002, Robert S. Taubman, the Company's chief executive officer, exercised options for 3.0 million units by tendering 2.1 million mature units and deferring receipt of 0.9 million units under the unit option deferral election. As the Operating Partnership pays distributions, the deferred option units receive their proportionate share of the distributions in the form of cash payments. Under an amendment executed in January 2011 and subsequent deferral elections (the latest being made in September 2016), beginning in December 2022 (unless Mr. Taubman retires earlier), the deferred options units will be issued as TRG Units in five annual installments. The deferred option units are accounted for as participating securities of the Operating Partnership.

**Note 9 - Commitments and Contingencies**Cash Tender

At the time of the Company's initial public offering and acquisition of its partnership interest in TRG in 1992, the Company entered into an agreement (the Cash Tender Agreement) with the A. Alfred Taubman Restated Revocable Trust (the Revocable Trust) and TRA Partners (now Taubman Ventures Group LLC or TVG), each of whom owned an interest in TRG, whereby each of the Revocable Trust and TVG (and/or any assignee of the Revocable Trust or TVG) has the right to tender to the Company TRG Units (provided that if the tendering party is tendering less than all of its TRG Units, the aggregate value is at least \$50 million) and cause the Company to purchase the tendered interests at a purchase price based on a market valuation of the Company on the trading date immediately preceding the date of the tender (except as otherwise provided below). TVG is controlled by a majority-in-interest among the Revocable Trust and entities affiliated with the children of A. Alfred Taubman (Robert S. Taubman, William S. Taubman, and Gayle Taubman Kalisman). At the election of the tendering party, TRG Units held by members of A. Alfred Taubman's family and TRG Units held by entities in which his family members hold interests may be included in such a tender.

The Company will have the option to pay for these interests from available cash, borrowed funds, or from the proceeds of an offering of common stock. Generally, the Company expects to finance these purchases through the sale of new shares of its common stock. The tendering partner will bear all market risk if the market price at closing is less than the purchase price and will bear the costs of sale. Any proceeds of the offering in excess of the purchase price will be for the sole benefit of the Company. The Company accounts for the Cash Tender Agreement as a freestanding written put option. As the option put price is defined by the current market price of common stock at the time of tender, the fair value of the written option defined by the Cash Tender Agreement is considered to be zero.

Based on a market value at June 30, 2017 of \$59.55 per share for the Company's common stock, the aggregate value of TRG Units that may be tendered under the Cash Tender Agreement was \$1.4 billion. The purchase of these interests at June 30, 2017 would have resulted in the Company owning an additional 28% interest in TRG.

Continuing Offer

The Company has made a continuing, irrevocable offer (the Continuing Offer) to all present holders of TRG Units (other than a certain excluded holder, currently TVG), permitted assignees of all present holders of TRG Units, those future holders of TRG Units as the Company may, in its sole discretion, agree to include in the Continuing Offer, all existing optionees under the previous option plan, and all existing and future optionees under the 2008 Omnibus Plan to exchange shares of common stock for TRG Units. Under the Continuing Offer agreement, one TRG Unit is exchangeable for one share of common stock. Upon a tender of TRG Units, the corresponding shares of Series B Preferred Stock, if any, will automatically be converted into common stock at a ratio of 14,000 shares of Series B Preferred Stock for one share of common stock.

Insurance

The Company carries liability insurance to mitigate its exposure to certain losses, including those relating to personal injury claims. We believe the Company's insurance policy terms and conditions and limits are appropriate and adequate given the relative risk of loss and industry practice. However, there are certain types of losses, such as punitive damage awards, which may not be covered by insurance, and not all potential losses are insured against.

Other

See Note 5 for the Operating Partnership's guarantees of certain notes payable, including guarantees relating to Unconsolidated Joint Ventures, Note 6 for contingent features relating to certain joint venture agreements, Note 7 for contingent features relating to derivative instruments, and Note 8 for obligations under existing share-based compensation plans.

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**Note 10 - Earnings Per Common Share**

Basic earnings per common share amounts are based on the weighted average of common shares outstanding for the respective periods. Diluted earnings per common share amounts are based on the weighted average of common shares outstanding plus the dilutive effect of potential common stock. Potential common stock includes outstanding TRG Units exchangeable for common shares under the Continuing Offer (Note 9), outstanding options for TRG Units, PSU, Restricted and Performance-based TRG Profits Units, RSU, deferred shares under the Non-Employee Directors' Deferred Compensation Plan, and unissued TRG Units under a unit option deferral election (Note 8). In computing the potentially dilutive effect of potential common stock, TRG Units are assumed to be exchanged for common shares under the Continuing Offer, increasing the weighted average number of shares outstanding. The potentially dilutive effects of TRG Units outstanding and/or issuable under the unit option deferral elections are calculated using the if-converted method, while the effects of other potential common stock are calculated using the treasury method. Contingently issuable shares are included in diluted earnings per common share based on the number of shares, if any, which would be issuable if the end of the reporting period were the end of the contingency period.

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Net income attributable to Taubman Centers, Inc. common shareowners (Numerator):				
Basic	\$ 13,483	\$ 34,718	\$ 30,653	\$ 59,331
Impact of additional ownership of TRG	22	61	67	129
Diluted	<u>\$ 13,505</u>	<u>\$ 34,779</u>	<u>\$ 30,720</u>	<u>\$ 59,460</u>
Shares (Denominator) – basic	60,694,727	60,353,080	60,625,481	60,314,042
Effect of dilutive securities	306,861	348,622	402,760	432,309
Shares (Denominator) – diluted	<u>61,001,588</u>	<u>60,701,702</u>	<u>61,028,241</u>	<u>60,746,351</u>
Earnings per common share – basic	<u>\$ 0.22</u>	<u>\$ 0.58</u>	<u>\$ 0.51</u>	<u>\$ 0.98</u>
Earnings per common share – diluted	<u>\$ 0.22</u>	<u>\$ 0.57</u>	<u>\$ 0.50</u>	<u>\$ 0.98</u>

The calculation of diluted earnings per common share in certain periods excluded certain potential common stock including outstanding TRG Units and unissued TRG Units under a unit option deferral election, both of which may be exchanged for common shares of the Company under the Continuing Offer. The table below presents the potential common stock excluded from the calculation of diluted earnings per common share as they were anti-dilutive in the period presented.

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Weighted average noncontrolling TRG Units outstanding	4,063,005	3,991,862	4,040,993	3,997,919
Unissued TRG Units under unit option deferral elections	871,262	871,262	871,262	871,262

TAUBMAN CENTERS, INC.  
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**Note 11 - Fair Value Disclosures**

This note contains required fair value disclosures for assets and liabilities remeasured at fair value on a recurring basis and financial instruments carried at other than fair value, as well as assumptions employed in deriving these fair values.

Recurring Valuations*Derivative Instruments*

The fair value of interest rate hedging instruments is the amount that the Company would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the reporting date. The Company's valuations of its derivative instruments are determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative, and therefore fall into Level 2 of the fair value hierarchy. The valuations reflect the contractual terms of the derivatives, including the period to maturity, and use observable market-based inputs, including forward curves. The fair values of interest rate hedging instruments also incorporate credit valuation adjustments to appropriately reflect both the Company's own nonperformance risk and the respective counterparty's nonperformance risk.

*Other*

The Company's valuations of both its investments in an insurance deposit and in 250,000 Simon Property Group (SPG) common shares utilize unadjusted quoted prices determined by active markets for the specific securities the Company has invested in, and therefore falls into Level 1 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:

Description	Fair Value Measurements as of June 30, 2017 Using		Fair Value Measurements as of December 31, 2016 Using	
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
SPG common shares	\$ 40,440		\$ 44,418	
Insurance deposit	16,627		15,440	
Total assets	\$ 57,067	\$ —	\$ 59,858	\$ —
Derivative interest rate contracts (Note 7)		\$ (4,282)		\$ (3,548)
Total liabilities		\$ (4,282)		\$ (3,548)

The insurance deposit shown above represents an escrow account maintained in connection with a property and casualty insurance arrangement for the Company's shopping centers, and is classified within Deferred Charges and Other Assets on the Consolidated Balance Sheet. Corresponding deferred revenue relating to amounts billed to tenants for this arrangement has been classified within Accounts Payable and Accrued Liabilities on the Consolidated Balance Sheet.

Financial Instruments Carried at Other Than Fair Values*Simon Property Group Limited Partnership Units*

At both June 30, 2017 and December 31, 2016, the Company owned 340,124 partnership units in Simon Property Group Limited Partnership (SPG LP Units). The fair value of the SPG LP Units, which is derived from SPG's common share price and therefore falls into Level 2 of the fair value hierarchy, was \$55.0 million at June 30, 2017 and \$60.4 million at December 31, 2016. The SPG LP Units were classified as Deferred Charges and Other Assets on the Consolidated Balance Sheet and had a book value of \$44.8 million at both June 30, 2017 and December 31, 2016.

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### Notes Payable

The fair value of notes payable is estimated using cash flows discounted at current market rates and therefore falls into Level 2 of the fair value hierarchy. When selecting discount rates for purposes of estimating the fair value of notes payable at June 30, 2017 and December 31, 2016, the Company primarily employed the credit spreads at which the debt was originally issued. The Company does not believe that the use of different interest rate assumptions would have resulted in a materially different fair value of notes payable as of June 30, 2017 or December 31, 2016. To further assist financial statement users, the Company has included with its fair value disclosures an analysis of interest rate sensitivity.

The estimated fair values of notes payable at June 30, 2017 and December 31, 2016 were as follows:

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Notes payable, net	\$ 3,351,212	\$ 3,312,951	\$ 3,255,512	\$ 3,184,036

The fair values of the notes payable are dependent on the interest rates used in estimating the values. An overall 1% increase in interest rates employed in making these estimates would have decreased the fair values of the debt shown above at June 30, 2017 by \$137.8 million or 4.2%.

### Cash Equivalents and Notes Receivable

The fair value of cash equivalents and notes receivable approximates their carrying value due to their short maturity. The fair value of cash equivalents is derived from quoted market prices and therefore falls into Level 1 of the fair value hierarchy. The fair value of notes receivable is estimated using cash flows discounted at current market rates and therefore falls into Level 2 of the fair value hierarchy.

See Note 7 regarding additional information on derivatives.

### Note 12 - Accumulated Other Comprehensive Income

Changes in the balance of each component of AOCI for the six months ended June 30, 2017 were as follows:

	Taubman Centers, Inc. AOCI				Noncontrolling Interests AOCI			
	Cumulative translation adjustment	Unrealized gains (losses) on interest rate instruments	Fair value adjustment for marketable equity securities	Total	Cumulative translation adjustment	Unrealized gains (losses) on interest rate instruments	Fair value adjustment for marketable equity securities	Total
January 1, 2017	\$ (23,147)	\$ (12,467)	\$ (302)	\$ (35,916)	\$ (9,613)	\$ 7,191	\$ (126)	\$ (2,548)
Other comprehensive income (loss) before reclassifications	7,407	(2,683)	(2,819)	1,905	3,045	(1,104)	(1,159)	782
Amounts reclassified from AOCI		3,031		3,031		1,246		1,246
Net current period other comprehensive income (loss)	\$ 7,407	\$ 348	\$ (2,819)	\$ 4,936	\$ 3,045	\$ 142	\$ (1,159)	\$ 2,028
Adjustments due to changes in ownership	(68)	50		(18)	68	(50)		18
June 30, 2017	\$ (15,808)	\$ (12,069)	\$ (3,121)	\$ (30,998)	\$ (6,500)	\$ 7,283	\$ (1,285)	\$ (502)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in the balance of each component of AOCI for the six months ended June 30, 2016 were as follows:

	Taubman Centers, Inc. AOCI			Noncontrolling Interests AOCI		
	Cumulative translation adjustment	Unrealized gains (losses) on interest rate instruments and other	Total	Cumulative translation adjustment	Unrealized gains (losses) on interest rate instruments and other	Total
January 1, 2016	\$ (10,890)	\$ (16,330)	\$ (27,220)	\$ (4,531)	\$ 5,595	\$ 1,064
Other comprehensive income (loss) before reclassifications	217	(11,689)	(11,472)	90	(4,855)	(4,765)
Amounts reclassified from AOCI		3,795	3,795		1,576	1,576
Net current period other comprehensive income (loss)	\$ 217	\$ (7,894)	\$ (7,677)	\$ 90	\$ (3,279)	\$ (3,189)
Adjustments due to changes in ownership	(6)	7	1	6	(7)	(1)
June 30, 2016	\$ (10,679)	\$ (24,217)	\$ (34,896)	\$ (4,435)	\$ 2,309	\$ (2,126)

The following table presents reclassifications out of AOCI for the six months ended June 30, 2017 :

Details about AOCI Components	Amounts reclassified from AOCI	Affected line item in Consolidated Statement of Operations and Comprehensive Income
Losses on interest rate instruments and other:		
Realized loss on interest rate contracts - consolidated subsidiaries	\$ 1,876	Interest Expense
Realized loss on interest rate contracts - UJVs	1,397	Equity in Income of UJVs
Realized loss on cross-currency interest rate contract - UJV	1,004	Equity in Income of UJVs
Total reclassifications for the period	\$ 4,277	

The following table presents reclassifications out of AOCI for the six months ended June 30, 2016 :

Details about AOCI Components	Amounts reclassified from AOCI	Affected line item in Consolidated Statement of Operations and Comprehensive Income
Losses on interest rate instruments and other:		
Realized loss on interest rate contracts - consolidated subsidiaries	\$ 3,011	Interest Expense
Realized loss on interest rate contracts - UJVs	1,936	Equity in Income of UJVs
Realized loss on cross-currency interest rate contract - UJV	424	Equity in Income of UJVs
Total reclassifications for the period	\$ 5,371	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 13 - Cash Flow Disclosures and Non-Cash Investing and Financing Activities**

Interest paid for the six months ended June 30, 2017 and 2016, net of amounts capitalized of \$6.8 million and \$12.4 million, respectively, was \$48.3 million and \$36.1 million, respectively. Income taxes paid for the six months ended June 30, 2017 and 2016 were \$1.7 million and \$1.2 million, respectively. Other non-cash additions to properties during the six months ended June 30, 2017 and 2016 were \$99.2 million and \$91.3 million, respectively, and primarily represent accrued construction and tenant allowance costs.

**Note 14 - New Accounting Pronouncements**

In May 2017, the Financial Accounting Standards Board (FASB) issued ASU No. 2017-09, "Compensation-Stock Compensation - Scope of Modification Accounting", which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. ASU No. 2017-09 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2017. Early adoption of this ASU is permitted, including adoption in an interim period. ASU No. 2017-09 indicates an entity should account for effects of a modification unless all of the following conditions are met: (1) the fair value of the modified award remains the same, (2) the vesting conditions of the award remain the same, and (3) the classification of the modified award as an equity instrument or liability instrument remains the same. The Company is currently evaluating the application of this ASU and would apply it in the event potential modifications of share-based grants occur in the future. This may impact the Consolidated Statement of Operations and Comprehensive Income as share-based payment benefit or expense depending on the application of modification accounting.

In February 2017, the FASB issued ASU No. 2017-05, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets", which provides guidance for recognizing gains and losses from the transfer of nonfinancial assets and for partial sales of nonfinancial assets. ASU No. 2017-05 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2017. Early adoption of this ASU is permitted, including adoption in an interim period. The Company currently accounts for the derecognition of nonfinancial assets according to industry-specific guidance as the Company's nonfinancial assets are considered in-substance real estate. The Company is currently evaluating the application of this ASU, although the most likely outcome is that in the event the Company sells a controlling interest in a shopping center, but retains a noncontrolling ownership interest, the Company would measure the retained interest at fair value. This would result in full gain/loss recognition upon such a sale of the controlling interest, a change from current practice.

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business", which provides guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or dispositions) of assets or businesses. ASU No. 2017-01 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2017. Early adoption of this ASU is permitted for transactions occurring before the amendment date if the transaction has not been reported in previous filings. The Company previously generally accounted for acquisitions of shopping centers as acquisitions of businesses under ASC Topic 805, "Business Combinations". In January 2017, the Company early adopted ASU No. 2017-01, and will account for any future acquisitions of shopping centers as asset acquisitions. This will impact the Consolidated Statement of Operations and Comprehensive Income as transaction costs associated with asset acquisitions will now be capitalized.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows - Restricted Cash", which provides guidance for the presentation of restricted cash and changes in restricted cash. ASU No. 2016-18 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2017. Early adoption of this ASU is permitted, including adoption in an interim period. This ASU will require restricted cash to be presented in combination with cash and cash equivalents on the Consolidated Statement of Cash Flows. The Company is currently evaluating the application of this ASU, however the Company does not expect the effect on the Company's Consolidated Statement of Cash Flows to be material as the Company generally holds a small amount of restricted cash.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments", which provides guidance for the presentation of certain cash receipts and payments, including the classification of distributions received from equity method investees. ASU No. 2016-15 provides companies with two alternatives of presentation; the nature of the distribution approach or the cumulative earnings approach. ASU No. 2016-15 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2017. Early adoption of this ASU is permitted, including adoption in an interim period. The Company expects to adopt the new standard on its effective date. The Company expects to use the cumulative earnings approach to calculate and present distributions received from equity method investees, and does not believe there will be a material impact to the Consolidated Statement of Cash Flows.

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In February 2016, the FASB issued ASU No. 2016-02, "Leases", which provides for significant changes to the current lease accounting standard. The primary objectives of this ASU is to address off-balance-sheet financing related to operating leases and to introduce a new lessee model that brings substantially all leases onto the balance sheet. ASU No. 2016-02 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2018. The Company expects to adopt the new standard on its effective date. The Company is currently evaluating the application of this ASU and its effect on the Company's financial position and results of operations. From initial implementation efforts, the Company preliminarily expects the most significant impacts of adoption to include (1) the potential need to expense certain internal leasing costs currently being capitalized, including costs associated with the Company's leasing department, (2) the bifurcation of certain lease revenues between rental and reimbursement (non-rental) components, and (3) the potential recognition of lease obligations and right-of-use assets for ground and office leases under which the Company or its ventures are the lessee. Under the new ASU, certain common area maintenance recoveries must be accounted for as a non-lease component. The Company will be evaluating whether bifurcating of common area maintenance will affect the timing or recognition of such revenues.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities", which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Amongst its changes, ASU No. 2016-01 requires an entity to measure equity investments at fair value through net income, except for those that result in consolidation or are accounted for under the equity method of accounting. ASU No. 2016-01 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2017. As of March 31, 2017, the Company owned 340,124 SPG LP Units that are currently being accounted for as a cost method investment and 250,000 SPG common shares that are currently being recorded at fair value (Note 11). Upon the Company's adoption of ASU No. 2016-01 any outstanding SPG LP Units will be remeasured at fair value and an offsetting cumulative effect adjustment will be recorded in equity. After the Company's adoption of ASU No. 2016-01, changes in the fair value of any outstanding SPG LP Units and SPG common shares will be recorded in net income. Both the SPG LP Units and SPG common shares are recorded in Deferred Charges and Other Assets on the Consolidated Balance Sheet.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers". This standard provides a single comprehensive model to use in accounting for revenue arising from contracts with customers and gains and losses arising from transfers of non-financial assets including sales of property, plant and equipment, real estate, and intangible assets. ASU No. 2014-09 supersedes most current revenue recognition guidance, including industry-specific guidance. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date of ASU No. 2014-09 one year to annual reporting periods beginning after December 15, 2017 for public entities. ASU No. 2015-14 permits public entities to adopt ASU No. 2014-09 early, but not before the original effective date of annual periods beginning after December 15, 2016. ASU No. 2014-09 may be applied either retrospectively or as a cumulative effect adjustment as of the date of adoption. The Company is currently evaluating the application of this ASU. The Company has preliminarily determined the revenue streams that could be most significantly impacted by this ASU relate to the Company's management, leasing and development services, certain recoveries from tenants, and other miscellaneous income. The Company expects that the revenue recognition from these services and other miscellaneous income will be generally consistent with current recognition methods, and therefore does not expect material changes to the Consolidated Statement of Operations and Comprehensive Income as a result of adoption. For the three and six month periods ending June 30, 2017, these revenues were less than 10% of consolidated revenue. Recoveries from tenants to be impacted by ASU No. 2014-09 will not be addressed until the Company's adoption of ASU No. 2016-02, considering its revisions to accounting for common area maintenance described above. The Company also continues to evaluate the scope of revenue-related disclosures it expects to provide pursuant to the new requirements. The Company expects to adopt the standard using the modified retrospective approach, which requires cumulative adjustment as of the date of the adoption. The Company will adopt the standard on its effective date beginning with the first quarter of 2018.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains various "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. These forward-looking statements represent our expectations or beliefs concerning future events and performance. Actual results may differ materially from those expected because of various risks and uncertainties. The forward-looking statements included in this report are made as of the date hereof. Except as required by law, we assume no obligation to update these forward looking statements, even if new information becomes available in the future. Other risks and uncertainties are detailed from time to time in reports filed with the Securities and Exchange Commission (SEC), and in particular those set forth under "Risk Factors" in our most recent Annual Report on Form 10-K. The following discussion should be read in conjunction with the accompanying consolidated financial statements of Taubman Centers, Inc. and the notes thereto.

### **General Background and Performance Measurement**

Taubman Centers, Inc. (TCO) is a Michigan corporation that operates as a self-administered and self-managed real estate investment trust (REIT). The Taubman Realty Group Limited Partnership (the Operating Partnership or TRG) is a majority-owned partnership subsidiary of TCO that owns direct or indirect interests in all of our real estate properties. In this report, the terms "we", "us", and "our" refer to TCO, the Operating Partnership, and/or the Operating Partnership's subsidiaries as the context may require. We own, manage, lease, acquire, dispose of, develop, and expand regional and super-regional shopping centers and interests therein. The Consolidated Businesses consist of shopping centers and entities that are controlled by ownership or contractual agreements, The Taubman Company LLC (Manager), and Taubman Properties Asia LLC and its subsidiaries (Taubman Asia). Shopping centers owned through joint ventures that are not controlled by us but over which we have significant influence (Unconsolidated Joint Ventures) are accounted for under the equity method.

References in this discussion to "beneficial interest" refer to our ownership or pro rata share of the item being discussed. Investors are cautioned that deriving our beneficial interest as our ownership interest in individual financial statement items may not accurately depict the legal and economic implications of holding a noncontrolling interest in an investee.

The comparability of information used in measuring performance is affected by the openings of CityOn.Zhengzhou in March 2017, Starfield Hanam in September 2016, CityOn.Xi'an in April 2016 (see "Results of Operations - Taubman Asia"), and International Market Place in August 2016 (see "Results of Operations - U.S. Development"), the acquisition of Country Club Plaza in March 2016 (see "Results of Operations - Acquisition - Country Club Plaza"), and the renovation of Beverly Center beginning in 2016 (see "Liquidity and Capital Resources - Capital Spending - Redevelopments"). Additional "comparable center" statistics that exclude the centers noted above are provided to present the performance of comparable centers. Comparable centers are generally defined as centers that were owned and open for the entire current and preceding period presented, excluding centers impacted by significant redevelopment activity. Comparable center statistics for 2016 have been restated to include comparable centers to 2017. This affects the comparability of our operating results period over period.

## Current Operating Trends

The U.S. mall industry is currently facing a number of challenges and uncertainties. Across the industry, department store sales continue to weaken and store closures have increased, with mature mall tenants and anchors rationalizing square footage. Tenant sales are now in an extended period of flattened growth. While over time we believe high-quality mall portfolios such as ours will continue to gain market share of tenant sales and rents, the current retail headwinds have the potential to be prolonged and ultimately may still result in lost rent and increased unscheduled terminations. Where appropriate, we are making decisions to preserve occupancy and income as we re-tenant space. During the six months ended June 30, 2017, 2.0% of our tenants sought the protection of the bankruptcy laws, as compared to 0.8% of our tenants for the year ended December 31, 2016 and although our occupancy and lease space statistics remain around historically high levels, lease cancellation revenue is increasing.

Our comparable mall tenants reported a 2.9% increase in mall tenant sales per square foot in the second quarter of 2017 from the same period in 2016. For the six months ended June 30, 2017, our comparable mall tenant sales per square foot increased 2.1% from the comparable period in 2016. For the trailing 12-month period ended June 30, 2017, mall tenant sales per square foot were \$ 782, a 2.2% increase from \$ 765 for the trailing 12-month period ended June 30, 2016.

Over the long term, the level of mall tenant sales remains the single most important determinant of revenues of the shopping centers because mall tenants provide approximately 90% of these revenues and mall tenant sales determine the amount of rent, percentage rent, and recoverable expenses, excluding utilities (together, total occupancy costs) that mall tenants can afford to pay. However, levels of mall tenant sales can be considerably more volatile in the short run than total occupancy costs, and may be impacted significantly, either positively or negatively, by the success or lack of success of a small number of tenants or even a single tenant.

We believe that the ability of mall tenants to pay occupancy costs and earn profits over long periods of time increases as mall tenant sales per square foot increase, whether through inflation or real growth in customer spending. Because most mall tenants have certain fixed expenses, the occupancy costs that they can afford to pay and still be profitable are a higher percentage of mall tenant sales at higher sales per square foot.

Mall tenant sales directly impact the amount of percentage rents certain tenants and certain anchors pay. The effects of increases or declines in mall tenant sales on our operations are moderated by the relatively minor share of total rents that percentage rents represent. Percentage rent is very difficult to predict as it is highly dependent upon the sales performance of specific mall tenants in specific centers, and is typically paid by a small number of our tenants in any given period.

In negotiating lease renewals, we generally intend to maximize the minimum rents we achieve. As a result, a tenant will generally pay a higher amount of minimum rent and an initially lower amount of percentage rent upon renewal.

While mall tenant sales are critical over the long term, the high quality regional mall business has been a very stable business model with its diversity of income from thousands of tenants, its staggered lease maturities, and high proportion of fixed rent. However, a sustained trend in mall tenant sales does impact, either negatively or positively, our ability to lease vacancies and sign lease renewals, negotiate rents at advantageous rates, and collect amounts contractually due.

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Mall tenant occupancy costs (the sum of minimum rents, percentage rents, and expense recoveries, excluding utilities) as a percentage of sales in our Consolidated Businesses and Unconsolidated Joint Ventures are as follows:

	Trailing 12-Months Ended June 30 <sup>(1)</sup>	
	2017	2016
<b>Consolidated Businesses:</b>		
Minimum rents	9.5%	9.4%
Percentage rents	0.5	0.5
Expense recoveries	4.8	4.6
<b>Mall tenant occupancy costs</b>	<b>14.8%</b>	<b>14.6%</b>
<b>Unconsolidated Joint Ventures:</b>		
Minimum rents	9.4%	9.0%
Percentage rents	0.7	0.4
Expense recoveries	4.5	4.7
<b>Mall tenant occupancy costs</b>	<b>14.5%</b>	<b>14.1%</b>
<b>Combined:</b>		
Minimum rents	9.4%	9.2%
Percentage rents	0.6	0.5
Expense recoveries	4.6	4.7
<b>Mall tenant occupancy costs</b>	<b>14.6%</b>	<b>14.4%</b>

(1) Based on reports of sales furnished by mall tenants of all centers reported during that period.

(2) Amounts in this table may not add due to rounding.

Mall tenant ending occupancy and leased space statistics as of June 30, 2017 and 2016 are as follows:

	2017 <sup>(1)</sup>	2016 <sup>(1)</sup>
Ending occupancy - all centers	92.7%	92.5%
Ending occupancy - comparable centers	92.2	93.2
Leased space - all centers	94.9	95.6
Leased space - comparable centers	94.6	95.7

(1) Occupancy and leased space statistics include temporary in-line tenants (TILs) and anchor spaces at value and outlet centers (Dolphin Mall, Great Lakes Crossing Outlets, and Taubman Prestige Outlets Chesterfield).

The difference between leased space and occupancy is that leased space includes spaces where leases have been signed but the tenants are not yet open. The occupancy statistic represents those spaces upon which we are currently collecting rent from mall tenants. The spread between comparable center leased space and occupied space, at 2.4% this quarter, is consistent with our history of 1% to 3% in the second quarter.

As leases have expired in the centers, we have generally been able to rent the available space, either to the existing tenant or a new tenant, at rental rates that are higher than those of the expired leases. Generally, center revenues have increased as older leases rolled over or were terminated early and replaced with new leases negotiated at current rental rates that were usually higher than the average rates for existing leases. Average rent per square foot statistics reflect the contractual rental terms of the lease currently in effect and include the impact of rental concessions. In periods of increasing sales, rents on new leases will generally tend to rise. In periods of slower growth or declining sales, such as we are currently experiencing, rents on new leases will grow more slowly or will decline for the opposite reason, as tenants' expectations of future growth become less optimistic.

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Rent per square foot statistics are computed using contractual rentals per the tenant lease agreements, which reflect any lease modifications, including those for rental concessions. Rent per square foot information for our comparable centers in our Consolidated Businesses and Unconsolidated Joint Ventures are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Average rent per square foot: <sup>(1)</sup>				
Consolidated Businesses	\$ 64.26	\$ 63.00	\$ 63.44	\$ 62.38
Unconsolidated Joint Ventures	59.57	58.95	58.90	58.36
Combined	62.08	61.13	61.33	60.52

(1) Statistics exclude non-comparable centers.

	Trailing 12-Months Ended June 30 <sup>(1)(2)</sup>	
	2017	2016
Opening base rent per square foot:		
Consolidated Businesses	\$ 66.74	\$ 70.69
Unconsolidated Joint Ventures	52.27	59.68
Combined	60.94	66.69
Square feet of GLA opened:		
Consolidated Businesses	485,636	594,113
Unconsolidated Joint Ventures	324,501	338,404
Combined	810,137	932,517
Closing base rent per square foot:		
Consolidated Businesses	\$ 63.17	\$ 63.15
Unconsolidated Joint Ventures	45.21	51.31
Combined	55.84	58.70
Square feet of GLA closed:		
Consolidated Businesses	525,923	511,301
Unconsolidated Joint Ventures	362,350	307,467
Combined	888,273	818,768
Releasing spread per square foot:		
Consolidated Businesses	\$ 3.57	\$ 7.54
Unconsolidated Joint Ventures	7.06	8.37
Combined	5.10	7.99
Releasing spread per square foot growth:		
Consolidated Businesses	5.7%	11.9%
Unconsolidated Joint Ventures	15.6%	16.3%
Combined	9.1%	13.6%

(1) Statistics exclude non-comparable centers.

(2) Opening and closing statistics exclude spaces greater than or equal to 10,000 square feet.

(2) Opening and closing statistics exclude spaces gr

The spread between opening and closing rents may not be indicative of future periods, as this statistic is not computed on comparable tenant spaces, and can vary significantly from period to period depending on the total amount, location, and average size of tenant space opening and closing in the period.

**Seasonality**

The regional shopping center industry is seasonal in nature, with mall tenant sales highest in the fourth quarter due to the Christmas season, and with lesser, though still significant, sales fluctuations associated with the Easter holiday and back-to-school period. While minimum rents and recoveries are generally not subject to seasonal factors, most leases are scheduled to expire in the first quarter, and the majority of new stores open in the second half of the year in anticipation of the Christmas selling season. Additionally, most percentage rents are recorded in the fourth quarter. Accordingly, revenues and occupancy levels are generally highest in the fourth quarter. Further, gains on sales of peripheral land and lease cancellation income may vary significantly from quarter to quarter.

	2017		Total	2016			
	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter		4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter
(in thousands, except occupancy and leased space data)							
<b>Mall tenant sales: <sup>(1)</sup></b>							
Comparable	\$ 1,174,724	\$ 1,132,245	\$ 5,021,492	\$ 1,603,346	\$ 1,154,806	\$ 1,147,011	\$ 1,116,329
All Centers	1,485,116	1,388,677	5,773,614	1,958,432	1,319,794	1,293,120	1,202,268
<b>Revenues and nonoperating income, net</b>							
Consolidated Businesses	\$ 157,750	\$ 151,862	\$ 635,484	\$ 180,403	\$ 152,590	\$ 161,566	\$ 140,925
<b>Ending occupancy:</b>							
Comparable	92.2%	92.3%	94.3%	94.3%	94.5%	93.2%	92.3%
All Centers	92.7	92.1	93.9	93.9	93.6	92.5	92.5
<b>Leased space:</b>							
Comparable	94.6%	93.9%	95.7%	95.7%	96.3%	95.7%	95.4%
All Centers	94.9	94.5	95.6	95.6	95.9	95.6	95.1

(1) Based on reports of sales furnished by mall tenants.

## Results of Operations

In addition to the results and trends in our operations discussed in the preceding sections, the following sections discuss certain transactions or events that affected operations during the three and six months ended June 30, 2017 and 2016, or are expected to affect operations in the future.

### Taubman Asia

Through a joint venture with Shinsegae Group (Shinsegae), one of South Korea's largest retailers, we own an interest in a shopping center, Starfield Hanam, in Hanam, South Korea, which opened in September 2016. We have a 34.3% interest in Starfield Hanam, which is accounted for as an Unconsolidated Joint Venture.

Through a joint venture with Wangfujing Group Co., Ltd (Wangfujing), one of China's largest department store chains, we own an interest in a shopping center, CityOn.Xi'an, located at Xi'an Saigao City Plaza in Xi'an, China, which opened in April 2016. We also have a joint venture with Wangfujing that owns an interest in a shopping center, CityOn.Zhengzhou, in Zhengzhou, China, which opened in March 2017. We have a 50% and 49% interest in CityOn.Xi'an and CityOn.Zhengzhou, respectively, with both accounted for as Unconsolidated Joint Ventures.

We provided leasing and management services for IFC Mall in Yeouido, Seoul, South Korea, which ended in the first quarter of 2017 in connection with a change in ownership of the mall.

### U.S. Development

In August 2016, International Market Place opened in Waikiki, Honolulu, Hawaii. We have a 93.5% controlling interest in the center.

### Acquisition - Country Club Plaza

In March 2016, a joint venture we formed with The Macerich Company acquired Country Club Plaza, a mixed-use retail and office property in Kansas City, Missouri, from Highwood Properties for \$660 million (\$330 million at TRG's beneficial share) in cash, excluding transaction costs. We have a 50% ownership interest in the center, which is jointly managed by both companies. Our ownership interest in the center is accounted for as an Unconsolidated Joint Venture under the equity method. Also in March 2016, our joint venture completed a 10-year, \$320 million (\$160 million at TRG's beneficial share) non-recourse financing on Country Club Plaza. See "Results of Operations - Debt Transactions" below for more information on this financing.

In March 2017, the joint venture sold the Valencia Place office tower at Country Club Plaza, which was a component of the mixed-use property acquired, for \$75.2 million (\$37.6 million at TRG's beneficial share). The joint venture recognized a gain on the sale of the Valencia Place office tower, of which TRG's beneficial share, net of tax, was \$2.1 million.

### The Shops at Crystals (Crystals)

In April 2016, our third party leasing agreement for Crystals was terminated in connection with a change in ownership of the center. As a result, we recognized management, leasing, and development services revenue for the lump sum payment of \$21.7 million we received in May 2016 in connection with the termination.

### Debt Transactions

In April 2017, we extended our \$65 million secured secondary revolving line of credit for one year upon maturity. All significant terms remain unchanged as a result of the extension.

In March 2017, we repaid the outstanding balance of \$302.4 million on the construction facility for The Mall of San Juan, which was scheduled to mature in April 2017. We funded the repayment using our revolving lines of credit.

In February 2017, we completed a \$300 million unsecured term loan that matures in February 2022 (see "Liquidity and Capital Resources - Term Loans").

In February 2017, we amended our primary unsecured revolving line of credit extending the maturity to February 2021, with two six-month extension options (see "Liquidity and Capital Resources - Cash and Revolving Lines of Credit").

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In December 2016, an eight-year, \$100 million non-recourse incremental financing was completed for The Mall at Millenia, a 50% owned Unconsolidated Joint Venture. The financing is secured by a second mortgage. The loan bears interest at an all-in fixed interest rate of 3.87% and is interest only for the term of the loan. Proceeds of \$50 million were received in December 2016 and the remaining \$50 million of proceeds were received in February 2017. The proceeds, net of accrued interest and financing costs, were distributed to the joint venture partners based on ownership percentages. Our approximately \$50 million share of proceeds was used to pay down our revolving lines of credit and for general corporate purposes.

In October 2016, a 10-year, \$280 million non-recourse refinancing was completed for The Mall at University Town Center, a 50% owned Unconsolidated Joint Venture. The payments on the loan, which bears interest at an all-in fixed interest rate of 3.45%, are interest only until December 2022, and then amortizes principal based on 30 years. The proceeds from the borrowing were used to pay off the \$225 million balance of the existing LIBOR plus 1.70% floating rate construction facility, which was scheduled to mature in October 2016. The remaining net proceeds, net of accrued interest and financing costs, were distributed to the joint venture partners based on ownership percentages. Our nearly \$30 million share of excess proceeds was used to pay down our revolving lines of credit.

In May 2016, a 12-year, \$550 million non-recourse refinancing was completed for Cherry Creek Shopping Center, a consolidated joint venture. The loan is interest-only during the entire term at an all-in fixed interest rate of 3.87%. The proceeds from the borrowing were used to repay the existing \$280 million, 5.24% fixed rate loan, which was scheduled to mature in June 2016, with the remaining net proceeds distributed to the joint venture partners based on ownership percentages. Our approximately \$135 million share of excess proceeds was used to pay down our revolving lines of credit.

In April 2016, a 10-year, \$165 million non-recourse refinancing was completed for Waterside Shops, a 50% owned Unconsolidated Joint Venture. The loan bears interest at an all-in fixed interest rate of 3.89% and is interest-only for the term of the loan. However, if net operating income available for debt service as defined in the loan agreement is less than a certain amount for calendar year 2020, the lender may require the loan to amortize based on a 30-year amortization period retroactive to May 2021. The proceeds from the borrowing were used to repay the existing \$165 million, 5.54% stated fixed rate loan, which was scheduled to mature in October 2016.

In April 2016, we extended our \$65 million secondary secured revolving line of credit for one year upon maturity.

In April 2016, we repaid the \$81.5 million, 6.10% stated fixed rate loan on The Gardens on El Paseo, which was scheduled to mature in June 2016.

In March 2016, a 10-year, \$320 million non-recourse financing was completed for Country Club Plaza, a 50% owned Unconsolidated Joint Venture. The payments on the loan, which bears interest at an all-in fixed interest rate of 3.88%, are interest only until May 2019, and then amortizes principal based on 30 years. The proceeds, net of accrued interest and financing costs, were distributed to the joint venture partners based on ownership percentages. Our approximately \$160 million share of proceeds was used to pay down our revolving lines of credit and for general corporate purposes.

## [Interest Expense](#)

Interest expense is impacted by the capitalization of interest on the costs of our U.S. and Asia development projects. We capitalize interest on our consolidated project costs and our equity contributions to Unconsolidated Joint Ventures under development using our average consolidated borrowing rate, which does not reflect the specific source of funds for the costs and is generally greater than our incremental borrowing rate. Any excess of the capitalization rate over our incremental borrowing rate positively impacts our results of operations during the construction phase of our development projects. This positive impact will affect our results until the overall level of construction spending decreases. As these projects open, interest capitalization generally ends and we begin recognizing interest expense. Interest expense has been and will continue to increase in 2017 due to the recent openings of four ground-up development projects. Beneficial interest in construction work in progress totaled \$347.6 million as of June 30, 2017, which included \$323.5 million of assets on which interest was being capitalized, as compared to beneficial interest in construction work in progress of \$821.6 million as of June 30, 2016, which included \$799.8 million of assets on which interest was being capitalized.

### **Comparison of the Three Months Ended June 30, 2017 to the Three Months Ended June 30, 2016**

The following is a comparison of our results for the three months ended June 30, 2017 and 2016, as disclosed in our Consolidated Statement of Operations and Comprehensive Income.

Total revenues for the three months ended June 30, 2017 were \$154.7 million, a \$ 4.2 million or 2.7% decrease from the comparable period in 2016, primarily attributable to the decrease in management, leasing, and development services revenue described below. Beyond this decrease in service fee revenue, minimum rents, expense recoveries, and other income all increased partially due to the opening of International Market Place in August 2016.

In addition to the opening of International Market Place, the following also impacted total revenues:

- the increase in minimum rents was further attributable to increases in average rent per square foot;
- the increase in expense recoveries was also due to an increase in fixed common area maintenance revenues, partially offset by a decrease in property tax revenues;
- the decrease in management, leasing, and development services was primarily due to revenue for the lump sum payment we received in May 2016 in connection with the termination of our third party leasing agreement for Crystals; and
- the increase in other income was further attributable to an increase in lease cancellation income and food and beverage operations of our new restaurant joint venture.

Total expenses for the three months ended June 30, 2017 were \$ 143.2 million, a \$ 23.9 million or 20.1% increase from the comparable period in 2016. Maintenance, taxes, utilities, and promotion expense, other operating expense, interest expense, and depreciation and amortization expense all increased partially due to the opening of International Market Place in August 2016.

In addition to the opening of International Market Place, the following also impacted total expenses:

- the increase in maintenance, taxes, utilities, and promotion expense was further attributable to an increase in common area maintenance expenses, partially offset by a decrease in property tax expenses;
- the increase in other operating expense was also due to food and beverage operations of our new restaurant joint venture, partially offset by cost saving initiatives enacted in response to the completion of another major development cycle. 2016 also included a charge for a center-related legal matter that did not reoccur in 2017;
- the decrease in general and administrative expense was also primarily due to the aforementioned cost saving initiatives;
- costs incurred associated with shareowner activism;
- the increase in interest expense was further attributable to the reduction of interest capitalization on our development projects; and
- the increase in depreciation and amortization expense was further attributable to changes in depreciable lives of tenant allowances in connection with early terminations.

Equity in Income of the Unconsolidated Joint Ventures for the three months ended June 30, 2017 decreased by \$2.7 million to \$ 13.3 million from the comparable period in 2016. The decrease was primarily attributable to unfavorable operating results, which included depreciation expense, of newly acquired or opened centers.

### **Net Income**

Net income was \$ 27.7 million for the three months ended June 30, 2017 compared to \$57.7 million for the three months ended June 30, 2016. After allocation of income to noncontrolling, preferred, and participating interests, the net income attributable to Taubman Centers, Inc. common shareowners for the three months ended June 30, 2017 was \$ 13.5 million compared to \$34.7 million in the comparable period in 2016. Diluted earnings per common share was \$0.22 for the three months ended June 30, 2017 compared to \$0.57 for the three months ended June 30, 2016.

Funds from Operations (FFO) and FFO per Common Share

Our FFO attributable to partnership unitholders and participating securities of TRG was \$74.7 million for the three months ended June 30, 2017 compared to \$89.8 million for the three months ended June 30, 2016 . FFO per diluted common share was \$0.86 for the three months ended June 30, 2017 and \$1.04 per diluted common share for the three months ended June 30, 2016 . Adjusted FFO attributable to partnership unitholders and participating securities of TRG for the three months ended June 30, 2017 , which excluded a restructuring charge and costs incurred associated with shareowner activism, was \$80.1 million compared to \$68.1 million for the three months ended June 30, 2016 , which excluded income related to the lump sum payment received for the termination of the leasing agreement at Crystals. Adjusted FFO per diluted common share was \$0.92 for the three months ended June 30, 2017 and \$0.79 per diluted common share for the three months ended June 30, 2016 . See "Non-GAAP Measures - Use of Non-GAAP Measures" for the definition of FFO and "Non-GAAP Measures - Reconciliation of Non-GAAP Measures" for the reconciliation of Net Income Attributable to Taubman Centers, Inc. Common Shareowners to Funds from Operations and Adjusted Funds from Operations.

Comparable and Non-Comparable Center Operations

During the three months ended June 30, 2017 , the consolidated non-comparable centers contributed total operating revenues of \$21.6 million, and incurred operating expenses, excluding interest expense and depreciation and amortization, of \$11.1 million. During the three months ended June 30, 2016 , the consolidated non-comparable centers contributed total operating revenues of \$16.0 million, and incurred operating expenses, excluding interest expense and depreciation and amortization, of \$6.9 million.

See "Non-GAAP Measures - Use of Non-GAAP Measures" for the definition and discussion of Net Operating Income (NOI) and for the reconciliation of Net Income to NOI. For the three months ended June 30, 2017 , comparable center NOI excluding lease cancellation income was up 2.8% over the comparable period in 2016 . Also, for the three months ended June 30, 2017 , comparable center NOI including lease cancellation income was up 6.5% over the comparable period in 2016 .

For the three months ended June 30, 2017 , we recognized our \$5.8 million share of lease cancellation income, as compared to \$0.1 million for the three months ended June 30, 2016 .

### **Comparison of the Six Months Ended June 30, 2017 to the Six Months Ended June 30, 2016**

The following is a comparison of our results for the six months ended June 30, 2017 and 2016, as disclosed in our Consolidated Statement of Operations and Comprehensive Income.

Total revenues for the six months ended June 30, 2017 were \$ 303.8 million, a \$5.4 million or 1.8% increase from the comparable period in 2016. Minimum rents, expense recoveries, and other income all increased partially due to the opening of International Market Place in August 2016.

In addition to the opening of International Market Place, the following also impacted total revenues:

- the increase in minimum rents was further attributable to increases in average rent per square foot;
- the increase in expense recoveries was also due to increases in fixed common area maintenance and property tax revenues;
- the decrease in management, leasing, and development services was primarily due to revenue for the lump sum payment we received in May 2016 in connection with the termination of our third party leasing agreement for Crystals; and
- the increase in other income was further attributable to an increase in lease cancellation income and food and beverage operations of our new restaurant joint venture.

Total expenses for the six months ended June 30, 2017 were \$ 282.2 million, a \$48.2 million or 20.6% increase from the comparable period in 2016. Maintenance, taxes, utilities, and promotion expense, other operating expense, interest expense, and depreciation and amortization expense all increased partially due to the opening of International Market Place in August 2016.

In addition to the opening of International Market Place, the following also impacted total expenses:

- the increase in maintenance, taxes, utilities, and promotion expense was further attributable to increases in property tax and common area maintenance expenses;
- the increase in other operating expense was also due to food and beverage operations of our new restaurant joint venture, partially offset by cost saving initiatives enacted in response to the completion of another major development cycle. 2016 also included a charge for a center-related legal matter that did not reoccur in 2017;
- the decrease in general and administrative expense was also primarily due to the aforementioned cost saving initiatives. A restructuring charge was incurred related to a reduction in our workforce, which was also undertaken for a similar reason;
- costs incurred associated with shareowner activism;
- the increase in interest expense was further attributable to the reduction of interest capitalization as well as the refinancings of Cherry Creek Shopping Center and our primary unsecured revolving line of credit; and
- the increase in depreciation and amortization expense was further attributable to changes in depreciable lives of tenant allowances in connection with early terminations.

Nonoperating income, net increased primarily due to an increase in interest income in 2017.

Equity in Income of the Unconsolidated Joint Ventures for the six months ended June 30, 2017 decreased by \$ 1.0 million to \$ 33.4 million from the comparable period in 2016. The decrease was primarily attributable to unfavorable operating results, which included depreciation expense, of newly acquired or opened centers, partially offset by the gain recognized on the sale of the Valencia Place office tower at Country Club Plaza in the first quarter of 2016 (see "Results of Operations - Acquisition - Country Club Plaza").

Net Income

Net income was \$ 60.4 million for the six months ended June 30, 2017 compared to \$102.1 million for the six months ended June 30, 2016 . After allocation of income to noncontrolling, preferred, and participating interests, the net income attributable to Taubman Centers, Inc. common shareowners for the six months ended June 30, 2017 was \$30.7 million compared to \$59.3 million in the comparable period in 2016 . Diluted earnings per common share was \$0.50 for the six months ended June 30, 2017 compared to \$0.98 for the six months ended June 30, 2016 .

FFO and FFO per Common Share

Our FFO attributable to partnership unitholders and participating securities of TRG was \$149.1 million for the six months ended June 30, 2017 compared to \$162.8 million for the six months ended June 30, 2016 . FFO per diluted common share was \$1.71 for the six months ended June 30, 2017 and \$1.88 per diluted common share for the six months ended June 30, 2016 . Adjusted FFO attributable to partnership unitholders and participating securities of TRG for the six months ended June 30, 2017 , which excluded a restructuring charge, costs incurred associated with shareowner activism, and a charge recognized in connection with the partial write-off of deferred financing costs related to an amendment of our primary unsecured revolving line of credit in February 2017, was \$160.3 million compared to \$141.1 million for the six months ended June 30, 2016 , which excluded income related to the lump sum payment received for the termination of the leasing agreement at Crystals. Adjusted FFO per diluted common share was \$1.85 for the six months ended June 30, 2017 and \$1.63 per diluted common share for the six months ended June 30, 2016 . See "Non-GAAP Measures - Use of Non-GAAP Measures" for the definition of FFO and "Non-GAAP Measures - Reconciliation of Non-GAAP Measures" for the reconciliation of Net Income Attributable to Taubman Centers, Inc. Common Shareowners to Funds from Operations and Adjusted Funds from Operations.

Comparable and Non-Comparable Center Operations

During the six months ended June 30, 2017 , the consolidated non-comparable centers contributed total operating revenues of \$41.6 million, and incurred operating expenses, excluding interest expense and depreciation and amortization, of \$21.3 million. During the six months ended June 30, 2016 , the consolidated non-comparable centers contributed total operating revenues of \$32.5 million, and incurred operating expenses, excluding interest expense and depreciation and amortization, of \$13.5 million.

See "Non-GAAP Measures - Use of Non-GAAP Measures" for the definition and discussion of NOI and for the reconciliation of Net Income to NOI. For the six months ended June 30, 2017 , comparable center NOI excluding lease cancellation income was up 2.8% over the comparable period in 2016 . Also, for the six months ended June 30, 2017 , comparable center NOI including lease cancellation income was up 5.2% over the comparable period in 2016 .

For the six months ended June 30, 2017 , we recognized our \$8.0 million share of lease cancellation income, as compared to \$1.6 million for the six months ended June 30, 2016 .

## **Liquidity and Capital Resources**

### General

Our internally generated funds and distributions from operating centers and other investing activities, augmented by use of our existing revolving lines of credit, provide resources to maintain our current operations and assets, pay dividends, and fund a portion of our major capital investments. We pursue an overall strategy of creating value and recycling capital using long-term fixed rate financing on the centers upon stabilization, using any excess proceeds to reinvest in our business. Generally, our need to access the capital markets is limited to refinancing debt obligations at or near maturity and funding major capital investments. From time to time, we also may access the equity markets or sell interests in operating properties to raise additional funds or refinance existing obligations on a strategic basis, including using any excess proceeds therefrom.

### Property Encumbrances

We are primarily financed with property-specific secured debt and currently have seven unencumbered center properties. The entities that own Beverly Center, Dolphin Mall, The Gardens on El Paseo, and Twelve Oaks Mall are guarantors under our primary unsecured revolving credit facility, \$475 million unsecured term loan, and \$300 million unsecured term loan, and are unencumbered assets under such facility and term loans. Under the related debt agreements, we are required to have a minimum of three eligible unencumbered assets with a minimum unencumbered asset value. Any of the assets may be removed from the unencumbered asset pool and encumbered upon notice to lender, provided that there is no default and the required covenant calculations are met on a pro forma basis. If the required covenant calculations are not met, a replacement eligible unencumbered asset would need to be added to the unencumbered asset pool. Besides the four centers previously noted, Taubman Prestige Outlets Chesterfield, The Mall of San Juan, and Stamford Town Center, a 50% owned Unconsolidated Joint Venture property, are unencumbered.

### Cash and Revolving Lines of Credit

As of June 30, 2017, we had a consolidated cash balance of \$ 42.3 million. We also have an unsecured revolving line of credit of \$1.1 billion and a secured revolving line of credit of \$65 million. The availability under these facilities as of June 30, 2017, after considering the outstanding balances, the outstanding letters of credit, and the current values of the unencumbered asset pool, was \$759.4 million. Fourteen banks participate in our \$1.1 billion primary unsecured revolving line of credit and the failure of one bank to fund a draw on our line does not negate the obligation of the other banks to fund their pro rata shares. The \$1.1 billion unsecured facility matures in February 2021 with two six-month extension options, and bears interest at a range based on our total leverage ratio. As of June 30, 2017, the total leverage ratio resulted in a rate of LIBOR plus 1.45% with a 0.225% facility fee. The primary unsecured revolving line of credit includes an accordion feature, which in combination with our \$300 million unsecured term loan, would increase our borrowing capacity to as much as \$2.0 billion in aggregate between the two facilities if fully exercised, subject to obtaining additional lender commitments, customary closing conditions, covenant compliance, and minimum asset values for the unencumbered asset pool. As of June 30, 2017, we could not utilize the accordion feature unless additional assets were added to our unencumbered asset pool.

In April 2017, we extended our \$65 million secured secondary revolving line of credit for one year upon maturity. All significant terms remain unchanged as a result of the extension.

### Construction Financings

In addition to the revolving lines of credit described above, we often use construction financing where available and place non-recourse permanent financing on new assets upon their stabilization. We have construction facilities outstanding for several recently opened centers, as described in the following paragraphs.

We have a \$330.9 million construction facility for International Market Place, a consolidated joint venture. As of June 30, 2017, \$50.4 million was available under the construction facility. The facility, which matures in August 2018, has two, one-year extension options, and bears interest at LIBOR plus 1.75%, which may be reduced to LIBOR plus 1.60% upon the achievement of certain performance measures. The loan is interest-only during the initial three-year term and no draws on the loan are permitted after the original maturity date. During the extension period, debt service payments also include principal payments based on an assumed interest rate of 6.0% and a 30-year amortization.

Our joint venture for Starfield Hanam has a non-recourse construction facility. We have an effective 34.3% interest in the Unconsolidated Joint Venture. The financing consists of a 520 billion Korean Won (KRW) denominated construction facility (\$454.0 million U.S. dollars using the June 30, 2017 exchange rate) and a U.S. dollar financing of \$52.1 million, of which both mature in November 2020. The U.S. dollar denominated portion of the financing is secured by a \$53.2 million standby letter of credit, which was drawn from the KRW denominated portion of the construction facility, thereby reducing the availability under the KRW denominated construction facility to \$400.8 million U.S. dollars as of June 30, 2017, excluding the amount drawn on the facility. The KRW denominated portion of the financing bears interest at the Korea Development Bank Five-Year Bond Yield plus 1.06% and is fixed upon each draw. The weighted average interest rate of the amount drawn at June 30, 2017 is 2.58%. The U.S. dollar denominated floating rate facility bears interest at three-month LIBOR plus 1.60%. A cross-currency interest rate swap was executed to fix the interest rate on the U.S. dollar portion of the financing and swap the U.S. dollar denomination from U.S. dollars to KRW. As a result of the swap, the effective interest rate of the U.S. dollar portion of the financing is fixed at 3.12%. As of June 30, 2017, the U.S. dollar denominated portion of the financing was fully drawn, while \$272.4 million U.S. dollars (using the June 30, 2017 exchange rate) were drawn on the KRW denominated portion of the facility, bringing the total remaining availability of the facility to \$128.4 million U.S. dollars.

Our joint venture that owns CityOn.Zhengzhou has a construction facility on which we can borrow up to 834 million Chinese Yuan Renminbi (RMB) (\$123.3 million U.S. dollars using the June 30, 2017 exchange rate). We have an effective 49% interest in the Unconsolidated Joint Venture. The 11-year financing bears interest at 130% of the RMB People's Bank of China base lending rate for a loan term greater than five years, which resets in January of each year. The interest rate on the debt outstanding at June 30, 2017 was 6.37%. As of June 30, 2017, \$50.9 million U.S. dollars were available under the construction facility using the June 30, 2017 exchange rate.

As a foreign investor, we are subject to various government approval processes and other hurdles in funding the construction of our Chinese projects. These hurdles have required our Xi'an and Zhengzhou ventures to obtain short-term financing, in the form of loans from our joint venture partner or fully cash collateralized bank loans, to meet certain construction funding commitments in local currency. As of June 30, 2017, our share of such loans was approximately \$150 million. These loans have fixed interest rates that range from 2.5% to 8.0%. These loans are collateralized with restricted deposits on our Consolidated Balance Sheet.

Refer to "Note 5 - Beneficial Interest in Debt and Interest Expense" to our consolidated financial statements for further details of our construction financings and related guarantees.

#### Term Loans

In February 2017, we completed a \$300 million unsecured term loan that matures in February 2022. The unsecured term loan bears interest at a range of LIBOR plus 1.25% to 1.90% based on our total leverage ratio. As of June 30, 2017, the loan total leverage ratio resulted in an interest rate of LIBOR plus 1.60%. In March 2017, the LIBOR rate was swapped, effective in January 2018 through maturity, to a fixed rate of 2.14%, which will result in an effective interest rate in the range of 3.39% to 4.04%. The loan includes an accordion feature which in combination with our \$1.1 billion primary unsecured revolving line of credit would increase our borrowing capacity to as much as \$2.0 billion in aggregate between the two facilities if fully exercised, subject to obtaining additional lender commitments, customary closing conditions, covenant compliance, and minimum asset values for the unencumbered asset pool. As of June 30, 2017, we could not utilize the accordion feature unless additional assets were added to our unencumbered asset pool.

Our \$475 million unsecured term loan matures in February 2019. As of June 30, 2017, the loan total leverage ratio resulted in an interest rate of LIBOR plus 1.60%. The LIBOR rate is swapped until maturity to a fixed rate of 1.65%, which results in an effective interest rate in the range of 3.00% to 3.55%. The loan includes an accordion feature that increases the borrowing capacity to as much as \$600 million if fully exercised, subject to obtaining additional lender commitments, customary closing conditions, and covenant compliance for the unencumbered asset pool. As of June 30, 2017, we could not utilize the accordion feature unless additional assets were added to our unencumbered asset pool.

#### Simon Property Group Limited Partnership Units Investment

In December 2016, we converted a portion of our investment of Simon Property Group Limited Partnership units (SPG LP Units) to Simon Property Group (SPG) common shares. We converted 250,000 of our 590,124 total SPG LP Units, which were received in January 2014 as a portion of the consideration of the sale of our 50% interest in Arizona Mills and land in Syosset, New York related to the former Oyster Bay project. We have no immediate plans to sell the SPG common shares, but we never intended to hold the investment long-term and intend to sell them at some point in the future.

Summaries of Capital Activities and Transactions for the Six Months Ended June 30, 2017 and 2016

*Operating Activities*

Our net cash provided by operating activities was \$ 141.2 million in 2017 , compared to \$ 159.7 million in 2016 . See also "Results of Operations" for descriptions of 2017 and 2016 transactions affecting operating cash flows.

*Investing Activities*

Net cash used in investing activities was \$ 105.4 million in 2017 , compared to \$437.4 million in 2016 . Additions to properties in 2017 and 2016 related primarily to the costs of new centers under development as well as capital and tenant improvements at existing centers. A tabular presentation of 2017 and 2016 capital spending is shown in "Capital Spending." Net cash proceeds from the sale of peripheral land were \$5.4 million in 2016. Cash placed in escrow to fund certain construction projects was \$10.5 million and \$103.6 million in 2017 and 2016, respectively. Also, in 2017 , we made an initial refundable deposit of \$11.0 million relating to a potential development opportunity with Shinsegae in South Korea (see "Liquidity and Capital Resources - Capital Spending - South Korea Development Project").

Contributions to Unconsolidated Joint Ventures were \$1.3 million in 2017 and \$10.1 million in 2016 , primarily related to the funding of Taubman Asia project costs. Additionally, in 2016, we contributed \$314.2 million to an Unconsolidated Joint Venture in connection with the acquisition of Country Club Plaza. Distributions from Unconsolidated Joint Ventures in excess of income were \$76.6 million in 2017, which is primarily attributable to the proceeds from the sale of the Valencia Place office tower at Country Club Plaza and the additional proceeds from the incremental financing for The Mall at Millenia. Distributions from Unconsolidated Joint Ventures in excess of income were \$176.1 million in 2016 , which is primarily attributable to the proceeds from the Country Club Plaza financing.

*Financing Activities*

Net cash used in financing activities was \$ 34.1 million in 2017 , compared to \$ 154.9 million provided by financing activities in 2016 . In 2017, proceeds from the issuance of debt, net of payments and issuance costs were \$88.8 million, generally provided by the proceeds from our \$300 million unsecured term loan and borrowings on the revolving lines of credit and construction facility for International Market Place, partially offset by the pay-off of the construction facility for The Mall of San Juan. In 2016 , proceeds from the issuance of debt, net of payments and issuance costs were \$410.5 million, generally provided by the refinancing of Cherry Creek Shopping Center and borrowings on the revolving lines of credit and construction facilities for The Mall of San Juan and International Market Place.

In 2017 , \$1.6 million was received in connection with incentive plans, compared to \$ 1.8 million in 2016 . Total dividends and distributions paid were \$ 124.5 million and \$ 259.5 million in 2017 and 2016 , respectively. In 2016, total dividends and distributions paid included an approximately \$135 million distribution related to the excess proceeds from the refinancing of Cherry Creek Shopping Center to our joint venture partner. Distributions in 2016 also included \$7.2 million in connection with the acquisition of half of the Former Taubman Asia President's ownership interest in Taubman Asia. Also in 2016, a \$2.0 million contribution was made to Taubman Asia by the Former Taubman Asia President. Refer to "Note 6 - Noncontrolling Interests" in the consolidated financial statements for further discussion of this contribution.

### Beneficial Interest in Debt

At June 30, 2017, the Operating Partnership's debt and its beneficial interest in the debt of its Consolidated Businesses and Unconsolidated Joint Ventures totaled \$4,508.7 million, with an average interest rate of 3.49% excluding amortization of debt issuance costs and interest rate hedging costs, if any. These costs are reported as interest expense in the results of operations. Interest expense includes non-cash amortization of premiums relating to acquisitions, if any. As of June 30, 2017, there were no unamortized premiums and no interest rate hedging costs being amortized. Beneficial interest in debt includes debt used to fund development and expansion costs. Beneficial interest in construction work in progress totaled \$347.6 million as of June 30, 2017, which includes \$323.5 million of assets on which interest is being capitalized. The following table presents information about our beneficial interest in debt as of June 30, 2017:

	Amount (in millions)	Interest Rate Including Spread
Fixed rate debt	\$ 2,746.7	3.78% <sup>(1)</sup>
Floating rate debt swapped to fixed rate:		
Swap maturing in April 2018	131.4	4.10%
Swap maturing in February 2019	475.0	3.25%
Swap maturing in September 2020	17.9	3.12%
Swap maturing in December 2021	83.8	3.58%
Swap maturing in March 2024	12.0	3.49%
	\$ 720.1	3.44% <sup>(1)</sup>
Floating month to month <sup>(2)</sup>	1,059.9	2.78% <sup>(1)</sup>
Total floating rate debt	\$ 1,780.0	3.05% <sup>(1)</sup>
Total beneficial interest in debt	\$ 4,526.7	3.49% <sup>(1)</sup>
Total deferred financing costs, net	\$ (18.0)	
Net beneficial interest in debt	\$ 4,508.7	
Amortization of deferred financing costs <sup>(3)</sup>		0.21%
Average all-in rate		3.70%

(1) Represents weighted average interest rate before amortization of deferred financing costs.

(2) Includes the \$300 million unsecured term loan which will be swapped to a fixed rate beginning January 2018.

(3) Deferred financing costs include debt issuance costs including amortization of deferred financing costs from revolving lines of credit and other fees not listed above.

(4) Amounts in table may not add due to rounding.

### Sensitivity Analysis

We have exposure to interest rate risk on our debt obligations and interest rate instruments. We use derivative instruments primarily to manage exposure to interest rate risks inherent in variable rate debt and refinancings. We routinely use cap, swap, and treasury lock agreements to meet these objectives. Based on the Operating Partnership's beneficial interest in floating rate debt in effect at June 30, 2017, a one percent increase in interest rates on this floating rate debt would decrease cash flows by \$10.6 million, and due to the effect of capitalized interest, decrease annual earnings by \$9.5 million. A one percent decrease in interest rates would increase cash flows by \$10.6 million and due to the effect of capitalized interest, increase annual earnings by \$9.5 million. Based on our consolidated debt and interest rates in effect at June 30, 2017, a one percent increase in interest rates would decrease the fair value of debt by \$137.8 million, while a one percent decrease in interest rates would increase the fair value of debt by \$151.6 million.

## Loan Commitments and Guarantees

Certain loan agreements contain various restrictive covenants, including the following corporate covenants on our primary unsecured revolving line of credit, \$475 million and \$300 million unsecured term loans, and the construction facility on International Market Place: a minimum net worth requirement, a maximum total leverage ratio, a maximum secured leverage ratio, a minimum fixed charge coverage ratio, a maximum recourse secured debt ratio, and a maximum payout ratio. In addition, our primary unsecured revolving line of credit and unsecured term loans have unencumbered pool covenants, which currently apply to Beverly Center, Dolphin Mall, The Gardens on El Paseo, and Twelve Oaks Mall on a combined basis. These covenants include a minimum number and minimum value of eligible unencumbered assets, a maximum unencumbered leverage ratio, a minimum unencumbered interest coverage ratio, and a minimum unencumbered asset occupancy ratio. As of June 30, 2017, the corporate total leverage ratio was the most restrictive covenant. We were in compliance with all of our loan covenants and obligations as of June 30, 2017. The maximum payout ratio covenant limits the payment of distributions generally to 95% of FFO, as defined in the loan agreements, except as required to maintain our tax status, pay preferred distributions, and for distributions related to the sale of certain assets. See "Note 5 - Beneficial Interest in Debt and Interest Expense" to our consolidated financial statements for more details on loan guarantees.

## Cash Tender Agreement

The A. Alfred Taubman Restated Revocable Trust, Taubman Ventures Group LLC, and other specified entities have the right to tender TRG Units and cause us to purchase the tendered interests at a purchase price based on a market valuation of TCO on the trading date immediately preceding the date of the tender. See "Note 9 – Commitments and Contingencies – Cash Tender" to our consolidated financial statements for more details.

## Capital Spending

### *New Developments*

We developed and opened four new shopping centers in 2016 and 2017:

- CityOn.Zhengzhou, which was developed with our joint venture partner Wangfujing, is located in Zhengzhou, China, and opened in March 2017;
- Starfield Hanam, which was developed with our joint venture partner Shinsegae, is located in Hanam, South Korea, and opened in September 2016;
- International Market Place, which is located in Waikiki, Honolulu, Hawaii, opened in August 2016; and
- CityOn.Xi'an, which was also developed with our joint venture partner Wangfujing, is located in Xi'an, China and opened in April 2016.

We expect capital spending at these shopping centers to continue in 2017 as certain costs are incurred subsequent to opening, including construction on tenant spaces.

Internally generated funds and excess proceeds from refinancings of maturing debt obligations, as well as borrowings under our revolving lines of credit would be sufficient to finance the anticipated remaining costs of these projects, but we also expect additional proceeds from our construction loan financings (see "Liquidity and Capital Resources - Construction Financings" above) and have the option to sell SPG common shares (see "Liquidity and Capital Resources - Simon Property Group Limited Partnership Units Investment" above).

### *South Korea Development Project*

We are exploring a second development opportunity in South Korea with Shinsegae, our partner in Starfield Hanam. In March 2017, we made an initial refundable deposit of \$11 million relating to a potential development site. We are continuing our due diligence and preliminary planning. The potential return of the deposit, including a 5% return, is secured by a letter of credit from Shinsegae.

### 2017 Capital Spending

Capital spending for routine maintenance of the shopping centers is generally recovered from tenants. Capital spending through June 30, 2017, is summarized in the following table:

	2017 <sup>(1)</sup>			
	Consolidated Businesses	Beneficial Interest in Consolidated Businesses	Unconsolidated Joint Ventures	Beneficial Interest in Unconsolidated Joint Ventures
	(in millions)			
New development projects - U.S. <sup>(2)</sup>	\$ 19.7	\$ 18.8		
New development projects - Asia <sup>(3)(4)</sup>			\$ 24.1	\$ 11.7
Existing centers:				
Projects with incremental GLA or anchor replacement <sup>(5)</sup>	6.4	6.4		
Projects with no incremental GLA and other <sup>(6)</sup>	95.3	93.2	4.6	2.3
Mall tenant allowances	4.5	4.2	3.0	1.5
Asset replacement costs recoverable from tenants	4.2	4.1	3.6	2.0
Corporate office improvements, technology, equipment, and other	12.8	12.8		
<b>Total</b>	<b>\$ 143.0</b>	<b>\$ 139.5</b>	<b>\$ 35.2</b>	<b>\$ 17.5</b>

(1) Costs are net of intercompany profits and are computed on an accrual basis.

(2) Includes costs related to International Market Place.

(3) Includes costs related to CityOn.Xi'an, CityOn.Zhengzhou, and Starfield Hanam.

(4) Asia balance excludes net increases in total project costs due to changes in exchange rates during the period.

(5) Includes costs related to The Mall at Green Hills redevelopment.

(6) Includes costs related to the Beverly Center renovation.

(7) Amounts in this table may not add due to rounding.

For the six months ended June 30, 2017, in addition to the costs above, we incurred our \$2.4 million share of Consolidated Businesses' and \$1.4 million share of Unconsolidated Joint Ventures' capitalized leasing costs.

The following table presents a reconciliation of the Consolidated Businesses' capital spending shown above (on an accrual basis) to additions to properties (on a cash basis) as presented in our Consolidated Statement of Cash Flows for the six months ended June 30, 2017:

	(in millions)
Consolidated Businesses' capital spending	\$ 143.0
Other differences between cash and accrual basis	16.3
Additions to properties	\$ 159.3

### Planned 2017 Capital Spending

The following table summarizes planned capital spending for 2017, including actual spending through June 30, 2017 and anticipated spending for the remainder of the year:

	2017 <sup>(1)</sup>			
	Consolidated Businesses	Beneficial Interest in Consolidated Businesses	Unconsolidated Joint Ventures	Beneficial Interest in Unconsolidated Joint Ventures
	(in millions)			
New development projects - U.S. <sup>(2)</sup>	\$ 26.2	\$ 25.0		
New development projects - Asia <sup>(3)(4)</sup>			\$ 80.7	\$ 39.7
Existing centers:				
Projects with incremental GLA or anchor replacement <sup>(5)</sup>	44.2	44.2		
Projects with no incremental GLA and other <sup>(6)</sup>	213.9	210.9	11.1	5.8
Mall tenant allowances	16.4	14.2	17.7	9.1
Asset replacement costs recoverable from tenants	15.9	15.4	14.8	8.1
Corporate office improvements, technology, equipment, and other	20.2	20.2		
<b>Total</b>	<b>\$ 336.7</b>	<b>\$ 329.9</b>	<b>\$ 124.3</b>	<b>\$ 62.6</b>

(1) Costs are net of intercompany profits and are computed on an accrual basis.

(2) Includes costs related to International Market Place.

(3) Includes costs related to CityOn.Xi'an, CityOn.Zhengzhou, and Starfield Hanam.

(4) Asia costs exclude currency translation adjustments.

(5) Includes costs related to The Mall at Green Hills redevelopment.

(6) Includes costs related to the Beverly Center renovation.

(7) Amounts in this table may not add due to rounding.

### Redevelopments

We are working on a comprehensive renovation of Beverly Center scheduled to be completed by the 2018 holiday season. The project will cost approximately \$500 million and we expect a return of 3% to 4% at stabilization in 2020. The projected return was calculated using the estimated cash flow differential between two scenarios; a full renovation and a non-renovation scenario. As of June 30, 2017, we had capitalized costs of \$178.6 million related to this renovation.

We have an ongoing redevelopment project at The Mall at Green Hills that will add approximately 170,000 square feet of incremental GLA that we expect to be completed in 2019. The project will cost approximately \$200 million, and we expect a return of 6.5% to 7.5% at stabilization. As of June 30, 2017, we had capitalized costs of \$79.3 million related to this redevelopment project.

Disclosures regarding planned capital spending, including estimates regarding timing of openings, capital expenditures, occupancy, and returns on new developments and redevelopments are forward-looking statements and certain significant factors could cause the actual results to differ materially, including but not limited to (1) actual results of negotiations with anchors, tenants, and contractors, (2) timing and outcome of litigation and entitlement processes, (3) changes in the scope, number, and valuation of projects, (4) cost overruns, (5) timing of expenditures, (6) availability of and cost of financing and other financing considerations, (7) actual time to start construction and complete projects, (8) changes in economic climate, (9) competition from others attracting tenants and customers, (10) increases in operating costs, (11) timing of tenant openings, (12) early lease terminations and bankruptcies, and (13) fluctuations in foreign currency exchange rates. In addition, estimates of capital spending will change as new projects are approved by our Board of Directors.

## Dividends

We pay regular quarterly dividends to our common and preferred shareowners and expect to continue to pay dividends for the foreseeable future. However, dividends to our common shareowners are at the discretion of the Board of Directors and depend on the cash available to us, our financial condition, capital and other requirements, and such other factors as the Board of Directors deems relevant. To qualify as a REIT, we must distribute at least 90% of our REIT taxable income prior to net capital gains to our shareowners, as well as meet certain other requirements. We must pay these distributions in the taxable year the income is recognized, or in the following taxable year if they are declared during the last three months of the taxable year, payable to shareowners of record on a specified date during such period and paid during January of the following year. Such distributions are treated as paid by us and received by our shareowners on December 31 of the year in which they are declared. In addition, at our election, a distribution for a taxable year may be declared in the following taxable year if it is declared before we timely file our tax return for such year and if paid on or before the first regular dividend payment after such declaration. These distributions qualify as dividends paid for the 90% REIT distribution test for the previous year and are taxable to holders of our capital stock in the year in which paid. Preferred dividends accrue regardless of whether earnings, cash availability, or contractual obligations were to prohibit the current payment of dividends.

The annual determination of our common dividends is based on anticipated FFO available after preferred dividends and our REIT taxable income, as well as assessments of annual capital spending, financing considerations, and other appropriate factors.

Any inability of the Operating Partnership or its joint ventures to secure financing as required to fund maturing debts, capital expenditures and changes in working capital, including development activities and expansions, may require the utilization of cash to satisfy such obligations, thereby possibly reducing distributions to partners of the Operating Partnership and funds available to us for the payment of dividends.

On June 1, 2017, we declared a quarterly dividend of \$0.625 per common share, \$0.40625 per share on our 6.5% Series J Preferred Stock, and \$0.390625 per share on our 6.25% Series K Preferred Stock, all of which were paid on June 30, 2017 to shareowners of record on June 15, 2017.

## New Accounting Pronouncements

Refer to "Note 14 - New Accounting Pronouncements" in the consolidated financial statements, regarding our ongoing evaluation of Accounting Standards Update (ASU) No. 2017-09, addressing when changes to share-based payment awards must be accounted for as modifications; ASU No. 2017-05, addressing the recognition of gains and losses from the transfer of nonfinancial assets and for partial sales of nonfinancial assets; ASU No. 2017-01, clarifying the definition of a business; ASU No. 2016-18, addressing the classification and presentation of restricted cash on the statement of cash flows; ASU No. 2016-15, addressing the classification of certain cash receipts and cash payments on the statement of cash flows; ASU No. 2016-02, addressing leases; ASU No. 2016-01, addressing the measurement of financial assets and financial liabilities; and ASU No. 2014-09 and ASU No. 2015-14, addressing revenue recognition.

## **Non-GAAP Measures**

### Use of Non-GAAP Measures

We use NOI as an alternative measure to evaluate the operating performance of centers, both on individual and stabilized portfolio bases. We define NOI as property-level operating revenues (includes rental income excluding straight-line adjustments of minimum rent) less maintenance, taxes, utilities, promotion, ground rent (including straight-line adjustments), and other property operating expenses. Since NOI excludes general and administrative expenses, pre-development charges, interest income and expense, depreciation and amortization, impairment charges, restructuring charges, and gains from land and property dispositions, it provides a performance measure that, when compared period over period, reflects the revenues and expenses most directly associated with owning and operating rental properties, as well as the impact on their operations from trends in mall tenant sales, occupancy and rental rates, and operating costs. We also use NOI excluding lease cancellation income as an alternative measure because this income may vary significantly from period to period, which can affect comparability and trend analysis. We generally provide separate projections for expected NOI growth and our lease cancellation income.

The following reconciliations include the supplemental earnings measures of EBITDA and FFO. EBITDA represents earnings before interest, income taxes, and depreciation and amortization of our consolidated and unconsolidated businesses. We believe EBITDA generally provides a useful indicator of operating performance, as it is customary in the real estate and shopping center business to evaluate the performance of properties on a basis unaffected by capital structure.

The National Association of Real Estate Investment Trusts (NAREIT) defines FFO as net income (computed in accordance with Generally Accepted Accounting Principles (GAAP)), excluding gains (or losses) from extraordinary items, sales of properties, and impairment write-downs of depreciable real estate, plus real estate related depreciation and after adjustments for unconsolidated partnerships and joint ventures. We believe that FFO is a useful supplemental measure of operating performance for REITs. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, we and most industry investors and analysts have considered presentations of operating results that exclude historical cost depreciation to be useful in evaluating the operating performance of REITs. We primarily use FFO in measuring performance and in formulating corporate goals and compensation.

We may also present adjusted versions of NOI and FFO when used by management to evaluate our operating performance when certain significant items have impacted our results that affect comparability with prior or future periods due to the nature or amounts of these items. In addition to the reasons noted above for each measure, we believe the disclosure of the adjusted items is similarly useful to investors and others to understand management's view on comparability of such measures between periods. For the three months ended June 30, 2017, we adjusted FFO to exclude a restructuring charge and costs incurred associated with shareowner activism. In addition, for the six months ended June 30, 2017, we also adjusted FFO to exclude a charge recognized in connection with the partial write-off of deferred financing costs related to an amendment of our primary unsecured revolving line of credit in February 2017. For the three and six months ended June 30, 2016, we adjusted FFO to exclude the lump sum payment of \$21.7 million we received in connection with the termination of our third party leasing agreement at Crystals (see "Results of Operations - The Shops at Crystals (Crystals)").

Our presentations of NOI, EBITDA, FFO, and adjusted versions of these measures, if any, are not necessarily comparable to the similarly titled measures of other REITs due to the fact that not all REITs use the same definitions. These measures should not be considered alternatives to net income or as an indicator of our operating performance. Additionally, these measures do not represent cash flows from operating, investing, or financing activities as defined by GAAP. Reconciliations of Net Income Attributable to Taubman Centers, Inc. Common Shareowners to Funds from Operations and Adjusted Funds from Operations and Net Income to Net Operating Income are presented in the following section.

### Reconciliation of Non-GAAP Measures

The following includes reconciliations of our non-GAAP financial measures: Net Income Attributable to Taubman Centers, Inc. Common Shareowners to Funds from Operations and Adjusted Funds from Operations and Net Income to Net Operating Income.

**Reconciliation of Net Income Attributable to Taubman Centers, Inc. Common Shareowners to Funds from Operations and Adjusted Funds from Operations**

	Three Months Ended June 30					
	2017			2016		
	Dollars in millions	Diluted Shares/ Units	Per Share/ Unit	Dollars in millions	Diluted Shares/ Units	Per Share/ Unit
Net income attributable to TCO common shareowners - basic	\$ 13.5	60,694,727	\$ 0.22	\$ 34.7	60,353,080	\$ 0.58
Add impact of share-based compensation	—	306,861		0.1	348,622	
Net income attributable to TCO common shareowners - diluted	\$ 13.5	61,001,588	\$ 0.22	\$ 34.8	60,701,702	\$ 0.57
Add depreciation of TCO's additional basis	1.6		0.03	1.6		0.03
Add TCO's additional income tax expense	—		—			
Net income attributable to TCO common shareowners, excluding step-up depreciation and additional income tax expense	\$ 15.1	61,001,588	\$ 0.25	\$ 36.4	60,701,702	\$ 0.60
Add:						
Noncontrolling share of income of TRG	6.2	24,970,351		15.1	25,060,830	
Distributions to participating securities of TRG	0.6	871,262		0.5	871,262	
Net income attributable to partnership unitholders and participating securities of TRG	\$ 21.9	86,843,201	\$ 0.25	\$ 52.0	86,633,794	\$ 0.60
Add (less) depreciation and amortization (1):						
Consolidated businesses at 100%	39.4		0.45	29.7		0.34
Depreciation of TCO's additional basis	(1.6)		(0.02)	(1.6)		(0.02)
Noncontrolling partners in consolidated joint ventures	(1.8)		(0.02)	(1.3)		(0.01)
Share of Unconsolidated Joint Ventures	17.5		0.20	11.7		0.13
Non-real estate depreciation	(0.7)		(0.01)	(0.6)		(0.01)
Less impact of share-based compensation	—		—	(0.1)		—
Funds from Operations attributable to partnership unitholders and participating securities of TRG	\$ 74.7	86,843,201	\$ 0.86	\$ 89.8	86,633,794	\$ 1.04
TCO's average ownership percentage of TRG - basic	70.9%			70.7%		
Funds from Operations attributable to TCO's common shareowners, excluding additional income tax expense	\$ 52.9		\$ 0.86	\$ 63.5		\$ 1.04
Less TCO's additional income tax expense	—		—			
Funds from Operations attributable to TCO's common shareowners	\$ 52.9		\$ 0.86	\$ 63.5		\$ 1.04
Funds from Operations attributable to partnership unitholders and participating securities of TRG	\$ 74.7	86,843,201	\$ 0.86	\$ 89.8	86,633,794	\$ 1.04
Restructuring charge	0.4		—			
Costs associated with shareowner activism	5.0		0.06			
Crystals lump sum fee for termination of leasing agreement				(21.7)		(0.25)
Adjusted Funds from Operations attributable to partnership unitholders and participating securities of TRG	\$ 80.1	86,843,201	\$ 0.92	\$ 68.1	86,633,794	\$ 0.79
TCO's average ownership percentage of TRG - basic	70.9%			70.7%		
Adjusted Funds from Operations attributable to TCO's common shareowners	\$ 56.8		\$ 0.92	\$ 48.1		\$ 0.79

(1) Depreciation includes \$3.4 million and \$3.7 million of mall tenant allowance amortization for the three months ended June 30, 2017 and 2016, respectively.

(2) Amounts in this table may not recalculate due to rounding.

**Reconciliation of Net Income Attributable to Taubman Centers, Inc. Common Shareowners to Funds from Operations and Adjusted Funds from Operations**

	Six Months Ended June 30					
	2017			2016		
	Dollars in millions	Diluted Shares/ Units	Per Share/ Unit	Dollars in millions	Diluted Shares/ Units	Per Share/ Unit
Net income attributable to TCO common shareowners - basic	\$ 30.7	60,625,481	\$ 0.51	\$ 59.3	60,314,042	\$ 0.98
Add impact of share-based compensation	0.1	402,760		0.1	432,309	
Net income attributable to TCO common shareowners - diluted	\$ 30.7	61,028,241	\$ 0.50	\$ 59.5	60,746,351	\$ 0.98
Add depreciation of TCO's additional basis	3.2		0.05	3.2		0.05
Add (less) TCO's additional income tax expense (benefit)	0.1		—	—		—
Net income attributable to TCO common shareowners, excluding step-up depreciation and additional income tax expense (benefit)	\$ 34.1	61,028,241	\$ 0.56	\$ 62.7	60,746,351	\$ 1.03
Add:						
Noncontrolling share of income of TRG	14.0	24,974,128		26.0	25,061,495	
Distributions to participating securities of TRG	1.1	871,262		1.0	871,262	
Net income attributable to partnership unitholders and participating securities of TRG	\$ 49.2	86,873,631	\$ 0.57	\$ 89.7	86,679,108	\$ 1.03
Add (less) depreciation and amortization (1):						
Consolidated businesses at 100%	77.2		0.89	59.5		0.69
Depreciation of TCO's additional basis	(3.2)		(0.04)	(3.2)		(0.04)
Noncontrolling partners in consolidated joint ventures	(3.6)		(0.04)	(2.7)		(0.03)
Share of Unconsolidated Joint Ventures	33.2		0.38	21.0		0.24
Non-real estate depreciation	(1.4)		(0.02)	(1.3)		(0.01)
Less beneficial share of gain on disposition, net of tax	(2.1)		(0.02)			
Less impact of share-based compensation	(0.1)		—	(0.1)		—
Funds from Operations attributable to partnership unitholders and participating securities of TRG	\$ 149.1	86,873,631	\$ 1.72	\$ 162.8	86,679,108	\$ 1.88
TCO's average ownership percentage of TRG - basic	70.8%			70.6%		
Funds from Operations attributable to TCO's common shareowners, excluding additional income tax benefit (expense)	\$ 105.6		\$ 1.72	\$ 115.0		\$ 1.88
Add (less) TCO's additional income tax benefit (expense)	(0.1)		—	—		—
Funds from Operations attributable to TCO's common shareowners	\$ 105.5		\$ 1.71	\$ 115.1		\$ 1.88
Funds from Operations attributable to partnership unitholders and participating securities of TRG	\$ 149.1	86,873,631	\$ 1.72	\$ 162.8	86,679,108	\$ 1.88
Restructuring charge	2.3		0.03			
Costs associated with shareowner activism	8.5		0.10			
Partial write-off of deferred financing costs	0.4		—			
Crystals lump sum fee for termination of leasing agreement				(21.7)		(0.25)
Adjusted Funds from Operations attributable to partnership unitholders and participating securities of TRG	\$ 160.3	86,873,631	\$ 1.85	\$ 141.1	86,679,108	\$ 1.63
TCO's average ownership percentage of TRG - basic	70.8%			70.6%		
Adjusted Funds from Operations attributable to TCO's common shareowners, excluding additional income tax benefit	\$ 113.6		\$ 1.85	\$ 99.7		\$ 1.63
Add TCO's additional income tax benefit				—		—
Adjusted Funds from Operations attributable to TCO's common shareowners	\$ 113.6		\$ 1.85	\$ 99.7		\$ 1.63

(1) Depreciation includes \$6.9 million and \$7.2 million of mall tenant allowance amortization for the six months ended June 30, 2017 and 2016, respectively.

(2) Amounts in this table may not recalculate due to rounding.

**Reconciliation of Net Income to Net Operating Income**

	Three Months Ended June 30		Six Months Ended June 30	
	(in millions)			
	2017	2016	2017	2016
Net income	\$ 27.7	\$ 57.7	\$ 60.4	\$ 102.1
Add (less) depreciation and amortization:				
Consolidated businesses at 100%	39.4	29.7	77.2	59.5
Noncontrolling partners in consolidated joint ventures	(1.8)	(1.3)	(3.6)	(2.7)
Share of Unconsolidated Joint Ventures	17.5	11.7	33.2	21.0
Add (less) interest expense and income tax expense:				
Interest expense:				
Consolidated businesses at 100%	26.7	20.6	52.3	39.7
Noncontrolling partners in consolidated joint ventures	(3.0)	(2.6)	(6.0)	(4.5)
Share of Unconsolidated Joint Ventures	17.8	13.2	33.6	24.7
Share of income tax expense:				
Consolidated businesses at 100%	0.1	0.4	0.3	0.7
Noncontrolling partners in consolidated joint ventures	—	—	(0.1)	—
Share of Unconsolidated Joint Ventures	0.5	—	2.2	—
Share of income tax expense on disposition	—	—	0.7	—
Less noncontrolling share of income of consolidated joint ventures	(1.6)	(1.6)	(3.0)	(4.2)
Add EBITDA attributable to outside partners:				
EBITDA attributable to noncontrolling partners in consolidated joint ventures	6.5	5.5	12.7	11.4
EBITDA attributable to outside partners in Unconsolidated Joint Ventures	45.0	31.9	92.9	62.8
EBITDA at 100%	\$ 174.9	\$ 165.2	\$ 352.8	\$ 310.5
Add (less) items excluded from shopping center Net Operating Income:				
General and administrative expenses	9.4	11.7	20.2	23.1
Management, leasing, and development services, net	(0.8)	(22.3) <sup>(1)</sup>	(1.1)	(23.2) <sup>(1)</sup>
Restructuring charge	0.4	—	2.3	—
Costs associated with shareowner activism	5.0	—	8.5	—
Straight-line of rents	(1.7)	(2.0)	(3.2)	(3.1)
Gain on disposition	—	—	(4.4)	—
Gains on sales of peripheral land	—	—	(1.7)	(0.4)
Dividend income	(1.0)	(0.9)	(2.1)	(1.9)
Interest income	(2.2)	(1.8)	(4.3)	(2.3)
Other nonoperating income	(0.2)	(0.8)	(0.1)	(0.7)
Unallocated operating expenses and other	9.1	12.1	16.4	22.2
Net Operating Income at 100% - all centers	\$ 192.9	\$ 161.2	\$ 383.3	\$ 324.2
Less Net Operating Income of non-comparable centers <sup>(2)</sup>	(38.0)	(15.8)	(72.3)	(28.5)
Net Operating Income at 100% - comparable centers	\$ 154.9	\$ 145.4	\$ 311.0	\$ 295.7
Lease cancellation income	(5.7)	(0.3)	(9.3)	(2.2)
Net Operating Income at 100% excluding lease cancellation income <sup>(3)</sup>	\$ 149.2	\$ 145.1	\$ 301.7	\$ 293.5

(1) Amount includes the lump sum payment of \$21.7 million received in May 2016 in connection with the termination of our third party leasing agreement for Crystals due to a change in ownership of the center.

(2) Includes Beverly Center, CityOn.Xi'an, CityOn.Zhengzhou, Country Club Plaza, International Market Place, and Starfield Hanam.

(3) See "Non-GAAP Measures - Use of Non-GAAP Measures" above for a discussion of the use and utility of Net Operating Income excluding lease cancellation income as a performance measure.

(4) Amounts in this table may not add due to rounding.

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

The information required by this item is included in this report at Item 2 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Sensitivity Analysis."

**Item 4. Controls and Procedures**

As of the end of the period covered by this quarterly report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2017, our disclosure controls and procedures were effective to ensure the information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods prescribed by the SEC, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II  
OTHER INFORMATION

**Item 1. Legal Proceedings**

There was no material outstanding litigation as of June 30, 2017 .

**Item 1 A. Risk Factors**

There were no material changes in our risk factors previously disclosed in Part I, Item 1A. of our Form 10-K for the year ended December 31, 2016 .

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

Our Board of Directors authorized a share repurchase program under which we may repurchase up to \$450 million of our outstanding common stock. We may repurchase shares from time to time on the open market or in privately negotiated transactions or otherwise, depending on market prices and other conditions. No shares have been repurchased in 2017. As of June 30, 2017 , we cumulatively repurchased 4,247,867 shares of our common stock at an average price of \$71.79 per share for a total of \$304.9 million under the authorization. As of June 30, 2017 , \$145.1 million remained available under the repurchase program. All shares repurchased have been cancelled. For each share of our common stock repurchased, one of our TRG Units was redeemed. Repurchases of common stock were financed with general corporate funds, including borrowings under our existing revolving lines of credit.

The restrictions on our ability to pay dividends on our common stock are set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Dividends."

**Item 6. Exhibits**

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Incorporated by Reference</u>				<u>Filed Herewith</u>
		<u>Form</u>	<u>Period Ending</u>	<u>Exhibit</u>	<u>Filing Date</u>	
*10.1	<a href="#">Employment Agreement between The Taubman Company LLC and Paul Wright, effective April 1, 2017.</a>					X
12	<a href="#">Statement Re: Computation of Taubman Centers, Inc. Ratio of Earnings to Combined Fixed Charges and Preferred Dividends.</a>					X
31.1	<a href="#">Certification of Chief Executive Officer pursuant to 15 U.S.C. Section 10A, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
31.2	<a href="#">Certification of Chief Financial Officer pursuant to 15 U.S.C. Section 10A, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
32.1	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					**
32.2	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					**
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					X
*	A management contract or compensatory plan or arrangement required to be filed.					
**	Documents are furnished, not filed.					

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.

Date: July 28, 2017

TAUBMAN CENTERS, INC.

By: /s/ Simon J. Leopold

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Simon J. Leopold

Executive Vice President, Chief Financial Officer, and Treasurer (Principal Financial Officer)

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this “ **Agreement** ”) is entered into as of the 30th day of March, 2017, by and between **the TAUBMAN COMPANY LLC** , a Delaware limited liability company (“ **Employer** ”), and **PAUL WRIGHT** (“ **Executive** ”).

### SECTION 1. SERVICES; TERM

1.1 Engagement. Employer has agreed to employ and, subject to the provisions of this Agreement, shall continue to employ Executive, and Executive shall serve Employer on a full-time and exclusive basis as Executive Vice President, Global Head of Leasing, commencing April 1, 2017 (the “ **Start Date** ”). In such capacity, Executive shall be responsible for leading and overseeing Employer’s and its subsidiaries’ and affiliates’ leasing efforts globally, and shall perform such other services for and on behalf of Employer as directed from time to time by Employer reasonably consistent with Executive’s title, position, authority, duties, and responsibilities, all in accordance with the business purposes of Employer.

1.2 Duty to Employer. For so long as Executive shall be employed hereunder, Executive shall devote all of his business time, energy and ability to the business, affairs and interests of Employer and its subsidiaries and to matters related thereto, shall faithfully and diligently promote Employer’s interests and shall perform the services contemplated by this Agreement. Executive agrees to observe and comply with the written policies, lawful rules and regulations of Employer respecting the performance of Executive’s duties and agrees to carry out and perform all such reasonable orders, directions and policies of Employer, as they may be, from time to time, stated either orally or in writing.

1.3 Term.

(a) Unless earlier terminated in accordance with Section 4 hereof, Employer shall employ Executive, and Executive shall serve Employer, in accordance with the provisions of this Agreement for the term (the “ **Term** ”) commencing on the Start Date and continuing through March 30, 2019 . Notwithstanding the foregoing, Employer reserves the right to terminate this Agreement at any time for “good cause” or without “good cause” in accordance with Section 4 hereof. The Term may be extended for an additional two (2) years (i.e. expiring on March 30, 2021), at the mutual written agreement of Employer and Executive, each in their sole discretion.

(b) Upon expiration of the Term of this Agreement (but for sake of clarity not upon any earlier termination), if Employer does not offer Executive employment in Asia at least as comparable to the head of leasing for Taubman Asia that Executive previously held, then, subject to Section 4.3 (e) below, (i) Employer shall pay Executive a lump sum equal to Executive’s then current annual Base Salary and annual Target Bonus as separation pay, and (ii) Executive’s then outstanding RSU Awards and PSU Awards shall automatically vest as additional separation pay.

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## SECTION 2. COMPENSATION

### 2.1 Salary.

(a) Commencing as of April 1, 2017 through March 30, 2018, Executive will be paid a salary (the “**Base Salary**”), in U.S. Dollars, in the amount of \$425,000 per annum, in equal biweekly installments. Employer and Executive agree to review the Base Salary annually to determine whether any increase is appropriate, and if the salary is adjusted, then for purposes of this Agreement, such salary as adjusted shall become the Base Salary from and after the effective date of the adjustment; however, Employer will make the final decision in its sole discretion.

(b) In addition to the Base Salary, commencing as of April 1, 2017 through March 30, 2019, Executive will be paid an additional sum of US\$410,000 per annum, in equal biweekly installments (the “**Additional Salary**”) in lieu of a travel allowance and in recognition of the global role of Executive.

### 2.2 Cash Bonus.

(a) During the Term, Executive will be eligible to receive an annual cash bonus, determined by Employer in its sole discretion, which will be paid in U.S. Dollars, in such amount as Employer may determine based on Employer’s performance and Executive’s achievement of performance goals established by Employer, in good faith consultation with Executive, in February of each year. Executive’s “target bonus” (“**Target Bonus**”) will be 50% of his Base Salary for each year during the Term. The actual Target Bonus payout is based on individual and Company performance and is not guaranteed. The Target Bonus, determined by Employer in its sole discretion, will be paid at the same time Employer pays its cash bonuses generally.

(b) During the Term, Executive will be paid an additional bonus (the “**Additional Bonus**”) in the amount of US\$250,000 per annum which will be paid in equal biweekly installments and will be subject to the clawback provision below. If Employer determines, in its sole discretion, exercised in good faith, after year-end that the Additional Bonus was not warranted due to Employer or individual performance, Employer will withhold from the following year’s Target Bonus and/or Additional Bonus payment or, in the event of termination or expiration of this Agreement, Executive shall repay to Employer, such amounts determined by Employer. If Employer determines after year-end that the Additional Bonus payment should be in excess of US\$250,000 based on Employer or individual performance, an additional payment, equal to such excess will be made at the time annual bonus payments are processed.

### 2.3 Long-Term Incentive.

(a) Executive will be eligible for an annual Restricted Share Unit Award (the “**RSU Award**”) with a three-year cliff vest under the Taubman Company LLC 2008 Omnibus Long-Term Incentive Plan. The RSU Award will have a grant value target of 80% of Executive’s Base Salary.

(b) Executive will be eligible for an annual Performance Share Unit Award (the “**PSU Award**”) under the Taubman Company LLC 2008 Omnibus Long-Term Incentive Plan. The target grant value of the PSU Award will be US\$335,000, but may vest at a multiple of that amount (e.g., 0 to 3x). The PSU Award will have a three-year cliff vest and will be subject to the same PSU performance metrics as Employer’s other Operating Committee members’ awards are.

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(c) Executive will be eligible for these annual RSU Award and PSU Award grants in March of 2017 and 2018, and if the Term is extended for an additional two years pursuant to Section 1.3 (a) above, in March of 2019 and 2020.

(d) The RSU Award and the PSU Award shall be set forth in separate award agreements which will contain additional terms and conditions and which will supersede the general description of the awards set forth herein.

(e) Executive has previously received RSU Awards in calendar year 2015 and calendar year 2016 (“ **Existing Awards** ”). Employer agrees that, if and when the Existing Awards vest, Employer will provide a tax equalization benefit (in the form of cash and/or shares in Taubman Centers, Inc., at Employer’s sole election) in an amount that will provide Executive with the same net value received, after income taxes, as if Executive was employed in Hong Kong. Such amount shall be determined by Employer in its good faith, reasonable discretion. For the sake of clarity, such amount will include not only the difference in the additional taxes to be incurred as a result of Executive working in the United States, but such difference will also be “grossed up” to account for the US income taxes on such difference.

## 2.4 Benefits.

(a) For the duration of Executive’s employment hereunder, Employer will provide Executive with the following benefits:

Relocation: Executive will be eligible for Employer’s standard international relocation benefit per Employer’s Relocation Policy, which includes reasonable amounts for shipment of household goods, new home closing costs, temporary housing, and any obligations under Executive’s current lease in Hong Kong after the Executive takes residence in the US.

Employer will reimburse Executive for his reasonable out of pocket expenses incurred in relocating back to Hong Kong after the expiration or termination of this Agreement unless Employer terminates this Agreement for “good cause” or Executive terminates this Agreement, other than for “good reason”.

Health Insurance: Executive will be eligible for the standard benefits for Operating Committee members of Employer.

Life Insurance: Employer will provide Executive with its standard life insurance benefits subject to medical underwriting approval.

AD&D Insurance: Employer will provide Executive with its standard accidental death and dismemberment insurance.

Long-Term Disability: Employer will provide Executive with its standard long-term disability benefits.

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Tax Preparation: Employer will reimburse Executive for his reasonable, out of pocket expenses incurred in preparation of his US income tax return during the Term.

(b) To the extent that Executive meets eligibility requirements applicable to employees generally in any other benefit plan of Employer, Executive shall be entitled to participate in such plan, (e.g. 401(k) plan).

(c) Except as provided otherwise in this Agreement, Executive shall not participate in or be eligible to participate in any bonus, pension, profit, long-term incentive pay, and severance or incentive compensation plan of Employer or any of its affiliates, including without limitation any auto or education benefit. In no event shall Executive be entitled to benefits under both an Employer (or affiliate) plan and a comparable plan of any other entity, and in no event shall Executive be entitled to duplicative benefits under any plans of Employer and/or its affiliates or such other entities. Except insofar as benefits are explicitly granted in the other provisions of this Agreement, Employer reserves the right to modify, suspend or discontinue any and all benefit plans, practices, policies and programs at any time (whether before or after termination of employment) without notice to or recourse by Executive.

2.5 Vacation. (a) Executive shall be paid out for 20 days of unused Annual Leave (vacation) time in March 2017 by his current employer, Taubman Asia Management Limited. Annual Leave time in excess of 20 days shall be transferred to Executive's US Paid Time Off ("PTO") Bank. Executive will accrue 35 PTO days per annum in equal biweekly accruals effective the first pay period beginning after April 1, 2017.

(b) In addition to such vacation time as is provided in paragraph (a) above, in each calendar year, Executive shall be entitled to such statutory holidays as are required by local law where Executive's office is located.

2.6 Taxation. Executive shall be solely responsible to pay all taxes and any other imposts as may be levied or assessed by any competent authority on any sums paid and/or other benefits provided to Executive by Employer. All compensation payable hereunder, shall be subject to applicable taxes, withholding and other required, normal or elected employee deductions.

### SECTION 3. BUSINESS EXPENSES

During the term of this Agreement, to the extent that such expenditures constitute ordinary and necessary business expenses, Employer shall reimburse Executive promptly, for reasonable business expenditures, including business travel, entertainment and business meetings, substantiated in accordance with written lawful policies, practices and procedures established from time to time by Employer and incurred in pursuit and furtherance of Employer's business and good will.

### SECTION 4. TERMINATION

Executive shall continue to be employed by Employer hereunder until the expiration of the Term or such earlier date as his employment is terminated pursuant to this Section 4.

#### 4.1 Termination by Employer.

(a) *Disability*. In the event that Executive shall fail, because of illness, incapacity or injury which is determined to be total and permanent by a physician selected by Employer or its insurers to render for an aggregate of one hundred and eighty (180) days in any rolling twelve (12) month period the services

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contemplated by this Agreement, Executive's employment hereunder may be terminated by written notice of termination from Employer to Executive.

(b) *Death* . In the event of Executive's death, Executive's employment hereunder shall be deemed automatically terminated.

(c) *For Good Cause* . Employer may terminate Executive's employment hereunder at any time for "good cause" by written notice of termination to Executive if

(1) Executive has been convicted of or pleads nolo contendere to (or the procedural equivalent of either in a foreign jurisdiction) a felony or other crime that reasonably could be expected to result in harm to Employer or its reputation;

(2) Executive has materially breached any fiduciary duty to Employer;

(3) Executive has engaged in habitual drug or alcohol abuse which materially impairs his ability to perform his duties;

(4) Executive has violated any law, rule or regulation, or policy of Employer that has or reasonably could be expected to have a material adverse impact on Employer;

(5) Executive is legally incompetent to manage his business affairs;

(6) Executive has filed, or consented to, any petition or other proceeding in bankruptcy with respect to himself;

(7) any third party has filed a petition or instituted any other proceeding, which is not contested, seeking to find Executive bankrupt or insolvent; or

(8) Executive has materially breached any provision of this Agreement or materially violated any lawful written policy of Employer and has failed to cure such breach, if curable, within ten (10) business days after receiving written notice thereof. If Executive materially breaches any such provision and is given such ten (10) business day notice, Executive shall not be entitled to any notice or cure prior to termination for any subsequent similar breaches.

(d) *Without Good Cause* . Employer shall have the right to terminate Executive's employment with Employer at any time upon written notice of termination from Employer to Executive.

#### 4.2 Termination by Executive.

*For Good Reason* . Executive may terminate his employment hereunder at any time for "good reason" by written notice of termination to Employer in the event that (i) Employer has materially breached any of the provisions of this Agreement, including without limitation, any failure to pay Executive compensation due hereunder or any reduction in Executive's salary, Target Bonus, Additional Bonus or RSU or PSU Awards, as the case may be, below the amounts provided in Section 2, which breach is not cured within thirty (30) days after Executive notifies Employer thereof in writing; (ii) Employer significantly changes the duties and responsibilities of Executive inconsistent in any material and adverse respect with Executive's title and position (including status and officer positions), authority, duties or responsibilities; or (iii) Employer

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relocates Executive's principal place of employment or principal office to a location outside of the United States or Hong Kong.

*Without Good Cause* . Executive may, at any time, terminate his employment hereunder upon giving Employer at least ninety (90) days' prior written notice.

#### 4.3 Effects of Termination

(a) *Payments* . In the event that, prior to the end of the Term, Executive's employment is terminated by Employer for other than "good cause," death or disability, or is terminated by Executive for "good reason,"

(1) Executive's Base Salary and Additional Salary shall continue to be paid to him until the end of the Term;

(2) Executive will receive his Target Bonus and Additional Bonus under Section 2.2 hereof for the period ending at the end of the Term or prorated for any partial year that may fall within the aforementioned period;

(b) Employer will reimburse Executive for the cost of continuing his health insurance coverage under Employer's benefit plans for the maximum continuation period allowed under such plans, but not longer than three (3) months; provided, however, that (i) subject always to Executive's obligations under Section 6.1, Executive shall in good faith endeavor to find other comparable employment, and (ii) any salary or bonus continuation due to him under this Section 4.3 will be subject to reduction on a dollar-for-dollar basis according to any cash compensation earned by him as a result of such other employment.

(c) *Unreimbursed Business Expenses*. In addition, and without limiting the other rights of Executive or the other obligations and covenants of Employer hereunder, in the event that, at any time, Executive's employment is terminated for any reason or cause and under any circumstances, unreimbursed business expenses incurred by Executive in accordance with Employer's lawful written policies prior to such termination shall be reimbursed to him.

(d) *Resignation from Other Positions* . At such time as Executive's employment hereunder ceases, Executive shall, at Employer's request, resign immediately from any and all directorships or other positions which Executive may hold with respect to Employer or any subsidiary or affiliate thereof.

(e) *Resignation and Release of Claims* . Promptly following expiration or termination of Executive's employment hereunder, and as a precondition to Executive being entitled to receive any separation pay or benefits, Executive shall execute and deliver to Employer a Resignation and Release of Claims in substantially the form attached hereto as Exhibit A (subject to modification by Employer as may be necessary to ensure that all waivable claims are properly covered).

#### 4.4 Remedies on Termination

(a) *No Limitation* . Employer's exercise of its right to terminate shall be without prejudice to any other right or remedy to which it or any of its affiliates may be entitled at law or in equity or under this Agreement.

(b) *Exclusive Remedy* . Upon expiration or termination of Executive's employment hereunder, Executive agrees that payment of the amounts required by Section 4.3(a) or any D&O Liability Insurance shall constitute the sole and exclusive obligation of Employer in respect of Executive's employment with and relationship to Employer and that Executive shall not be entitled to any other remedy

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for termination of his employment hereunder except for such payment, all in accordance with the terms hereof and subject to any limitations hereunder. Executive covenants not to assert or pursue any other remedies, at law or in equity, with respect to any termination of Executive's employment hereunder.

SECTION 5. REPRESENTATIONS AND WARRANTIES

5.1 Representations and Warranties of Each Party. Each party hereto represents to the other as follows:

(a) Such party has the authorization power and right to execute, deliver and fully perform its obligations hereunder in accordance with the terms hereof,

(b) This Agreement does not require any authorization, consent, approval, exemption or other action by any other party and does not conflict with or result in the breach of the terms, conditions or provisions of, constitute a default under, or result in a violation of any agreement, instrument, order, judgment or decree to which such party is subject.

5.2 Additional Representations and Warranties of Executive. In addition to the representations and warranties given above, Executive represents, warrants and covenants to Employer as follows:

(a) Executive has no other outstanding commitments inconsistent with any of the terms of this Agreement or the services to be rendered hereunder. There are no circumstances which will interfere with, or prevent, Executive using his best efforts in the course of his employment with Employer.

(b) Executive will not bring to Employer for use in the performance of Executive's duties hereunder any confidential or proprietary information or property of any other person without the express written consent of such other person.

(c) There are no prior, pending or existing customer complaints, or regulatory, self-regulatory, administrative, civil or criminal matters, or any other impediments that would affect Executive's employment, licensing or registration. Should Executive become a subject of any such complaints, actions or matters, Executive agrees to immediately report such fact, in writing, to Employer.

(d) Executive has no other agreements or understandings, written or oral, with Employer regarding compensation, non-competition or non-solicitation.

SECTION 6. COVENANTS OF EXECUTIVE

6.1. Non-Competition. Executive acknowledges that, in the course of his employment with Employer pursuant to this Agreement, he will become familiar with trade secrets and other confidential information concerning Employer and its affiliates and that his services have been and will be of special, unique and extraordinary value to Employer. Executive agrees that for the Term and, for a period of one (1) year thereafter, he shall not in any manner, directly or indirectly, personally or through any Executive Related Entity or otherwise, engage or be engaged, or work for or assist (i) any other person, firm, corporation, enterprise or business engaged in Retail Leasing in the Relevant Markets unless previously approved in writing by Employer (ii) any Competitor unless previously approved in writing by Employer. Notwithstanding the foregoing, the following will not be deemed to violate this paragraph:

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(1) Ownership by Executive of less than five percent (5%) in aggregate of the outstanding shares of capital stock of any corporation with one or more classes of its capital stock listed on a securities exchange or publicly traded in the over-the-counter market.

(2) Service by Executive in any capacity with any civic, educational or charitable organization, provided that such activities and services do not interfere or conflict with the performance of his duties hereunder or create any conflict of interest with such duties.

6.2. Compliance with Policies. Executive agrees to comply with all written lawful policies of Employer in effect from time to time.

6.3. Non-Solicitation of Employees. Executive agrees that during the Term and for a period of one (1) year thereafter, Executive will not, directly or indirectly, disrupt, damage, impair, or interfere with the business of Employer or any affiliate thereof by hiring, or allowing any Executive Related Entity to hire, any employee of Employer or any affiliate thereof or by soliciting, influencing, encouraging or recruiting any employee of Employer or any affiliate thereof to work for Executive or an Executive Related Entity.

6.4. Confidentiality; Proprietary Information. Executive agrees that during the course of his employment with Employer, he will have access to and learn trade secrets and other non-public, confidential, and/or proprietary information concerning the business (including but not limited to its employees, services, practices or policies) of Employer and its affiliates (collectively, “ **Confidential Information** ”). Executive promises never to make use of, disclose, or divulge any Confidential Information, directly or indirectly, except to the extent such use or disclosure is (i) necessary to the performance of this Agreement and in furtherance of Employer’s best interests, (ii) lawfully and publicly obtainable from other sources through no fault or breach of Executive, or (iii) authorized in writing by Employer. All records, files, documents, drawings, specifications, software, computerized data and information on any medium, equipment, and similar items or materials containing Confidential Information or otherwise relating to the business of Employer or its affiliates, including without limitation all records relating to customers (collectively, “ **Employer Materials** ”), whether prepared by Executive or otherwise coming into Executive’s possession, shall remain the exclusive property of Employer or such affiliates. Upon termination of employment, Executive agrees to promptly deliver to Employer all Employer Materials in the possession or under the control of Executive. The provisions of this Section 6.4 shall survive the expiration, suspension or termination of this Agreement for any reason. Executive promises that if he ever becomes legally compelled (for example, by court order or subpoena) to disclose any Confidential Information or Employer Materials, he will notify Employer as soon as possible after learning of the requested disclosure and, prior to disclosing any such information or materials, cooperate fully with Employer in its pursuit of a protective order or other lawful efforts to resist disclosure. Notwithstanding the foregoing, Confidential Information shall not include (a) the identity and contact information of Executive’s contacts, including those existing prior to commencement of his employment with Employer or developed during his employment, or (b) information already known by Executive prior to his employment with Employer or its affiliates.

6.5 Severability of Provisions. Executive agrees that each of the restrictions set out in Sections 6.1, 6.2, 6.3, and 6.4 above represents a separate and independent restriction, and that such restrictions are reasonable in the context of Executive’s position with Employer. If for any reason whatsoever, any one or more of such restrictions contained in such Sections shall, individually or taken together, be adjudged to go beyond what is reasonable for the protection of the legitimate interest of Employer and its affiliates, such restriction or restrictions shall be severed from this Agreement without affecting the remainder of the provisions in this Agreement, which shall remain in full force and effect.

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6.6 Injunctive Relief. Executive agrees that the covenants and restrictions set out in Sections 6.1, 6.2, 6.3, 6.4 and 6.5 above are fair, reasonable and necessary and are reasonably required for the protection of Employer and its affiliates, having regard to Executive's seniority and position with Employer. Executive also acknowledges that any breach by him of any provision of Sections 6.1, 6.2, 6.3, 6.4 and 6.5 above is likely to cause irreparable harm to Employer and its interests. Executive accepts that monetary damages are unlikely to adequately compensate Employer in such event, and hence, in the event of any actual or threatened breach of any provision of Sections 6.1, 6.2, 6.3, 6.4 and 6.5 above, Executive agrees that Employer shall be entitled to injunctive or other equitable relief from any court of competent jurisdiction to enjoin such breach (without being required to post any bond or other security therefor), and Executive expressly submits to the jurisdiction of any such court for this purpose. Executive also consents to the issuance by such court of a temporary restraining order to maintain the status quo pending the outcome of any substantive proceedings.

6.7 Definitions. For purposes of this Section 6, the following capitalized terms shall have the meanings provided below:

(1) “ **Executive Related Entity** ” means any person, firm, corporation, enterprise, or partnership, in which Executive holds any interest or in respect of which Executive serves as an officer, director, shareholder, investor or employee or serves as an advisor or consultant, or in relation to which Executive is otherwise affiliated.

(2) “ **Retail Leasing** ” means leasing or advising on leasing retail shopping centers or free-standing buildings with multiple retail tenants or licensees, which shopping centers or buildings contain in excess of 100,000 square feet of gross leasable space.

(3) “ **Relevant Markets** ” means a radius of fifty (50) miles from any existing or proposed shopping center beneficially owned or managed (in whole or part) by Employer or its affiliates.

(4) “ **Competitor** ” means any person or entity, or any affiliate thereof, who, as of the date(s) that any action(s) listed above is/are taken: (i) owns two or more leases, anchor pads and/or parcels of real property (or any two or more combinations of any of the foregoing) at any shopping center owned directly or indirectly by The Taubman Realty Group Limited Partnership; (ii) is included on the FTSE NAREIT All REITs Index (or any successor index published by NAREIT); or (iii) owns and/or manages a retail real estate portfolio in excess of one million square feet in the US.

## SECTION 7. COMPLIANCE

Executive agrees to abide by all existing and future laws, all rules and regulations set forth by all competent regulatory agencies, exchanges, and self-regulatory bodies and Employer's internal rules and regulations and written lawful policies and practices. Executive further agrees to submit to such supervision as may be necessary to ensure compliance therewith.

## SECTION 8. MISCELLANEOUS

8.1 Succession; Survival. This Agreement shall inure to the benefit of and shall be binding upon Employer, its successors and assigns, but without the prior written consent of Executive, this Agreement may not be assigned other than to an affiliate of Employer or in connection with a merger or sale of all or substantially all of the assets of Employer or a similar transaction in which the successor or assignee assumes (whether by operation of law or express assumption) all obligations of Employer hereunder. The obligations

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and duties of Executive hereunder are personal and otherwise not assignable. Amounts payable to Executive hereunder shall not be subject to sale, transfer, pledge, assignment or alienation other than by will or the laws of descent and distribution.

8.2 Notices. Any notice or other communication to be delivered to any party hereto in connection with this Agreement shall be in writing and sent to the address for such party indicated below, or at such other address as such party may from time to time in writing designate to the other party:

If to Employer:

The Taubman Company LLC  
200 East Long Lake Road  
Bloomfield Hills, Michigan 48304  
United States of America  
Facsimile: +1-248-258-7601  
Attention: President

With a copy to:

The Taubman Company LLC  
200 East Long Lake Road  
Bloomfield Hills, Michigan 48304  
United States of America  
Facsimile: +1-248-258-7586  
Attention: General Counsel

If to Executive:

Paul Wright

Each such notice or other communication shall be effective (i) if given by telecommunication, when transmitted to the applicable number so specified in (or pursuant to) this Section 8.2 and an appropriate confirmation of transmission is received, or (ii) if given by any other means, when actually delivered to the intended address.

8.3 Entire Agreement; Amendments. This Agreement contains the entire agreement of the parties relating to the subject matter hereof, and supersedes any prior agreements, undertakings, commitments and practices relating to the subject matter thereof. No amendment or modification of the terms of this Agreement shall be valid unless made in writing and signed by Executive and, on behalf of Employer.

8.4 Waiver. No failure on the part of any party to exercise or delay in exercising any right hereunder shall be deemed a waiver thereof or of any other right, nor shall any single or partial exercise preclude any further or other exercise of such right or any other right.

8.5 Choice of Law. This Agreement, the legal relations between the parties and any action, whether contractual or non-contractual, instituted by any party with respect to matters arising under or growing out

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of or in connection with or in respect of this Agreement, the relationship of the parties or the subject matter hereof shall be governed by and construed in accordance with the laws of Michigan applicable to contracts made and performed in such jurisdiction and without regard to conflicts of law doctrines, to the extent permitted by law.

8.6 Choice of Venue. Subject to Section 6.6, any dispute, controversy, or claim arising out of or in respect of this Agreement (or its validity, interpretation, or enforcement, or alleging breach thereof) or Executive's employment with the Employer shall be submitted to, adjudicated by, and subject to the exclusive jurisdiction of the state or federal courts in Oakland County, Michigan or the federal courts in the Eastern District of Michigan and both Employer and Executive hereby consent to such venues as the exclusive forums for resolution of the aforementioned disputes, submit to the personal jurisdiction of said courts to hear such disputes, and waive all objections to such courts hearing and adjudicating such disputes.

8.7 Place of Employment. The principal place of employment and the location of Executive's principal office shall initially be in Bloomfield Hills, Michigan; provided, however, that Executive will be expected to engage in frequent travel as Employer may reasonably request or as may be required for the proper rendition of services hereunder. Employer agrees to engage in reasonable, good faith efforts, at Executive's request, to adjust Executive's travel schedule so as to minimize the likelihood of any adverse income tax impact to Executive as a result of such travel or of Executive's rendition of services outside of the United States.

8.8 Severability. If this Agreement shall for any reason be or become unenforceable in any material respect by any party, this Agreement shall thereupon terminate and become unenforceable by the other party as well. Subject to Section 6.5, if any provision of this Agreement is held invalid or unenforceable, the remainder of this Agreement shall nevertheless remain in full force and effect, and if any provision is held invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances, to the fullest extent permitted by law.

8.9 Section Headings. Section and other headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

8.10 Counterparts. This Agreement and any amendment hereto may be executed in one or more counterparts. All of such counterparts shall constitute one and the same agreement and shall become effective when a copy signed by each party has been delivered to the other party.

8.11 Representation by Counsel; Interpretation. Employer and Executive each acknowledge that each party to this Agreement has been represented by counsel in connection with this Agreement and the matters contemplated by this Agreement. Accordingly, any rule of law, or any legal decision that would require interpretation of any claimed ambiguities in this Agreement against the party that drafted it has no application and is expressly waived. The provisions of this Agreement shall be interpreted in a reasonable manner to effect the intent of the parties.

8.12 Right of Offset. Employer shall have the right to set off, against any amount otherwise payable to Employee under this Agreement, any amount owed by Employee to Employer or to any affiliate of Employer, whether under this Agreement or otherwise.

8.13 Cooperation. Notwithstanding the provisions of Section 2.3 and Section 4.3(a) hereof, the parties agree to work together in good faith to implement the provisions of such sections and any acts contemplated thereby in a manner that does not alter the economic arrangement among the parties, but that

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is tax efficient for the parties, taking into account the various jurisdictions that have taxing authority over the parties.

8.14. Section 409A. This Agreement is intended to comply with and be interpreted in accordance with Section 409A of the Internal Revenue Code of 1986, as amended and the regulations and other guidance issued thereunder (collectively, “Section 409A”). Each payment in a series of payments provided to Executive pursuant to this Agreement will be deemed a separate payment for purposes of Section 409A. In the event that Executive is determined by the Employer to be a “specified employee” for purposes of Section 409A at the time of his separation from service with Employer, any payments of nonqualified deferred compensation (after giving effect to any exemptions available under Section 409A) otherwise payable to Executive during the first six months following his separation from service shall be delayed and paid in a lump sum upon the first day of the seventh month following Executive’s separation from service, and the balance of the installments (if any) will be payable in accordance with their original schedule. As used in this Agreement, “termination of employment” and similar terms mean Executive’s “separation from service” as that term is defined in Treasury Regulation Section 1.409A-1(h). Employer’s payment or reimbursement of Executive’s expenses as provided for in this Agreement will be made in accordance with Employer’s regular policies and in all events be made on or before the end of the calendar year following the calendar year in which an expense was incurred, will not affect the expenses eligible for reimbursement in any other calendar year, and cannot be liquidated or exchanged for any other benefit.

*[Signatures on next page]*

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IN WITNESS WHEREOF the parties hereto have executed, or caused their duly authorized representatives to execute, this Agreement as of the date first-above written.

**THE TAUBMAN COMPANY LLC,**  
a Delaware limited liability company

By: /s/ Holly Kinnear

Its: SVP and CHRO

/s/ Paul Wright  
**PAUL WRIGHT**

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## Exhibit A

### RESIGNATION AND RELEASE OF CLAIMS

Reference is made to that certain Employment Agreement, dated as of the 30th day of March, 2017, (the “**Employment Agreement**”), between The Taubman Company LLC (“**Employer**”) and Paul Wright (“**Executive**”). Capitalized terms used and not otherwise defined herein shall have the meaning ascribed to such terms in the Employment Agreement. For good and valuable consideration, Executive agrees as follows:

1. Resignation. Executive hereby resigns from all directorships or other positions which Executive may hold with Employer or its subsidiaries and affiliates.

2. General Release. To the fullest extent permitted by law, Executive waives, releases, and discharges Employer, together with its current and former officers, directors, agents, employees, subsidiaries, affiliated entities, related entities, attorneys, any other representatives, and successors in interest (collectively referred to as “Released Parties”), separately, together, or in any combination, from any claims and any causes of action arising in the course of or out of Executive’s employment with Employer or the termination of Executive employment with Employer under any state and federal statutes and under the common law.

Executive and Employer intend that, to the fullest extent permitted by law, these waivers, releases, and discharges will be a general release, will extinguish any claims and any causes of action, will preclude any lawsuit or any other legal claim by Executive against any of the Released Parties about anything that occurred before the date of the signing of this Agreement, including any claim or any cause of action arising out of or relating to Executive’s employment with Employer or the termination of Executive’s employment with Employer. This Agreement will not be construed to prohibit the filing of a Charge of Discrimination with the Equal Employment Opportunity Commission (“**EEOC**”) or a state agency, but this Agreement includes a release of Executive’s right to file a lawsuit or to receive any monetary recovery and any other remedies if the EEOC or a state agency pursues any claims on Executive’s behalf. The only claims and causes of action that Executive is not waiving, releasing, and discharging are for the consideration that Executive will receive under Section 4.3(a) of the Employment Agreement, if any; any and all rights, benefits, entitlements, and indemnities under any D&O Liability Insurance; and any claims and causes of action that, as a matter of law, cannot be waived, released, and discharged.

3. Agreement Not to Sue. In return for Employer’s obligations under this Agreement, Executive gives up, to the fullest extent permitted by law, any right to file any lawsuit against Employer about anything arising in the course of or out of Executive’s employment or the termination of Executive’s employment with Employer under the law of any state or country, whether statutory or common law.

4. Accord and Satisfaction. The consideration set forth in this Resignation and Release of Claims is in full accord and satisfaction of any claims and any causes of action that Executive has, may have, or may have had against Employer arising in the course of or out of Executive’s employment with Employer or the termination of Executive’s employment with Employer.

5. After Discovered Facts. Executive acknowledges that Executive may discover facts different from or in addition to those that Executive now knows or believes to be true, and this waiver and release will remain effective in all respects, despite the discovery of any different or additional facts.

6. No Pending Claims. Executive has not filed any claims, charges, suits, or actions of any kind against any of the Released Parties that have not been fully resolved as of the date of the signing of this Resignation and Release of Claims.

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7. Agreement as Complete Defense. If Executive asserts against any of the Released Parties any claim or any cause of action within the scope of paragraph 2 above, Released Parties may assert this Agreement as a complete defense to that claim or cause of action. Executive will reimburse Released Parties for any expenses and legal fees that Released Parties incur in defending any such claim or cause of action, in addition to any other relief to which Released Parties may be entitled.

8. No Other Compensation. Executive is not entitled to any compensation, bonuses, commissions, benefits, or any other consideration from Employer, except as may be expressly provided in Section 4.3(a) of the Employment Agreement.

/s/ Paul Wright  
**PAUL WRIGHT**

Date: March 30, 2017

**Exhibit 12**

TAUBMAN CENTERS, INC.

Computation of Ratios of Earnings to Combined Fixed Charges and Preferred Dividends  
(in thousands, except ratios)

	Six months ended June 30	
	2017	2016
Income before income tax expense and equity in income of Unconsolidated Joint Ventures	\$ 27,367	\$ 68,429
Add back:		
Fixed charges	63,523	54,103
Amortization of previously capitalized interest	1,492	1,398
Distributed income of Unconsolidated Joint Ventures	33,376	34,388
Deduct:		
Capitalized interest	(6,834)	(12,375)
Earnings available for fixed charges and preferred dividends	<u>\$ 118,924</u>	<u>\$ 145,943</u>
Fixed charges:		
Interest expense	\$ 52,292	\$ 39,716
Capitalized interest	6,834	12,375
Interest portion of rent expense	4,397	2,012
Total fixed charges	<u>\$ 63,523</u>	<u>\$ 54,103</u>
Preferred dividends	<u>11,569</u>	<u>11,569</u>
Total fixed charges and preferred dividends	<u>\$ 75,092</u>	<u>\$ 65,672</u>
Ratio of earnings to fixed charges and preferred dividends	<u>1.6</u>	<u>2.2</u>

**Certification of Chief Executive Officer  
Pursuant to 15 U.S.C. Section 10A, as Adopted Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Robert S. Taubman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Taubman Centers, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2017

/s/ Robert S. Taubman

Robert S. Taubman

Chairman of the Board of Directors, President, and Chief Executive Officer

**Certification of Chief Financial Officer  
Pursuant to 15 U.S.C. Section 10A, as Adopted Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Simon J. Leopold, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Taubman Centers, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2017

/s/ Simon J. Leopold

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Simon J. Leopold

Executive Vice President, Chief Financial Officer, and Treasurer (Principal  
Financial Officer)

**Certification of Chief Executive Officer  
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

I, Robert S. Taubman, Chief Executive Officer of Taubman Centers, Inc. (the "Registrant"), certify that based upon a review of the Quarterly Report on Form 10-Q for the period ended June 30, 2017 (the "Report"):

- (i) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Robert S. Taubman Date: July 28, 2017

Robert S. Taubman

Chairman of the Board of Directors, President, and Chief Executive Officer

**Certification of Chief Financial Officer  
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

I, Simon J. Leopold Chief Financial Officer of Taubman Centers, Inc. (the "Registrant"), certify that based upon a review of the Quarterly Report on Form 10-Q for the period ended June 30, 2017 (the "Report"):

- (i) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Simon J. Leopold

Date: July 28, 2017

Simon J. Leopold

Executive Vice President, Chief Financial Officer, and Treasurer (Principal  
Financial Officer)