

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: September 30, 2019
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, USA	48304-2324
(Address of principal executive offices)	(Zip code)
(248) 258-6800	
(Registrant's telephone number, including area code)	

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 Par Value	TCO	New York Stock Exchange
6.5% Series J Cumulative Redeemable Preferred Stock, No Par Value	TCO PR J	New York Stock Exchange
6.25% Series K Cumulative Redeemable Preferred Stock, No Par Value	TCO PR K	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 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 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 October 29, 2019, there were outstanding 61,220,405 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)

	September 30, 2019	December 31, 2018
Assets:		
Properties	\$ 4,805,995	\$ 4,717,569
Accumulated depreciation and amortization	(1,510,185)	(1,404,692)
	<u>\$ 3,295,810</u>	<u>\$ 3,312,877</u>
Investment in Unconsolidated Joint Ventures (Notes 1, 2, and 4)	825,138	673,616
Cash and cash equivalents (Note 13)	62,572	48,372
Restricted cash (Note 13)	662	94,557
Accounts and notes receivable (Note 1)	84,446	77,730
Accounts receivable from related parties	5,680	1,818
Operating lease right-of-use assets (Note 1)	174,633	
Deferred charges and other assets	87,911	135,136
Total Assets	<u>\$ 4,536,852</u>	<u>\$ 4,344,106</u>
Liabilities:		
Notes payable, net (Note 5)	\$ 3,634,165	\$ 3,830,195
Accounts payable and accrued liabilities	269,295	336,208
Operating lease liabilities (Note 1)	241,066	
Distributions in excess of investments in and net income of Unconsolidated Joint Ventures (Notes 1 and 4)	481,315	477,800
Total Liabilities	<u>\$ 4,625,841</u>	<u>\$ 4,644,203</u>
Commitments and contingencies (Notes 1, 5, 6, 7, 8, and 9)		
Redeemable noncontrolling interests (Note 6)		\$ 7,800
Equity (Deficit):		
Taubman Centers, Inc. Shareholders' Equity:		
Series B Non-Participating Convertible Preferred Stock, \$0.001 par and liquidation value, 40,000,000 shares authorized, 26,413,117 and 24,862,994 shares issued and outstanding at September 30, 2019 and December 31, 2018	\$ 26	\$ 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 September 30, 2019 and December 31, 2018		
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 September 30, 2019 and December 31, 2018		
Common Stock, \$0.01 par value, 250,000,000 shares authorized, 61,213,170 and 61,069,108 shares issued and outstanding at September 30, 2019 and December 31, 2018	612	611
Additional paid-in capital	740,314	676,097
Accumulated other comprehensive income (loss) (Note 12)	(46,967)	(25,376)
Dividends in excess of net income (Notes 1 and 7)	(637,055)	(744,230)
	<u>\$ 56,930</u>	<u>\$ (92,873)</u>
Noncontrolling interests (Notes 1 and 6)	(145,919)	(215,024)
	<u>\$ (88,989)</u>	<u>\$ (307,897)</u>
Total Liabilities and Equity	<u>\$ 4,536,852</u>	<u>\$ 4,344,106</u>

See notes to consolidated financial statements.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Revenues:				
Rental revenues (Note 1)	\$ 141,213		\$ 432,508	
Minimum rents (Note 1)		\$ 87,306		\$ 261,711
Overage rents	3,865	3,263	8,719	7,453
Expense recoveries (Note 1)		52,096		154,177
Management, leasing, and development services	1,927	860	4,035	2,480
Other (Note 1)	15,501	15,595	39,056	47,560
	<u>\$ 162,506</u>	<u>\$ 159,120</u>	<u>\$ 484,318</u>	<u>\$ 473,381</u>
Expenses:				
Maintenance, taxes, utilities, and promotion	\$ 40,786	\$ 38,149	\$ 118,506	\$ 113,871
Other operating (Note 1)	19,753	19,253	60,210	64,153
Management, leasing, and development services	1,895	476	2,917	1,186
General and administrative	9,632	8,530	26,762	25,545
Restructuring charges (Note 1)	876		1,585	(423)
Costs associated with shareholder activism (Note 1)	675	1,500	16,675	10,000
Interest expense	37,695	33,396	112,590	97,242
Depreciation and amortization	47,849	46,307	137,064	124,325
	<u>\$ 159,161</u>	<u>\$ 147,611</u>	<u>\$ 476,309</u>	<u>\$ 435,899</u>
Nonoperating income, net (Notes 9 and 11)	11,108	8,700	26,468	13,858
Income before income tax benefit (expense), equity in income of Unconsolidated Joint Ventures, gain on partial disposition of ownership interest in Unconsolidated Joint Venture, and gain on remeasurement of ownership interest in Unconsolidated Joint Venture	\$ 14,453	\$ 20,209	\$ 34,477	\$ 51,340
Income tax benefit (expense) (Note 3)	(2,021)	996	(4,924)	784
Equity in income of Unconsolidated Joint Ventures (Note 4)	20,252	16,910	49,746	50,680
Income before gain on partial disposition of ownership interest in Unconsolidated Joint Venture and gain on remeasurement of ownership interest in Unconsolidated Joint Venture	\$ 32,684	\$ 38,115	\$ 79,299	\$ 102,804
Gain on partial disposition of ownership interest in Unconsolidated Joint Venture (Note 2)	138,696		138,696	
Gain on remeasurement of ownership interest in Unconsolidated Joint Venture (Note 2)	145,010		145,010	
Net income	<u>\$ 316,390</u>	<u>\$ 38,115</u>	<u>\$ 363,005</u>	<u>\$ 102,804</u>
Net income attributable to noncontrolling interests (Note 6)	(94,648)	(10,756)	(107,118)	(28,781)
Net income attributable to Taubman Centers, Inc.	\$ 221,742	\$ 27,359	\$ 255,887	\$ 74,023
Distributions to participating securities of TRG (Note 8)	(597)	(599)	(1,817)	(1,797)
Preferred stock dividends	(5,784)	(5,784)	(17,353)	(17,353)
Net income attributable to Taubman Centers, Inc. common shareholders	<u>\$ 215,361</u>	<u>\$ 20,976</u>	<u>\$ 236,717</u>	<u>\$ 54,873</u>
Net income	\$ 316,390	\$ 38,115	\$ 363,005	\$ 102,804
Other comprehensive income (loss) (Note 12):				
Unrealized gain (loss) on interest rate instruments	(1,864)	1,552	(16,285)	11,384
Cumulative translation adjustment	(9,952)	(15,377)	(20,463)	(22,224)
Reclassification adjustment for amounts recognized in net income	(396)	(469)	(2,242)	(699)
	<u>\$ (12,212)</u>	<u>\$ (14,294)</u>	<u>\$ (38,990)</u>	<u>\$ (11,539)</u>
Comprehensive income	<u>\$ 304,178</u>	<u>\$ 23,821</u>	<u>\$ 324,015</u>	<u>\$ 91,265</u>
Comprehensive income attributable to noncontrolling interests	(93,435)	(6,610)	(97,829)	(25,435)
Comprehensive income attributable to Taubman Centers, Inc.	<u>\$ 210,743</u>	<u>\$ 17,211</u>	<u>\$ 226,186</u>	<u>\$ 65,830</u>
Basic earnings per common share (Note 10)	<u>\$ 3.52</u>	<u>\$ 0.34</u>	<u>\$ 3.87</u>	<u>\$ 0.90</u>
Diluted earnings per common share (Note 10)	<u>\$ 3.48</u>	<u>\$ 0.34</u>	<u>\$ 3.84</u>	<u>\$ 0.90</u>

Weighted average number of common shares outstanding – basic	<u>61,211,249</u>	<u>61,001,357</u>	<u>61,169,279</u>	<u>60,970,572</u>
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See notes to consolidated financial statements.

TAUBMAN CENTERS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIT)
THREE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(in thousands, except share data)

	Taubman Centers, Inc. Shareholders' 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, July 1, 2019	40,913,117	\$ 26	61,208,580	\$ 612	\$739,046	\$ (44,154)	\$ (802,809)	\$ (222,673)	\$(329,952)
Issuance of common stock pursuant to Continuing Offer (Notes 8 and 9)			(3)						—
Share-based compensation under employee and director benefit plans (Note 8)			4,593		3,077				3,077
Adjustments of noncontrolling interests (Note 6)					(1,809)			1,809	—
Dividends and distributions (excludes \$6,000 of distributions attributable to redeemable noncontrolling interest) ⁽¹⁾							(47,700)	(18,489)	(66,189)
Partial disposition of ownership interest in Unconsolidated Joint Venture (Note 2)						8,185	(8,185)		—
Other							(103)		(103)
Net income							221,742	94,648	316,390
Other comprehensive income (loss) (Note 12):									
Unrealized loss on interest rate instruments						(1,303)		(561)	(1,864)
Cumulative translation adjustment						(9,419)		(533)	(9,952)
Reclassification adjustment for amounts recognized in net income						(276)		(120)	(396)
Balance, September 30, 2019	<u>40,913,117</u>	<u>\$ 26</u>	<u>61,213,170</u>	<u>\$ 612</u>	<u>\$740,314</u>	<u>\$ (46,967)</u>	<u>\$ (637,055)</u>	<u>\$ (145,919)</u>	<u>\$(88,989)</u>
Balance, July 1, 2018	39,437,221	\$ 25	60,992,212	\$ 610	\$676,217	\$ (5,622)	\$ (692,485)	\$ (187,675)	\$(208,930)
Issuance of common stock pursuant to Continuing Offer (Notes 8 and 9)	(18,448)		18,449						—
Share-based compensation under employee and director benefit plans (Note 8)			1,621		2,744				2,744
Adjustments of noncontrolling interests (Note 6)					(56)	6		25	(25)
Dividends and distributions ⁽¹⁾							(46,347)	(16,985)	(63,332)
Other							(382)		(382)
Net income (excludes \$25 of net loss attributable to redeemable noncontrolling interest) (Note 6)							27,359	10,781	38,140
Other comprehensive income (loss) (Note 12):									
Unrealized gain on interest rate instruments						1,103		449	1,552
Cumulative translation adjustment						(10,918)		(4,459)	(15,377)
Reclassification adjustment for amounts recognized in net income						(332)		(137)	(469)
Balance, September 30, 2018	<u>39,418,773</u>	<u>\$ 25</u>	<u>61,012,282</u>	<u>\$ 610</u>	<u>\$678,905</u>	<u>\$ (15,763)</u>	<u>\$ (711,855)</u>	<u>\$ (198,001)</u>	<u>\$(246,079)</u>

(1) We declared cash dividends of \$0.675 and \$0.655 per common share for the three months ended September 30, 2019 and 2018, respectively. We declared cash dividends of \$0.40625 per Series J cumulative redeemable preferred stock and \$0.390625 per Series K cumulative redeemable preferred stock for both the three months ended September 30, 2019 and 2018, respectively. See notes to consolidated financial statements.

TAUBMAN CENTERS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIT)
NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(in thousands, except share data)

	Taubman Centers, Inc. Shareholders' 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, 2019	39,362,994	\$ 25	61,069,108	\$ 611	\$676,097	\$ (25,376)	\$ (744,230)	\$ (215,024)	\$(307,897)
Issuance of common stock pursuant to Continuing Offer (Notes 8 and 9)	(41,060)		45,511						—
Issuance of equity for acquisition of interest in unconsolidated joint venture (Note 2)	1,500,000	1						79,319	79,320
Share-based compensation under employee and director benefit plans (Note 8)	91,183		98,551	1	6,726				6,727
Former Asia President redeemable equity adjustment (Note 6)					1,800				1,800
Adjustments of noncontrolling interests (Note 6)					55,691	(76)		(55,852)	(237)
Dividends and distributions (excludes \$6,000 of distributions attributable to redeemable noncontrolling interests) ⁽¹⁾							(143,067)	(54,190)	(197,257)
Adjustments of equity pursuant to adoption of ASC 842 (Note 1)							3,156	1,763	4,919
Partial disposition of ownership interest in Unconsolidated Joint Venture (Note 2)						8,185	(8,185)		—
Other							(616)		(616)
Net income (excludes \$237 of net loss attributable to redeemable noncontrolling interest) (Note 6)							255,887	107,355	363,242
Other comprehensive income (loss) (Note 12):									
Unrealized loss on interest rate instruments							(11,375)	(4,910)	(16,285)
Cumulative translation adjustment							(16,760)	(3,703)	(20,463)
Reclassification adjustment for amounts recognized in net income							(1,565)	(677)	(2,242)
Balance, September 30, 2019	<u>40,913,117</u>	<u>\$ 26</u>	<u>61,213,170</u>	<u>\$ 612</u>	<u>\$740,314</u>	<u>\$ (46,967)</u>	<u>\$ (637,055)</u>	<u>\$ (145,919)</u>	<u>\$ (88,989)</u>
Balance, January 1, 2018	39,438,114	\$ 25	60,832,918	\$ 608	\$675,333	\$ (6,919)	\$ (646,807)	\$ (172,268)	\$(150,028)
Issuance of common stock pursuant to Continuing Offer (Notes 8 and 9)	(19,341)		21,802						—
Share-based compensation under employee and director benefit plans (Note 8)			157,562	2	3,783				3,785
Adjustments of noncontrolling interests (Note 6)					(211)	26		50	(135)
Dividends and distributions ⁽¹⁾							(139,011)	(51,075)	(190,086)
Other (Note 12)							(678)	(60)	(1,015)
Net income (excludes \$135 of net loss attributable to redeemable noncontrolling interest) (Note 6)							74,023	28,916	102,939
Other comprehensive income (Note 12):									
Unrealized gain on interest rate instruments							8,081	3,303	11,384
Cumulative translation adjustment							(15,777)	(6,447)	(22,224)
Reclassification adjustment for amounts recognized in net income							(496)	(203)	(699)
Balance, September 30, 2018	<u>39,418,773</u>	<u>\$ 25</u>	<u>61,012,282</u>	<u>\$ 610</u>	<u>\$678,905</u>	<u>\$ (15,763)</u>	<u>\$ (711,855)</u>	<u>\$ (198,001)</u>	<u>\$ (246,079)</u>

(1) We declared cash dividends of \$2.025 and \$1.965 per common share for the nine months ended September 30, 2019 and 2018, respectively. We declared cash dividends of \$1.21875 per Series J cumulative redeemable preferred stock and \$1.171875 per Series K cumulative redeemable preferred stock for both the nine months ended September 30, 2019 and 2018, respectively.

See notes to consolidated financial statements.

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

	Nine Months Ended September 30	
	2019	2018
Cash Flows From Operating Activities:		
Net income	\$ 363,005	\$ 102,804
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	137,064	124,325
Provision for bad debts		4,359
Gain on partial disposition of ownership interest in Unconsolidated Joint Venture (Note 2)	(138,696)	
Gain on remeasurement of ownership interest in Unconsolidated Joint Venture (Note 2)	(145,010)	
Gain on Saks settlement - The Mall of San Juan (Note 9)	(10,095)	
Gain on sale of peripheral land		(1,034)
Fluctuation in fair value of equity securities (Note 11)	(3,346)	(4,073)
Income (loss) from Unconsolidated Joint Ventures net of distributions	3,304	(1,411)
Non-cash operating lease expense	1,527	
Other	9,826	11,418
Increase (decrease) in cash attributable to changes in assets and liabilities:		
Receivables, deferred charges, and other assets	(13,553)	(15,426)
Accounts payable and accrued liabilities	9,661	(11,243)
Net Cash Provided By Operating Activities	\$ 213,687	\$ 209,719
Cash Flows From Investing Activities:		
Additions to properties	\$ (158,740)	\$ (220,744)
Partial reimbursement of Saks anchor allowance at The Mall of San Juan (Note 9)	20,000	
Proceeds from partial disposition of ownership interest in Unconsolidated Joint Venture (Note 2)	235,745	
Proceeds from sale of peripheral land		1,260
Proceeds from sale of equity securities (Note 11)	52,077	27,626
Insurance proceeds for capital items at The Mall of San Juan (Note 9)	948	5,768
Contributions to Unconsolidated Joint Ventures (Note 2)	(47,849)	(94,245)
Distributions from Unconsolidated Joint Ventures in excess of income	8,117	1,474
Other	69	67
Net Cash Provided By (Used In) Investing Activities	\$ 110,367	\$ (278,794)
Cash Flows From Financing Activities:		
Proceeds from (payments to) revolving lines of credit, net	\$ (189,700)	\$ 215,741
Debt proceeds		800,000
Debt payments	(8,430)	(775,776)
Debt issuance costs		(4,727)
Issuance of common stock and/or TRG Units in connection with incentive plans	(706)	(2,306)
Distributions to noncontrolling interests	(60,190)	(51,075)
Distributions to participating securities of TRG	(1,817)	(1,797)
Cash dividends to preferred shareholders	(17,353)	(17,353)
Cash dividends to common shareholders	(123,897)	(119,861)
Net Cash Provided By (Used In) Financing Activities	\$ (402,093)	\$ 42,846
Effect of exchange rate fluctuations on cash, cash equivalents, and restricted cash (Note 13)	\$ (1,656)	\$ (4,884)
Net Decrease In Cash, Cash Equivalents, and Restricted Cash	(79,695)	(31,113)
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period (Note 13)	142,929	164,404
Cash, Cash Equivalents, and Restricted Cash at End of Period (Note 13)	\$ 63,234	\$ 133,291

TAUBMAN CENTERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Interim Financial StatementsGeneral

Taubman Centers, Inc. (TCO) is a Michigan corporation that operates as a self-administered and self-managed real estate investment trust (REIT). TCO's sole asset is an approximate 70% general partnership interest in The Taubman Realty Group Limited Partnership (TRG), which owns direct or indirect interests in all of our real estate properties. In this report, the terms "we", "us", and "our" refer to TCO, TRG, and/or TRG's subsidiaries as the context may require. We own, manage, lease, acquire, dispose of, develop, and expand shopping centers and interests therein. Our owned portfolio as of September 30, 2019 included 24 urban and suburban shopping centers operating in 11 U.S. states, Puerto Rico, South Korea, and China. The Taubman Company LLC (the Manager) provides certain management and administrative services for us and for our U.S. properties.

The Consolidated Businesses consist of shopping centers and entities that are controlled, by ownership or contractual agreements, by TRG, the Manager, or Taubman Properties Asia LLC and its subsidiaries and affiliates (Taubman Asia). Shopping centers owned through joint ventures that are not controlled by us but over which we have significant influence (Unconsolidated Joint Ventures or UJVs) are accounted for under the equity method.

In May 2018, we entered into a redevelopment agreement for Taubman Prestige Outlets Chesterfield. On May 1, 2018, all operations at the center, as well as the building and improvements, were transferred to The Staenberg Group (TSG), and TSG leases the land from us through a long-term, participating ground lease. We have the right to terminate the ground lease in the event that a redevelopment has not begun within five years, with the buildings and improvements reverting to us upon such a termination. We will defer recognition of a sale of the building and improvements until the foregoing termination right is no longer available to us, with this right ceasing upon TSG commencing a redevelopment. As of September 30, 2019, we did not believe the redevelopment was probable of beginning within one year, therefore the building and improvements, which had a net book value of approximately \$60 million, were included within net properties on our Consolidated Balance Sheet. The shopping center has been excluded from our owned shopping center portfolio disclosure above.

The unaudited interim financial statements should be read in conjunction with the audited financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2018. 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 TCO include all accounts of TCO, TRG, and our consolidated businesses, including 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, we evaluate the characteristics of associated entities and determine whether an entity is a variable interest entity (VIE), and, if so, determine whether we are the primary beneficiary by analyzing whether we have 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. We consolidate a VIE when we have determined that we are the primary beneficiary. All of our consolidated joint ventures, including TRG, meet the definition and criteria as VIEs, as either we or an affiliate of ours is the primary beneficiary of each VIE.

TAUBMAN CENTERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TCO's sole asset is an approximate 70% general partnership interest in TRG and, consequently, substantially all of TCO's consolidated assets and liabilities are assets and liabilities of TRG. All of TCO's debt (Note 5) is an obligation of TRG or our consolidated subsidiaries. Note 5 also provides disclosure of guarantees provided by TRG to certain consolidated joint ventures and UJVs. Note 6 provides additional disclosures of the carrying balance of the noncontrolling interests in our consolidated joint ventures and other information, including a description of certain rights of the noncontrolling owners.

Investments in UJVs are accounted for under the equity method. We have evaluated our investments in UJVs under guidance for determining whether an entity is a VIE and have concluded that the ventures are not VIEs. Accordingly, we account for our 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). Our partners or other owners in these UJVs 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 we have concluded that the equity method of accounting is appropriate for these interests. Specifically, our 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. We provide our beneficial interest in certain financial information of our UJVs (Notes 4 and 5). This beneficial information is derived as our ownership interest in the investee multiplied by the specific financial statement item being presented. Investors are cautioned that deriving our 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, we had three classes of preferred stock outstanding (Series B, J, and K) as of September 30, 2019. 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. We own corresponding Series J and Series K Preferred Equity interests in TRG that entitle us to income and distributions (in the form of guaranteed payments) in amounts equal to the dividends payable on TCO's Series J and Series K Preferred Stock.

We are also obligated to issue to the noncontrolling partners of TRG, upon subscription, one share of Series B Non-Participating Convertible Preferred Stock (Series B Preferred Share) per each unit of limited partnership in TRG (TRG Unit). Each Series B Preferred Share entitles the holder to one vote per share on all matters submitted to our shareholders. The holders of Series B Preferred Shares, voting as a class, have the right to designate up to four nominees for election as directors of TCO. On all other matters on which the holders of common stock are entitled to vote, including the election of directors, the holders of Series B Preferred Shares will vote with the holders of common stock. The holders of Series B Preferred Shares are not entitled to dividends or earnings of TCO. The Series B Preferred Shares are 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 TCO at September 30, 2019 consisted of 26,413,117 shares of Series B Preferred Stock and 61,213,170 shares of common stock.

TRG

At September 30, 2019, TRG'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 TRG are allocable first to the preferred equity interests, and the remaining amounts to the general and limited partners in TRG in accordance with their percentage ownership. The Series J and Series K Preferred Equity are owned by TCO and are eliminated in consolidation.

TCO's ownership in TRG at September 30, 2019 consisted of a 70% managing general partnership interest, as well as the Series J and Series K Preferred Equity interests. Our average ownership percentage in TRG for the nine months ended September 30, 2019 and 2018 was 70% and 71%, respectively. At September 30, 2019, TRG had 87,643,866 TRG Units outstanding, of which we owned 61,213,170 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).

The remaining approximate 30% of TRG Units are owned by TRG's partners other than TCO, including Robert S. Taubman, William S. Taubman, Gayle Taubman Kalisman, and the A. Alfred Taubman Restated Revocable Trust (the Revocable Trust).

TAUBMAN CENTERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenue Recognition*Disaggregation of Revenue*

The nature, amount, timing, and uncertainty of individual types of revenues may be affected differently by economic factors. Under Accounting Standards Codification (ASC) Topic 606, "Revenue from Contracts with Customers", we are required to disclose a disaggregation of our revenues derived from contracts from customers that considers economic differences between revenue types. The following table summarizes our disaggregation of consolidated revenues for this purpose.

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Expense recoveries ⁽¹⁾		\$ 52,096		\$ 154,177
Shopping center and other operational revenues ⁽²⁾	\$ 15,501	12,303	\$ 39,056	33,940
Management, leasing, and development services	1,927	860	4,035	2,480
Total revenue from contracts with customers	<u>\$ 17,428</u>	<u>\$ 65,259</u>	<u>\$ 43,091</u>	<u>\$ 190,597</u>

- (1) Pursuant to our adoption of ASC Topic 842, "Leases", beginning January 1, 2019, expense recoveries have been combined with minimum rent on the Consolidated Statement of Operations and Comprehensive Income (Loss) into Rental Revenues and is no longer required to be disaggregated.
- (2) Represents consolidated Other Revenue reported on the Consolidated Statement of Operations and Comprehensive Income (Loss) excluding lease cancellation income for the three and nine months ended September 30, 2018. Pursuant to the adoption of ASC Topic 842, "Leases", beginning January 1, 2019, lease cancellation income is now presented in Rental Revenues on the Consolidated Statement of Operations and Comprehensive Income (Loss).

Information about Contract Balances and Unsatisfied Performance Obligations

Contract assets exist when we have a right to payment for services rendered that remains conditional on factors other than the passage of time. Similarly, contract liabilities are incurred when customers prepay for services to be rendered. Certain revenue streams within shopping center and other operational revenues may give rise to contract assets and liabilities. However, these revenue streams are generally short-term in nature and the difference between revenue recognition and cash collection, although variable, does not differ significantly from period to period. As of September 30, 2019, we had an inconsequential amount of contract assets and liabilities.

The aggregate amount of the transaction price allocated to our performance obligations that were unsatisfied, or partially unsatisfied, as of September 30, 2019 were inconsequential.

Restructuring Charges

We have been undergoing a restructuring to reduce our workforce and reorganize various areas of the organization in response to the completion of another major development cycle and the current near-term challenges facing the U.S. retail industry. During the three and nine months ended September 30, 2019, we incurred \$0.9 million and \$1.6 million, respectively, of expense related to our restructuring efforts. During the nine months ended September 30, 2018, we recorded a change in estimate to previously recognized restructuring charges resulting in a reversal of expense of \$0.4 million. These expenses and changes in estimates thereto have been separately classified as Restructuring Charges on the Consolidated Statement of Operations and Comprehensive Income (Loss). As of September 30, 2019, an inconsequential amount of the restructuring charges recognized during 2018 and 2019 were unpaid and remained accrued.

TAUBMAN CENTERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Costs Associated with Shareholder Activism

During the three and nine months ended September 30, 2019, we incurred \$0.7 million and \$16.7 million, respectively, of expense associated with activities related to shareholder activism, largely legal and advisory services. Expenses for the nine months ended September 30, 2019 include \$5.0 million pursuant to an agreement with Land & Buildings Investment Management, LLC (Land & Buildings) for a reimbursement of a portion of the billed fees and expenses incurred by Land & Buildings and its affiliated funds in connection with Land & Buildings' activist involvement with TCO and the service on our Board of Directors of its founder and Chief Investment Officer, Jonathan Litt, which reimbursement represented a related party transaction. We received written certification from Land and Buildings that the actual billed fees and expenses as of the payment date exceeded \$5.0 million. During the three and nine months ended September 30, 2018, expenses associated with activities related to shareholder activism were \$1.5 million and \$10.0 million, respectively.

Also included in the activism costs is a retention program for certain employees. Given the uncertainties associated with shareholder activism and to ensure the retention of top talent in key positions within TCO, certain key employees were provided certain incentive benefits in the form of cash and/or equity retention awards. We and our Board of Directors believe these benefits are instrumental in ensuring the continued success of TCO during the retention period. Due to the unusual and infrequent nature of these expenses in our history, they have been separately classified as Costs Associated with Shareholder Activism on our Consolidated Statement of Operations and Comprehensive Income (Loss). Unvested incentive benefits under the retention awards as of September 30, 2019 were \$0.1 million, which will be recognized as service is rendered through December 31, 2019.

Management's Responsibility to Evaluate Our 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 our 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.

Adoption of ASC Topic 842 ("Leases")

On January 1, 2019, we adopted ASC Topic 842, "Leases". ASC Topic 842 addresses off-balance sheet financing related to operating leases and introduces a new lessee model that brings substantially all leases onto the balance sheet. We adopted ASC Topic 842, recognizing operating lease liabilities and related right-of-use assets for ground and office leases under which we are the lessee on our Consolidated Balance Sheet, as of the date of adoption. These lease liabilities and related right-of-use assets will amortize over the remaining life of the respective leases. We also began expensing certain indirect leasing costs, which were capitalizable under the previous lease accounting standard. For the three and nine months ended September 30, 2019, we expensed \$1.3 million and \$4.2 million, respectively, of leasing costs under ASC Topic 842 that would have been capitalized under the previous accounting standard.

We implemented ASC Topic 842 using certain practical expedients. As a result of these elections, we did not reassess whether any existing contracts contained a lease, the lease classification of existing leases, or the initial direct costs of existing leases. In addition, in instances where we are the lessor, we elected to not separate non-lease components, most significantly certain common area maintenance recoveries, from the associated lease components. Due to this election, minimum rents and expense recoveries were combined into a single revenue line item, Rental Revenues, on our Consolidated Statement of Operations and Comprehensive Income (Loss). We also elected the optional transition method to apply the provisions of ASC Topic 842 as of the adoption date, rather than the earliest period presented. As such, the requirements of ASC Topic 842 were not applied in the comparative periods presented in our consolidated financial statements.

In connection with the adoption of ASC Topic 842, lease cancellation payments from our tenants are now included in Rental Revenues on our Consolidated Statement of Operations and Comprehensive Income (Loss) and recognized on a straight-line basis over the remaining lease term, if any. Lease cancellation income was previously accounted for under ASC Topic 606 and presented in Other revenue on our Consolidated Statement of Operations and Comprehensive Income (Loss).

TAUBMAN CENTERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shopping center space is leased to tenants and certain anchors pursuant to lease agreements. Future rental revenues under operating leases in effect at September 30, 2019 for operating centers, assuming no new or renegotiated leases or option extensions on anchor agreements, is summarized as follows:

2019	\$	108,070
2020		445,157
2021		400,262
2022		353,067
2023		319,611
Thereafter		847,619

Certain shopping centers, as lessees, have ground and office leases expiring at various dates through the year 2105. As of September 30, 2019, these leases had an average remaining lease term of approximately 51 years. One center has an option to extend the term for three, 10 year periods and another center has the option to extend the lease term for one additional 10 year period. As of September 30, 2019, these extension options were not considered reasonably assured of being exercised and therefore were excluded from the respective lease terms for these centers. We also lease certain of our office facilities and certain equipment. Office facility and equipment leases expire at various dates through the year 2022.

In order to determine the operating lease liabilities and related right-of-use assets for ground and office leases under which we are the lessee, we utilized a synthetic corporate yield curve to determine an incremental borrowing rate for each of our leases. Significant judgment was required to develop the yield curve, which utilized certain peer and market observations. As of September 30, 2019, the weighted average discount rate for operating leases reported on our Consolidated Balance Sheet was 5.8%. In instances where variable consideration not dependent upon an index or rate existed, such future payments were excluded from the determination of the related operating lease liability and right-of-use asset.

For leases existing as of the adoption date of ASC Topic 842, rent expense is recognized on a straight-line basis. Rental expense under operating leases was \$4.2 million and \$12.6 million for both the three and nine months ended September 30, 2019 and 2018, respectively. There was no contingent rent expense under operating leases for the three and nine months ended September 30, 2019 and 2018. Payables representing straight-line rent adjustments under lease agreements were \$64.8 million as of December 31, 2018. These amounts are now presented within Operating Lease Liabilities on our Consolidated Balance Sheet upon adoption of ASC Topic 842.

The following is a schedule of future minimum rental payments required under operating leases:

2019	\$	4,179
2020		13,646
2021		12,588
2022		13,983
2023		14,142
Thereafter		723,068

We own the retail space subject to a long-term participating lease at City Creek Center, a mixed-use property in Salt Lake City, Utah. City Creek Reserve, Inc. (CCRI), an affiliate of the LDS Church is the participating lessor. We own 100% of the leasehold interest in the retail buildings and property. CCRI has an option to purchase our interest at fair value at various points in time over the term of the lease. In addition to the minimum rent included in the table above, we may pay contingent rent based on the performance of the center.

International Market Place, a shopping center located in Waikiki, Honolulu, Hawaii, is subject to a long-term participating ground lease. In addition to minimum rent included in the table above, we may pay contingent rent based on the performance of the center.

TAUBMAN CENTERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounts Receivable and Uncollectible Tenant Revenues

In connection with the adoption of ASC Topic 842, we now review the collectibility of both billed and accrued charges under our tenant leases each quarter taking into consideration the tenant's historical payment status, credit profile, and known issues related to tenant operations. For any tenant receivable balances thought to be uncollectible, we now record an offset for uncollectible tenant revenues directly to Rental Revenues on the Consolidated Statement of Operations and Comprehensive Income (Loss). Uncollectible tenant revenues were previously reported as bad debt expense in Other Operating expense on our Consolidated Statement of Operations and Comprehensive Income (Loss). Our allowance for doubtful accounts as of December 31, 2018 was \$10.4 million.

As a result of the above change in evaluation in uncollectible tenant revenues, the allowance for doubtful accounts was written off and an entry was recorded as of January 1, 2019 to adjust the receivables and equity balances of our Consolidated Businesses and Unconsolidated Joint Ventures. This resulted in a cumulative effect adjustment increasing Dividends in Excess of Net Income by \$3.2 million and Non-redeemable Noncontrolling Interest by \$1.8 million on our Consolidated Balance Sheet with offsetting increases in Accounts and Notes Receivable, Investment in Unconsolidated Joint Ventures, and Distributions in Excess of Investments In and Net Income of Unconsolidated Joint Ventures balances on our Consolidated Balance Sheet.

Note 2 - Acquisition, Partial Disposition of Ownership Interests, Redevelopment, and DevelopmentAcquisition

In April 2019, we acquired a 48.5% interest in The Gardens Mall in Palm Beach Gardens, Florida, in exchange for 1.5 million newly issued TRG Units (Note 13). We also assumed our \$94.6 million share of the existing debt at the center. Our ownership interest in the center is accounted for as an Unconsolidated Joint Venture under the equity method.

Partial Disposition of Ownership Interests

In February 2019, we announced agreements to sell 50% of our interests in Starfield Hanam, CityOn.Xi'an, and CityOn.Zhengzhou to funds managed by The Blackstone Group L.P. (Blackstone). The interests to be sold were valued at \$480 million as of the sale agreement date, with net cash proceeds expected to be about \$315 million, after transaction costs and the allocation to Blackstone of its share of third party debt. Also, we may receive up to an additional \$50 million of contingent consideration based on the 2019 performance of the three assets. As of September 30, 2019, we recognized no contingent consideration based on current estimates (Note 7).

In September 2019, we completed the sale of 50% of our interest in Starfield Hanam. Net proceeds from the sale were \$235.7 million following the allocation to Blackstone of its share of third party debt and transaction costs. Net proceeds were used to pay down our revolving lines of credit. A gain of \$138.7 million was recognized as a result of the partial disposition of our interest, which represented the excess of the net consideration from the sale over our investment in the Unconsolidated Joint Venture. In addition, upon the completion of the sale, we remeasured our remaining 17.15% interest in the shopping center to fair value, resulting in the recognition of a \$145.0 million gain on remeasurement.

Following the CityOn.Xi'an and CityOn.Zhengzhou transactions, which are subject to customary closing conditions and are expected to close around year-end 2019, we will retain a 25% ownership interest in CityOn.Xi'an and a 24.5% ownership interest in CityOn.Zhengzhou. We will remain the partner responsible for the joint management of the three shopping centers, with Blackstone paying a property service fee recorded within Other revenue on the Consolidated Statement of Operations and Comprehensive Income (Loss).

Redevelopment

We substantially completed our redevelopment project at The Mall at Green Hills in June 2019. We expect some capital spending at The Mall at Green Hills to continue for the remainder of 2019 as certain costs are incurred subsequent to the project's completion, including construction on certain tenant spaces.

Asia Development*Starfield Anseong*

We have partnered with Shinsegae Group, our partner in Starfield Hanam, to build, lease, and manage Starfield Anseong, an approximately 1.1 million square foot shopping center in Anseong, Gyeonggi Province, South Korea. We own a 49% interest in the project and no longer expect to admit an additional capital partner during the development period. The shopping center is scheduled to open in late 2020. As of September 30, 2019, we had invested \$142.8 million in the project, after cumulative currency translation adjustments. This investment is classified within Investment in Unconsolidated Joint Ventures on the Consolidated Balance Sheet.

TAUBMAN CENTERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 - Income TaxesIncome Tax Expense (Benefit)

Our income tax expense (benefit) for the three and nine months ended September 30, 2019 and 2018 consisted of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Federal current	\$ (78)	\$ (433)	\$ 38	\$ (373)
Federal deferred	681	(711)	1,302	(1,059)
Foreign current	1,191 ⁽¹⁾	223	1,787 ⁽¹⁾	857
Foreign deferred	157	50	1,592 ⁽²⁾	(74)
State current	3	(113)	44	(110)
State deferred	67	(12)	161	(25)
Total income tax expense (benefit)	<u>\$ 2,021</u>	<u>\$ (996)</u>	<u>\$ 4,924</u>	<u>\$ (784)</u>

(1) During the three and nine months ended September 30, 2019, we recognized \$0.9 million of income tax expense related to a promote fee paid by our previous institutional partner in Starfield Hanam (Note 4).

(2) During the nine months ended September 30, 2019, we recognized foreign deferred tax expense as we are no longer able to assert indefinite reinvestment in our China assets due to our pending sale of 50% of our interests in CityOn.Xi'an and CityOn.Zhengzhou to funds managed by Blackstone (Note 2). The tax expense is related to an excess of the Investments in the Unconsolidated Joint Ventures under GAAP accounting over the tax basis of our investments.

Deferred Taxes

Deferred tax assets and liabilities as of September 30, 2019 and December 31, 2018 were as follows:

	2019	2018
Deferred tax assets:		
Federal	\$ 4,427	\$ 5,662
Foreign	1,609	1,655
State	963	807
Total deferred tax assets	<u>\$ 6,999</u>	<u>\$ 8,124</u>
Valuation allowances	(1,860)	(1,744)
Net deferred tax assets	<u>\$ 5,139</u>	<u>\$ 6,380</u>
Deferred tax liabilities:		
Foreign	\$ 3,224	\$ 2,454
Total deferred tax liabilities	<u>\$ 3,224</u>	<u>\$ 2,454</u>

We believe 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 VenturesGeneral Information

We own beneficial interests in joint ventures that own shopping centers. TRG is the sole direct or indirect managing general partner or managing member of Fair Oaks Mall, International Plaza, Stamford Town Center, Sunvalley, The Mall at University Town Center, and Westfarms; however, these joint ventures are accounted for under the equity method due to the substantive participation rights of the outside partners. TRG also provides certain management, leasing, and/or development services to the other shopping centers noted below.

Shopping Center	Ownership as of September 30, 2019 and December 31, 2018
CityOn.Xi'an ⁽¹⁾	50%
CityOn.Zhengzhou ⁽¹⁾	49
Country Club Plaza	50
Fair Oaks Mall	50
The Gardens Mall ⁽²⁾	48.5/0
International Plaza	50.1
The Mall at Millenia	50
Stamford Town Center	50
Starfield Anseong (under development)	Note 2
Starfield Hanam ⁽¹⁾	17.15/34.3
Sunvalley	50
The Mall at University Town Center	50
Waterside Shops	50
Westfarms	79

(1) In February 2019, we entered into agreements to sell 50% of our ownership interests in CityOn.Xi'an, CityOn.Zhengzhou, and Starfield Hanam. In September 2019, we completed the sale of 50% of our interest in Starfield Hanam. The remaining transactions are subject to customary closing conditions and are expected to close around year-end 2019 (Note 2).

(2) In April 2019, we acquired a 48.5% interest in The Gardens Mall (Note 2).

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

On our Consolidated Balance Sheet, we separately report our 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 shopping 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 our Unconsolidated Joint Ventures, followed by TRG's beneficial interest in the combined operations information. The combined financial information of the Unconsolidated Joint Ventures as of September 30, 2019 and December 31, 2018 excludes the balances of Starfield Anseong, which is currently under development (Note 2). Beneficial interest is calculated based on TRG's ownership interest in each of the Unconsolidated Joint Ventures.

	September 30, 2019	December 31, 2018
Assets:		
Properties	\$ 3,811,327	\$ 3,728,846
Accumulated depreciation and amortization	(991,445)	(869,375)
	<u>\$ 2,819,882</u>	<u>\$ 2,859,471</u>
Cash and cash equivalents	150,638	161,311
Accounts and notes receivable ⁽¹⁾	140,347	131,767
Operating lease right-of-use assets ⁽¹⁾	11,525	
Deferred charges and other assets	132,844	140,444
	<u>\$ 3,255,236</u>	<u>\$ 3,292,993</u>
Liabilities and accumulated equity (deficiency) in assets:		
Notes payable, net	\$ 3,109,843	\$ 2,815,617
Accounts payable and other liabilities	248,440	426,358
Operating lease liabilities ⁽¹⁾	13,280	
TRG's accumulated deficiency in assets ⁽¹⁾	(217,864)	(49,465)
Unconsolidated Joint Venture Partners' accumulated equity in assets ⁽¹⁾	101,537	100,483
	<u>\$ 3,255,236</u>	<u>\$ 3,292,993</u>
TRG's accumulated deficiency in assets (above)	\$ (217,864)	\$ (49,465)
TRG's investment in Starfield Anseong (Note 2) and advances to CityOn.Zhengzhou	185,135	140,743
TRG basis adjustments, including elimination of intercompany profit ⁽²⁾	330,834	57,360
TCO's additional basis	45,718	47,178
Net investment in Unconsolidated Joint Ventures	<u>\$ 343,823</u>	<u>\$ 195,816</u>
Distributions in excess of investments in and net income of Unconsolidated Joint Ventures	481,315	477,800
Investment in Unconsolidated Joint Ventures	<u>\$ 825,138</u>	<u>\$ 673,616</u>

(1) Upon adoption of ASC Topic 842, "Leases" on January 1, 2019, we valued our operating lease obligations and recorded operating lease liabilities and related right-of-use assets. These lease liabilities and related right-of-use assets will amortize over the remaining life of the respective leases.

(2) The increase in basis adjustments is primarily due to the gain on remeasurement of ownership interest in Unconsolidated Joint Venture (Note 2).

TAUBMAN CENTERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Revenues ⁽¹⁾	\$ 153,749	\$ 146,973	\$ 450,775	\$ 446,608
Maintenance, taxes, utilities, promotion, and other operating expenses ⁽¹⁾	\$ 54,441	\$ 50,140	\$ 158,851	\$ 155,321
Interest expense	35,926	33,199	104,637	99,316
Depreciation and amortization	31,861	32,791	98,501	98,727
Total operating costs	\$ 122,228	\$ 116,130	\$ 361,989	\$ 353,364
Nonoperating income, net ⁽²⁾	837	563	2,161	1,491
Income tax expense	(2,023)	(1,896)	(5,669)	(4,740)
Net income	\$ 30,335	\$ 29,510	\$ 85,278	\$ 89,995
Net income attributable to TRG	\$ 15,545	\$ 15,193	\$ 43,993	\$ 46,435
Realized intercompany profit, net of depreciation on TRG's basis adjustments	5,195	2,205	7,213	5,705
Depreciation of TCO's additional basis	(488)	(488)	(1,460)	(1,460)
Equity in income of Unconsolidated Joint Ventures	\$ 20,252	\$ 16,910	\$ 49,746	\$ 50,680
Beneficial interest in Unconsolidated Joint Ventures' operations:				
Revenues less maintenance, taxes, utilities, promotion, and other operating expenses	\$ 56,703	\$ 52,216	\$ 158,813	\$ 155,744
Interest expense	(17,798)	(17,093)	(52,579)	(51,107)
Depreciation and amortization	(17,662)	(17,190)	(53,808)	(51,570)
Income tax expense	(991)	(1,023)	(2,680)	(2,387)
Equity in income of Unconsolidated Joint Ventures	\$ 20,252	\$ 16,910	\$ 49,746	\$ 50,680

(1) Upon adoption of ASC Topic 842, "Leases", uncollectible tenant revenues are now recorded in Rental Revenues (Note 1).

(2) In addition to the disposition of 50% of our ownership interest in Starfield Hanam, in September 2019, Blackstone also purchased the 14.7% interest in Starfield Hanam that was previously owned by our institutional joint venture partner. Our previous partnership agreement provided for a promote fee due to Taubman Asia upon the institutional partner's exit from the partnership based on performance measures under the prior agreement, which resulted in the recognition of a \$4.8 million promote fee during the three and nine months ended September 30, 2019.

Related Party

We have a note receivable outstanding with CityOn.Zhengzhou, which was originally issued for the purpose of funding development costs. The balance of the note receivable was \$42.3 million and \$43.6 million as of September 30, 2019 and December 31, 2018, respectively, and was classified within Investment 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

TRG's beneficial interest in the debt, capitalized interest, and interest expense of our consolidated subsidiaries and our Unconsolidated Joint Ventures is summarized in the following table. TRG's beneficial interest in the consolidated subsidiaries excludes debt and interest related to the noncontrolling interest in Cherry Creek Shopping Center (50%) and International Market Place (6.5%).

	At 100%		At Beneficial Interest	
	Consolidated Subsidiaries	Unconsolidated Joint Ventures	Consolidated Subsidiaries	Unconsolidated Joint Ventures
Debt as of:				
September 30, 2019	\$ 3,634,165	\$ 3,109,843	\$ 3,343,487	\$ 1,541,841
December 31, 2018	3,830,195	2,815,617	3,539,588	1,437,445
Capitalized interest:				
Nine Months Ended September 30, 2019	\$ 6,138 ⁽¹⁾	\$ 189	\$ 6,120 ⁽¹⁾	\$ 112
Nine Months Ended September 30, 2018	12,266 ⁽¹⁾	9	12,202 ⁽¹⁾	4
Interest expense:				
Nine Months Ended September 30, 2019	\$ 112,590	\$ 104,637	\$ 103,692	\$ 52,579
Nine Months Ended September 30, 2018	97,242	99,316	88,219	51,107

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

2019 Financings

In October 2019, we amended and restated our primary unsecured revolving line of credit, which extended the maturity date to February 2024 with two six month extension options. Following the amendment and restatement, the line of credit now bears interest at a range of LIBOR plus 1.05% to 1.60% based on our total leverage ratio with a facility fee in the range of 0.20% to 0.25%.

Concurrently in October 2019, we amended and restated our unsecured term loan, which reduced the loan amount from \$300 million to \$275 million and extended the maturity date to February 2025. Payments for the reduction in the unsecured term loan were funded by our primary unsecured revolving line of credit. Following the amendment and restatement, the loan now bears interest at a range of LIBOR plus 1.15% to 1.80% based on our total leverage ratio. The LIBOR rate on this loan continues to be swapped to a fixed rate of 2.14% until February 2022, with the remaining \$25 million swap notional allocated to our primary unsecured revolving line of credit.

Lastly, in October 2019, we exercised the final one year extension option on our \$150 million loan for The Mall at Green Hills, which was scheduled to mature in December 2019. The loan will now mature in December 2020, and beginning in December 2019, the loan will bear interest at LIBOR plus 1.45%, which is a reduction from the current interest rate of LIBOR plus 1.60%.

Debt Covenants and Guarantees

Certain loan agreements contain various restrictive covenants, including the following corporate covenants on our primary unsecured revolving line of credit, as well as our unsecured term loans and the loan 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, and The Gardens on El Paseo 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 September 30, 2019, the corporate total leverage ratio was the most restrictive covenant. We were in compliance with all of our covenants and loan obligations as of September 30, 2019. 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 our tax status, pay preferred distributions, and for distributions related to the sale of certain assets.

TAUBMAN CENTERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In connection with the August 2018 financing at International Market Place, TRG provided an unconditional guarantee of the loan principal balance and all accrued but unpaid interest during the term of the loan. The \$250 million loan is interest only during the initial three year term with principal amortization required during the extension periods, if exercised. Accrued but unpaid interest as of September 30, 2019 was \$0.9 million. We believe the likelihood of a repayment under the guarantee to be remote.

In connection with the \$175 million additional financing at International Plaza, which is owned by an Unconsolidated Joint Venture, TRG 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 September 30, 2019, the interest rate swap was a \$1.2 million liability and in a receivable position for unpaid interest. We believe the likelihood of a payment under the guarantee to be remote.

Note 6 - Noncontrolling Interests

Redeemable Noncontrolling Interests

Taubman Asia President

In September 2019, we reacquired René Tremblay's (the Former Asia President's) remaining 5% ownership interest in Taubman Asia for \$6.0 million, which included the return of the \$2.0 million previously contributed by the Former Asia President in connection with the prior repurchase transaction. The \$6.0 million acquisition price is reflected as a distribution to noncontrolling interests on the Consolidated Statement of Cash Flows.

The Former Asia President had an ownership interest in Taubman Asia, which entitled him to 5% of Taubman Asia's dividends, with 85% of his dividends relating to investment activities withheld during his tenure as Asia President. These withholdings would have continued until he contributed and maintained his capital consistent with his percentage ownership interest, including all capital funded by TRG for Taubman Asia's operating and investment activities subsequent to the Former Asia President obtaining his ownership interest. TRG had a preferred investment in Taubman Asia to the extent the Former Asia President had not yet contributed capital commensurate with his ownership interest. The \$6.0 million acquisition price for the ownership interest represented the fair value of the ownership interest less the amount required to return TRG's preferred interest. The 5% ownership interest became puttable in 2019.

Prior to the acquisition, we determined that the Former Asia President's ownership interest in Taubman Asia qualified as an equity award, considering its specific redemption provisions, and accounted for it as a contingently redeemable noncontrolling interest. We presented as temporary equity at each balance sheet date an estimate of the redemption value of the ownership interest, which was classified as Level 3 of the fair value hierarchy. As of December 31, 2018, the carrying amount of the ownership interest was \$7.8 million and was classified as Redeemable Noncontrolling Interest on the Consolidated Balance Sheet. During the nine months ended September 30, 2019, the adjustments to the redemption value were recorded through equity.

In September 2016, we announced the appointment of Peter Sharp as president of Taubman Asia, succeeding the Former Asia President effective January 1, 2017. Peter Sharp resigned from Taubman Asia effective October 2019. Upon resignation, Peter Sharp's ownership interest in Taubman Asia was assigned to us. As of both September 30, 2019 and December 31, 2018, the carrying amount of this ownership interest was zero.

International Market Place

We own a 93.5% controlling interest in a joint venture that owns International Market Place in Waikiki, Honolulu, Hawaii. The 6.5% joint venture partner has no obligation and no right to contribute capital. We are entitled to a preferential return on our capital contributions. We have the right to purchase the joint venture partner's interest and the joint venture partner has the right to require us to purchase the joint venture partner's interest annually. The purchase price of the joint venture partner's interest will be based on fair value. Considering the redemption provisions, we account for the joint venture partner's interest as a contingently redeemable noncontrolling interest with a carrying value of zero at both September 30, 2019 and December 31, 2018. Any adjustments to the redemption value are recorded through equity.

TAUBMAN CENTERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reconciliation of Redeemable Noncontrolling Interest

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Beginning Balance	\$ 6,000	\$ 7,500	\$ 7,800	\$ 7,500
Distributions	(6,000)		(6,000)	
Allocation of net loss		(25)	(237)	(135)
Former Asia President adjustment of redeemable equity			(1,800)	
Adjustments of redeemable noncontrolling interest		25	237	135
Ending Balance	\$ —	\$ 7,500	\$ —	\$ 7,500

Equity Balances of Non-redeemable Noncontrolling Interests

The net equity balance of the non-redeemable noncontrolling interests as of September 30, 2019 and December 31, 2018 included the following:

	2019	2018
Non-redeemable noncontrolling interests:		
Noncontrolling interests in consolidated joint ventures	\$ (154,488)	\$ (156,470)
Noncontrolling interests in partnership equity of TRG	8,569	(58,554)
	\$ (145,919)	\$ (215,024)

Net Income (Loss) Attributable to Noncontrolling Interests

Net income (loss) attributable to the noncontrolling interests for the three months ended September 30, 2019 and 2018 included the following:

	Three Months Ended September 30	
	2019	2018
Net income (loss) attributable to noncontrolling interests:		
Non-redeemable noncontrolling interests:		
Noncontrolling share of income of consolidated joint ventures	\$ 958	\$ 1,589
Noncontrolling share of income of TRG	93,690	9,192
	\$ 94,648	\$ 10,781
Redeemable noncontrolling interest:	—	(25)
	\$ 94,648	\$ 10,756

Net income (loss) attributable to the noncontrolling interests for the nine months ended September 30, 2019 and 2018 included the following:

	Nine Months Ended September 30	
	2019	2018
Net income (loss) attributable to noncontrolling interests:		
Non-redeemable noncontrolling interests:		
Noncontrolling share of income of consolidated joint ventures	\$ 3,456	\$ 4,523
Noncontrolling share of income of TRG	103,899	24,393
	\$ 107,355	\$ 28,916
Redeemable noncontrolling interest:	(237)	(135)
	\$ 107,118	\$ 28,781

TAUBMAN CENTERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Equity Transactions

The following table presents the effects of changes in TCO's ownership interest in consolidated subsidiaries on TCO's equity for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30	
	2019	2018
Net income attributable to TCO common shareholders	\$ 236,717	\$ 54,873
Transfers (to) from the noncontrolling interest:		
Increase (decrease) in TCO's paid-in capital for adjustments of noncontrolling interest ⁽¹⁾	55,691	(211)
Net transfers (to) from noncontrolling interests	55,691	(211)
Change from net income attributable to TCO and transfers (to) from noncontrolling interests	\$ 292,408	\$ 54,662

- (1) In 2019 and 2018, adjustments of the noncontrolling interest were made as a result of changes in our ownership of TRG in connection with our share-based compensation under employee and director benefit plans (Note 8), issuances of common stock pursuant to the Continuing Offer (Note 9), and in connection with the accounting for the Former Asia President's redeemable ownership interest. In 2019, adjustments of the noncontrolling interest were also made as a result of issuances of TRG Units in connection with the acquisition of The Gardens Mall (Note 2).

Finite Life Entities

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 September 30, 2019, we 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 \$370 million at September 30, 2019, compared to a book value of \$(154.5) million that is classified in Noncontrolling Interests on our Consolidated Balance Sheet. The fair value of the noncontrolling interest was calculated as the noncontrolling interest's effective 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

We use 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. We may also enter into forward starting swaps or treasury lock agreements to set the effective interest rate on a planned fixed-rate financing. Our interest rate swaps involve the receipt of variable-rate amounts from a counterparty in exchange for us 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 we cash settle in anticipation of a fixed rate financing or refinancing, we 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.

We do not use derivatives for trading or speculative purposes and currently do not have material derivatives that are not designated as hedging instruments under the accounting requirements for derivatives and hedging.

TAUBMAN CENTERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2019, we 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
Consolidated Subsidiaries:						
Receive variable (LIBOR) /pay-fixed swap ⁽¹⁾	100%	100,000	2.14%	1.60% ⁽¹⁾	3.74% ⁽¹⁾	February 2022
Receive variable (LIBOR) /pay-fixed swap ⁽¹⁾	100%	100,000	2.14%	1.60% ⁽¹⁾	3.74% ⁽¹⁾	February 2022
Receive variable (LIBOR) /pay-fixed swap ⁽¹⁾	100%	50,000	2.14%	1.60% ⁽¹⁾	3.74% ⁽¹⁾	February 2022
Receive variable (LIBOR) /pay-fixed swap ⁽¹⁾	100%	50,000	2.14%	1.60% ⁽¹⁾	3.74% ⁽¹⁾	February 2022
Receive variable (LIBOR) /pay-fixed swap ⁽²⁾	100%	125,000	3.02% ⁽²⁾	1.60% ⁽²⁾	4.62% ⁽²⁾	March 2023
Receive variable (LIBOR) /pay-fixed swap ⁽²⁾	100%	75,000	3.02% ⁽²⁾	1.60% ⁽²⁾	4.62% ⁽²⁾	March 2023
Receive variable (LIBOR) /pay-fixed swap ⁽²⁾	100%	50,000	3.02% ⁽²⁾	1.60% ⁽²⁾	4.62% ⁽²⁾	March 2023
Receive variable (LIBOR) /pay-fixed swap ⁽³⁾	100%	12,000	2.09%	1.40%	3.49%	March 2024
Unconsolidated Joint Ventures:						
Receive variable (LIBOR) /pay-fixed swap ⁽⁴⁾	50.1%	159,504	1.83%	1.75%	3.58%	December 2021
Receive variable (LIBOR) USD/pay-fixed Korean Won (KRW) cross-currency interest rate swap ⁽⁵⁾	17.15%	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 payment 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. As of September 30, 2019, these swaps were being used to manage interest rate risk on the \$300 million unsecured term loan. As of September 30, 2019, the credit spread on this loan varied within a range of 1.25% to 1.90%, depending on our total leverage ratio at the measurement date, resulting in an effective rate in the range of 3.39% to 4.04%.

(2) The hedged forecasted transaction for each of these swaps is the first previously unhedged one-month LIBOR-indexed interest payment 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 March 2019 effective date of these swaps. We are currently using these swaps to manage interest rate risk on the \$250 million unsecured term loan. The credit spread on this loan can vary within a range of 1.25% to 1.90%, depending on our total leverage ratio at the measurement date, resulting in an effective rate in the range of 4.27% to 4.92% 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 this swap is equal to the outstanding principal balance of the floating rate loan on International Plaza.

(5) 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.

TAUBMAN CENTERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash Flow Hedges

We recognize all changes in fair value for hedging instruments designated and qualifying for cash flow hedge accounting treatment as a component of Other Comprehensive Income (OCI).

Amounts reported in Accumulated Other Comprehensive Income (AOCI) related to currently outstanding interest rate derivatives are recognized as an adjustment to income as interest payments are made on our 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.

We expect that approximately \$4.9 million of AOCI of TCO and the noncontrolling interests will be reclassified from AOCI and recognized as an increase in expense in the following 12 months.

The following tables present the effect of derivative instruments on the Consolidated Statement of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2019 and 2018. 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.

	Amount of Gain or (Loss) Recognized in OCI on Derivative		Location of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income	
	Three Months Ended September 30			Three Months Ended September 30	
	2019	2018		2019	2018
Derivatives in cash flow hedging relationships:					
Interest rate contracts – consolidated subsidiaries	\$ (2,059)	\$ 756	Interest Expense	\$ (400)	\$ 506
Interest rate contracts – UJVs	(253)	235	Equity in Income of UJVs	85	(1)
Cross-currency interest rate contract – UJV	52	92	Equity in Income of UJVs	711	(36)
Total derivatives in cash flow hedging relationships	<u>\$ (2,260)</u>	<u>\$ 1,083</u>		<u>\$ 396</u>	<u>\$ 469</u>

	Amount of Gain or (Loss) Recognized in OCI on Derivative		Location of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income	
	Nine Months Ended September 30			Nine Months Ended September 30	
	2019	2018		2019	2018
Derivatives in cash flow hedging relationships:					
Interest rate contracts – consolidated subsidiaries	\$ (16,583)	\$ 8,674	Interest Expense	\$ 366	\$ 205
Interest rate contracts – UJVs	(1,953)	2,101	Equity in Income of UJVs	354	(287)
Cross-currency interest rate contract – UJV	9	(90)	Equity in Income of UJVs	1,522	781
Total derivatives in cash flow hedging relationships	<u>\$ (18,527)</u>	<u>\$ 10,685</u>		<u>\$ 2,242</u>	<u>\$ 699</u>

TAUBMAN CENTERS, INC.
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We record all derivative instruments at fair value on the Consolidated Balance Sheet. The following table presents the location and fair value of our derivative financial instruments as reported on the Consolidated Balance Sheet as of September 30, 2019 and December 31, 2018.

	Consolidated Balance Sheet Location	Fair Value	
		September 30, 2019	December 31, 2018
Derivatives designated as hedging instruments:			
Asset derivatives:			
Interest rate contracts – consolidated subsidiaries	Deferred Charges and Other Assets		\$ 3,530
Interest rate contract - UJV	Investment in UJVs		1,345
Cross-currency interest rate contract - UJV	Investment in UJVs	\$ 212	
Total assets designated as hedging instruments		\$ 212	\$ 4,875
Liability derivatives:			
Interest rate contracts – consolidated subsidiaries	Accounts Payable and Accrued Liabilities	\$ (18,763)	\$ (5,710)
Interest rate contract – UJV	Investment in UJVs	(608)	
Cross-currency interest rate contract – UJV	Investment in UJVs		(963)
Total liabilities designated as hedging instruments		\$ (19,371)	\$ (6,673)

Contingent Features

Our 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 TRG's indebtedness. As of September 30, 2019, we are not in default on any indebtedness that would trigger a credit-risk-related default on our current outstanding derivatives.

As of September 30, 2019 and December 31, 2018, the fair value of derivative instruments with credit-risk-related contingent features that were in a liability position was \$19.4 million and \$6.7 million, respectively. As of September 30, 2019 and December 31, 2018, we were not required to post any collateral related to these agreements. If we breached any of these provisions we would be required to settle our obligations under the agreements at their fair value. See Note 5 regarding guarantees and Note 11 for fair value information on derivatives.

Contingent Consideration for the Partial Disposition of Ownership Interests

In connection with the agreements to sell 50% of our interests in Starfield Hanam, CityOn.Xi'an, and CityOn.Zhengzhou to Blackstone, we may receive up to \$50 million of contingent consideration based on the 2019 performance of the three assets (Note 2). The contingent consideration meets the definition of a derivative and therefore is required to be recognized on the Consolidated Balance Sheet at fair value. As of September 30, 2019, there was no fair value associated with the contingent consideration based on expectations of the 2019 performance of the three assets, and therefore the associated derivative asset falls into Level 3 of the fair value hierarchy. As the contingent consideration represents proceeds from the sale to Blackstone, any future changes in fair value will be recorded as an adjustment to Gain on Partial Disposition of Ownership Interest in Unconsolidated Joint Venture and Gain on Remeasurement of Ownership Interest in Unconsolidated Joint Venture on the Consolidated Statement of Operations and Comprehensive Income (Loss).

Note 8 - Share-Based CompensationGeneral

In May 2018, our shareholders approved The Taubman Company LLC 2018 Omnibus Long-Term Incentive Plan (2018 Omnibus Plan). The 2018 Omnibus Plan provides for the award of restricted shares, restricted share units, restricted profits units of TRG (TRG Profits Units), options to purchase common shares, unrestricted shares, and dividend equivalent rights, in each case with or without performance conditions, to acquire up to an aggregate of 2.8 million common shares or TRG Profits Units to directors, officers, employees, and other service providers of TCO and our affiliates. Every share or TRG Profits Unit subject to awards under the 2018 Omnibus Plan shall be counted against this limit as one share or TRG Profits Unit for every one share or TRG Profits Unit granted. The amount of shares or TRG Profits Units available for future grants is adjusted when the number of contingently issuable common shares or units are settled. If an award issued under the 2018 Omnibus Plan is forfeited, expires without being exercised, or is used to pay tax withholding on such award, the shares or TRG Profits Units become available for issuance under new awards. TRG Profits Units 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. The 2018 Omnibus Plan allows us to permit or require the deferral of all or a part of an award payment into a deferred compensation arrangement. Prior to the adoption of the 2018 Omnibus Plan, we provided share-based compensation through The Taubman Company LLC 2008 Omnibus Long-Term Incentive Plan (2008 Omnibus Plan), as amended, which expired in May 2018. Awards that were issued under the 2008 Omnibus Plan are still outstanding and will be paid out of the 2008 Omnibus Plan upon vesting.

TRG Profits Units

The following types of TRG Profits Units awards were granted to certain senior management employees in prior years: (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 absolute TSR is not positive over a three year period. 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 2019 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 either TRG Units or common shares being issued at vesting under the TRG Profits Units program and the Performance Share Unit program, respectively.

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, we account for these TRG Profits Units as participating securities in TRG. 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 TRG's actual cash distributions during the vesting period.

All currently unvested TRG Profits Units will vest by March 2021, 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.

TAUBMAN CENTERS, INC.
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2019 Awards - Other Management Employee Grants

During 2019 and in prior years, other types of awards granted to management employees include those described below. The awards granted in 2019 vest in March 2022, 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 our market performance relative to that of a peer group. The TSR PSU grants include 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.

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 our 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 absolute TSR is not positive over a three year period.

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 our share-based compensation plans was \$1.9 million and \$6.1 million for the three and nine months ended September 30, 2019, respectively. The compensation cost charged to income for our share-based compensation plans was \$2.3 million and \$6.9 million for the three and nine months ended September 30, 2018, respectively. Compensation cost capitalized as part of properties and deferred leasing costs was \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2019, respectively, and \$0.2 million and \$0.7 million for the three and nine months ended September 30, 2018, respectively.

Valuation Methodologies

We 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 our 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. We assume 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 our 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. We estimated the value of grants dependent on TSR performance using a Monte Carlo simulation and considering historical returns of TCO and the peer group.

For awards dependent on NOI performance, we consider the NOI measure a performance condition under applicable accounting standards, and as such, have 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.

TAUBMAN CENTERS, INC.
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Summaries of Activity for the Nine Months Ended September 30, 2019

Restricted TRG Profits Units

	Number of Restricted TRG Profits Units	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2019	69,285	\$ 57.93
Units recovered and cancelled ⁽¹⁾	(368)	59.49
Vested and converted ⁽²⁾	(46,506)	59.45
Outstanding at September 30, 2019	<u>22,411</u>	<u>\$ 54.73</u>

(1) This reflects the recovery and cancellation of previously granted Restricted TRG Profits Units, which vested on March 1, 2019, as a result of the actual cash distributions made during the vesting period.

(2) This represents the conversion of Restricted TRG Profits Units to TRG Units, which satisfied certain tax-driven requirements on April 1, 2019 and had previously vested.

As of September 30, 2019, there was \$0.3 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 1.0 year.

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, 2019	148,078	\$ 25.17
Units recovered and cancelled ⁽¹⁾	(76,489)	26.42
Vested and converted ⁽²⁾	(21,169)	26.30
Outstanding at September 30, 2019	<u>50,420</u>	<u>\$ 22.81</u>

(1) This reflects the recovery and cancellation of previously granted (300% of target grant amount) Relative TSR Performance-based TRG Profits Units, which vested on March 1, 2019, as a result of the performance payout ratio of 22% and the actual cash distributions made during the vesting period. That is, despite the completion of applicable employee service requirements, the number of Relative TSR Performance-based TRG Profits Units ultimately considered earned is determined by the extent to which the TSR market performance measure was achieved during the performance period.

(2) This represents the conversion of Restricted TRG Profits Units to TRG Units, which satisfied certain tax-driven requirements on April 1, 2019 and had previously vested.

As of September 30, 2019, there was \$0.3 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 1.1 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, 2019	149,949	\$ 19.29
Units recovered and cancelled ⁽¹⁾	(68,730)	17.47
Vested and converted ⁽²⁾	(30,799)	18.86
Outstanding at September 30, 2019	<u>50,420</u>	<u>\$ 18.29</u>

(1) This reflects the recovery and cancellation of previously granted (300% of target grant amount) NOI Performance-based TRG Profits Units, which vested on March 1, 2019, as a result of the performance payout ratio of 30% and the actual cash distributions made during the vesting period. That is, despite the completions of applicable employee service requirements, the number of NOI Performance-based TRG Profits Units ultimately considered earned is determined by the extent to which the NOI performance measure was achieved during the performance period.

(2) This represents the conversion of Restricted TRG Profits Units to TRG Units, which satisfied certain tax-driven requirements on April 1, 2019 and had previously vested.

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As of September 30, 2019, there was \$0.2 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 1.0 year.

TSR - Based Performance Share Units

	Number of TSR PSU	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2019	14,197	\$ 79.13
Granted	20,936	85.44
Outstanding at September 30, 2019	35,133	\$ 82.89

As of September 30, 2019, there was \$1.8 million of total unrecognized compensation cost related to nonvested TSR PSU outstanding. This cost is expected to be recognized over an average period of 2.0 years.

NOI - Based Performance Share Units

	Number of NOI PSU	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2019	14,197	\$ 60.59
Granted	20,936	52.41
Outstanding at September 30, 2019	35,133	\$ 55.71

As of September 30, 2019, there was \$1.2 million of total unrecognized compensation cost related to nonvested NOI PSU outstanding. This cost is expected to be recognized over an average period of 2.0 years.

Restricted Share Units

	Number of RSU	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2019	184,673	\$ 63.44
Vested	(63,165)	66.82
Granted	87,720	52.41
Forfeited	(6,796)	58.17
Outstanding at September 30, 2019	202,432	\$ 57.78

As of September 30, 2019, there was \$5.6 million of total unrecognized compensation cost related to nonvested RSU outstanding. This cost is expected to be recognized over an average period of 1.9 years.

Unit Option Deferral Election

Under a prior option plan, the 2008 Omnibus Plan, and the 2018 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, our 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 TRG 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 TRG.

Note 9 - Commitments and Contingencies

Cash Tender

At the time of our initial public offering and acquisition of our partnership interest in TRG in 1992, we entered into an agreement (the Cash Tender Agreement) with 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 us 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 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 (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.

We 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, we expect to finance these purchases through the sale of new shares of our 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 our sole benefit. We account for the Cash Tender Agreement as a freestanding written put option. As the option put price is defined by the current market price of our 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 September 30, 2019 of \$40.83 per share for our common stock, the aggregate value of TRG Units that may be tendered under the Cash Tender Agreement was \$1.0 billion. The purchase of these interests at September 30, 2019 would have resulted in us owning an additional 28% interest in TRG.

Continuing Offer

We have made a continuing, irrevocable offer to exchange shares of common stock for TRG Units (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 we may, in our sole discretion, agree to include in the Continuing Offer, and all future optionees under the 2018 Omnibus Plan. 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

We carry liability insurance to mitigate our exposure to certain losses, including those relating to personal injury claims. We believe our 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.

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Hurricane Maria and The Mall of San Juan

The Mall of San Juan incurred significant damage from Hurricane Maria in 2017. We have substantial insurance to cover hurricane and flood damage, as well as business and service interruption. In June 2019, we reached a final settlement with our insurer and received final payment related to our claims.

The following table presents a summary of the insurance proceeds received relating to our claim for The Mall of San Juan for the three and nine months ended September 30, 2019 and September 30, 2018:

Proceeds Description	Consolidated Statement of Operations and Comprehensive Income (Loss) Location	Three Months Ended September 30		Nine Months Ended September 30	
		2019	2018	2019	2018
Business interruption insurance recoveries	Nonoperating Income, Net			\$ 8,574	
Revenue reduction related to business interruption ⁽¹⁾	Reduction of Rental Revenues			(1,202)	
Expense reimbursement insurance recoveries	Nonoperating Income, Net		\$ 96	185	\$ 1,126
Reimbursement for capital items damaged in hurricane in 2017	Reversal of previously recognized Depreciation Expense			2,000 ⁽²⁾	4,866
Gain on insurance recoveries	Nonoperating Income, Net			1,418	

(1) Represents amounts recognized in prior periods that were credited back to tenants in the current period upon receipt of business interruption claim proceeds.

(2) Represents reduction of depreciation expense recorded in June 2019 for proceeds received in final settlement of insurance claim, which offset the original deductible expensed in 2017.

In August 2019, we settled previously ongoing litigation in the Commonwealth of Puerto Rico Court of First Instance, San Juan Judicial Center, Superior Court, Civil No. SJ2017CV02094 (503) related to the Saks Fifth Avenue store at The Mall of San Juan. As a result of the settlement, Saks Fifth Avenue agreed to pay us \$26 million for partial reimbursement of the previously paid anchor allowance in exchange for the termination of their obligations under their agreements. \$20 million was received in August 2019; \$6 million will be received in two equal installments of \$3 million on or before January 2020 and January 2021. The allowance reimbursement and value of the former Saks Fifth Avenue building and improvements, which we now control, exceeded the write-off of the book value of the anchor allowance and legal costs incurred in the third quarter of 2019, resulting in the recognition of a \$10.1 million net gain, which has been included within Nonoperating Income, Net on the Consolidated Statement of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2019.

Along with the settlement of the lawsuit, we have resolved the operating covenant with Nordstrom and substantially all of the leases with other mall tenants that had co-tenancy requirements related to Saks Fifth Avenue.

Other

See Note 5 for TRG'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), TSR PSU, NOI 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 September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Net income attributable to TCO common shareholders (Numerator):				
Basic	\$ 215,361	\$ 20,976	\$ 236,717	\$ 54,873
Impact of additional ownership of TRG	1,512	31	2,506	77
Diluted	<u>\$ 216,873</u>	<u>\$ 21,007</u>	<u>\$ 239,223</u>	<u>\$ 54,950</u>
Shares (Denominator) – basic	61,211,249	61,001,357	61,169,279	60,970,572
Effect of dilutive securities	1,034,165	294,710	1,063,217	274,729
Shares (Denominator) – diluted	<u>62,245,414</u>	<u>61,296,067</u>	<u>62,232,496</u>	<u>61,245,301</u>
Earnings per common share – basic	<u>\$ 3.52</u>	<u>\$ 0.34</u>	<u>\$ 3.87</u>	<u>\$ 0.90</u>
Earnings per common share – diluted	<u>\$ 3.48</u>	<u>\$ 0.34</u>	<u>\$ 3.84</u>	<u>\$ 0.90</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 TCO 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 September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Weighted average noncontrolling TRG Units outstanding	5,977,536	4,115,235	5,388,947	4,134,110
Unissued TRG Units under unit option deferral elections		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 we would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the reporting date. The valuations of our 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 our own nonperformance risk and the respective counterparty's nonperformance risk.

Contingent Consideration for the Partial Disposition of Ownership Interests

In connection with the agreements to sell 50% of our interests in Starfield Hanam, CityOn.Xi'an, and CityOn.Zhengzhou to Blackstone, we may receive up to \$50 million of contingent consideration based on the 2019 performance of the three assets (Note 2). The contingent consideration meets the definition of a derivative and therefore is required to be recognized on the Consolidated Balance Sheet at fair value. As of September 30, 2019, there was no fair value associated with the contingent consideration based on expectations of the 2019 performance of the three assets, and therefore the associated derivative asset falls into Level 3 of the fair value hierarchy. As the contingent consideration represents proceeds from the sale to Blackstone, any future changes in fair value will be recorded as an adjustment to Gain on Partial Disposition of Ownership Interest in Unconsolidated Joint Venture and Gain on Remeasurement of Ownership Interest in Unconsolidated Joint Venture on the Consolidated Statement of Operations and Comprehensive Income (Loss).

Other

The valuations of both our investments in an insurance deposit and in SPG common shares utilize unadjusted quoted prices determined by active markets for the specific securities we have invested in, and therefore fall into Level 1 of the fair value hierarchy. We measured our investment in SPG common shares at fair value with changes in value recorded through net income. We owned zero and 290,124 SPG common shares as of September 30, 2019 and December 31, 2018, respectively. In January 2019, we sold our remaining investment in 290,124 SPG common shares at an average price of \$179.52 per share. Proceeds from the sale were used to pay down our revolving lines of credit.

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 September 30, 2019 Using		Fair Value Measurements as of December 31, 2018 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			\$ 48,738	
Insurance deposit	\$ 11,171		10,121	
Derivative interest rate contracts (Note 7)				\$ 3,530
Total assets	<u>\$ 11,171</u>	<u>\$ —</u>	<u>\$ 58,859</u>	<u>\$ 3,530</u>
Derivative interest rate contracts (Note 7)		\$ (18,763)		\$ (5,710)
Total liabilities		<u>\$ (18,763)</u>		<u>\$ (5,710)</u>

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The insurance deposit shown above represents cash maintained in an escrow account in connection with a property and casualty insurance arrangement for our 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*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 September 30, 2019 and December 31, 2018, we employed the credit spreads at which the debt was originally issued.

The estimated fair values of notes payable at September 30, 2019 and December 31, 2018 were as follows:

	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Notes payable, net	\$ 3,634,165	\$ 3,712,499	\$ 3,830,195	\$ 3,755,757

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 September 30, 2019 by \$138.2 million or 3.7%.

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.

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Note 12 - Accumulated Other Comprehensive Income

Changes in the balance of each component of AOCI for the nine months ended September 30, 2019 were as follows:

	TCO 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, 2019	\$ (16,128)	\$ (9,248)	\$ (25,376)	\$ (6,569)	\$ 8,363	\$ 1,794
Other comprehensive income (loss) before reclassifications	(16,760)	(11,375)	(28,135)	(3,703)	(4,910)	(8,613)
Amounts reclassified from AOCI		(1,565)	(1,565)		(677)	(677)
Net current period other comprehensive income (loss)	\$ (16,760)	\$ (12,940)	\$ (29,700)	\$ (3,703)	\$ (5,587)	\$ (9,290)
Partial disposition of ownership interest in Unconsolidated Joint Venture	8,185		8,185			—
Adjustments due to changes in ownership	274	(350)	(76)	(274)	350	76
September 30, 2019	\$ (24,429)	\$ (22,538)	\$ (46,967)	\$ (10,546)	\$ 3,126	\$ (7,420)

Changes in the balance of each component of AOCI for the nine months ended September 30, 2018 were as follows:

	TCO 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, 2018	\$ 384	\$ (7,303)	\$ (6,919)	\$ 159	\$ 9,220	\$ 9,379
Other comprehensive income (loss) before reclassifications	(15,777)	8,081	(7,696)	(6,447)	3,303	(3,144)
Amounts reclassified from AOCI		(496)	(496)		(203)	(203)
Net current period other comprehensive income (loss)	\$ (15,777)	\$ 7,585	\$ (8,192)	\$ (6,447)	\$ 3,100	\$ (3,347)
Adjustment related to SPG common shares investment for adoption of ASU No. 2016-01 ⁽¹⁾		(678)	(678)		(277)	(277)
Adjustments due to changes in ownership	1	25	26	(1)	(25)	(26)
September 30, 2018	\$ (15,392)	\$ (371)	\$ (15,763)	\$ (6,289)	\$ 12,018	\$ 5,729

(1) On January 1, 2018, we adopted Accounting Standards Update (ASU) No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities". Upon adoption, we applied the modified-retrospective approach and recorded a one-time cumulative-effect adjustment to reclassify \$1.0 million of historical unrealized gains on the fair value adjustments of our investment in SPG common shares as of December 31, 2017 from AOCI to Dividends in Excess of Net Income on our Consolidated Balance Sheet.

The following table presents reclassifications out of AOCI for the nine months ended September 30, 2019:

Details about AOCI Components	Amounts reclassified from AOCI	Affected line item on the Consolidated Statement of Operations and Comprehensive Income (Loss)
Gains on interest rate instruments and other:		
Realized gain on interest rate contracts - consolidated subsidiaries	\$ (366)	Interest Expense

Realized gain on interest rate contracts - UJVs		(354)	Equity in Income of UJVs
Realized gain on cross-currency interest rate contract - UJV		(1,522)	Equity in Income of UJVs
Total reclassifications for the period	\$	<u>(2,242)</u>	

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The following table presents reclassifications out of AOCI for the nine months ended September 30, 2018:

Details about AOCI Components	Amounts reclassified from AOCI	Affected line item on the Consolidated Statement of Operations and Comprehensive Income (Loss)
Losses (gains) on interest rate instruments and other:		
Realized gain on interest rate contracts - consolidated subsidiaries	\$ (205)	Interest Expense
Realized loss on interest rate contracts - UJVs	287	Equity in Income of UJVs
Realized gain on cross-currency interest rate contract - UJV	(781)	Equity in Income of UJVs
Total reclassifications for the period	\$ (699)	

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

Interest paid for the nine months ended September 30, 2019 and 2018, net of amounts capitalized of \$6.1 million and \$12.3 million, respectively, was \$109.1 million and \$91.3 million, respectively. Income taxes paid for the nine months ended September 30, 2019 and 2018 were \$0.9 million and \$0.5 million, respectively. Cash paid for operating leases for the nine months ended September 30, 2019 was \$10.8 million. Other non-cash additions to properties during the nine months ended September 30, 2019 and 2018 were \$73.5 million and \$83.0 million, respectively, and primarily represent accrued construction and tenant allowance costs. In connection with the adoption of ASC Topic 842, "Leases", we recorded \$178.1 million of operating lease right-of-use assets as of January 1, 2019, which were classified as non-cash investing activities (Note 1). We issued 1.5 million TRG Units as partial consideration for the acquisition of The Gardens Mall, which were valued at \$79.3 million as of the acquisition date (Note 2).

Reconciliation of Cash, Cash Equivalents, and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Consolidated Balance Sheet that sum to the total of the same such amounts shown on the Consolidated Statement of Cash Flows.

	September 30, 2019	December 31, 2018
Cash and cash equivalents	\$ 62,572	\$ 48,372
Restricted cash	662	94,557
Total Cash, Cash Equivalents, and Restricted Cash shown on the Consolidated Statement of Cash Flows	\$ 63,234	\$ 142,929

Restricted Cash

We are required to escrow cash balances for specific uses stipulated by certain of our lenders and other various agreements. As of September 30, 2019 and December 31, 2018, our cash balances restricted for these uses were \$0.7 million and \$94.6 million, respectively. Our Restricted Cash as of December 31, 2018 included \$92.5 million of cash held as collateral for financing arrangements related to our Asia investments, which was held in a foreign account. As of September 30, 2019, we did not have any such cash held as collateral for financing arrangements related to our Asia investments. During the nine months ended September 30, 2019, the cash held as collateral decreased as a result of repayments of the related financing arrangements. During the nine months ended September 30, 2019 and 2018, the Asia cash and restricted cash balances decreased by \$1.7 million and \$4.9 million, respectively, as a result of exchange rate fluctuations.

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Note 14 - New Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, "Financial Instruments - Credit Losses", which introduces new guidance for an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for equity securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. Instruments in scope include loans, held-to-maturity debt securities, and net investments in leases as well as reinsurance and trade receivables. In November 2018, the FASB issued ASU No. 2018-19, "Codification Improvements to Topic 326, Financial Instruments - Credit Losses", which clarifies that operating lease receivables are outside the scope of the new standard. ASU No. 2016-13 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2019. We are currently evaluating the impact that the adoption of the new standard will have on our consolidated financial statements.

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 or the date specified herein. 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 (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, TRG, and/or TRG's subsidiaries as the context may require. We own, manage, lease, acquire, dispose of, develop, and expand retail 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 and affiliates (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 acquisition of a 48.5% interest in The Gardens Mall in April 2019 (see "Results of Operations - The Gardens Mall Acquisition"), the redevelopment agreement for Taubman Prestige Outlets Chesterfield in May 2018 (see "Results of Operations - Redevelopment Agreement for Taubman Prestige Outlets Chesterfield"), and the redevelopment of Beverly Center beginning in 2016. 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 2018 have been restated to include comparable centers to 2019. This affects the comparability of our operating results period over period. Additionally, The Mall of San Juan has been excluded from "comparable center" statistics as a result of Hurricane Maria, which occurred in 2017, given that the center's performance has been and is expected to continue to be materially impacted for the foreseeable future (see "Results of Operations - Hurricane Maria and The Mall of San Juan").

Current Operating Trends

The U.S. shopping center industry has been challenged in recent years and is currently facing choppiness as it continues to evolve rapidly alongside retail. Across the industry, department store sales have weakened and their ability to drive traffic has substantially decreased, resulting in increased store closures, with mature mall tenants and anchors rationalizing square footage and being highly selective in opening new stores. Bankruptcy filings by our mall tenants have recently been elevated, and included Forever 21, our largest mall tenant during the the three months ended September 30, 2019. For the nine months ended September 30, 2019, the combined operations of Forever 21 accounted for 3.9% of Mall GLA and less than 3% of minimum rent.

There has been some stabilization of the retail landscape recently, however, the retail headwinds still have the potential to be prolonged and ultimately may still result in many centers incurring lost or reduced rent, paying higher tenant allowances, and/or experiencing unexpected terminations. Over time, we have seen the emergence of a new tenant pool offering additional entertainment and coworking alternatives within the mall, as well as investment in brick-and-mortar locations by digitally native tenants. Where appropriate, we are making decisions as we re-tenant space to use some shorter leases in order to maintain occupancy, merchandising, and preserve cash flow when necessary and possible; this activity can have a material impact on our releasing spread for an applicable period.

In this context, we have been repositioning our company for a number of years. Our most recent new developments, including those in Asia, have provided growth and are contributing positively to our portfolio. Over time, we believe high-quality mall portfolios such as ours will continue to gain market share of tenant sales and rents and maintain a selection of high quality tenants in our shopping centers.

Tenant Sales and Occupancy Costs

Our comparable mall tenants reported an 11.2% increase in mall tenant sales per square foot in the third quarter of 2019 from the same period in 2018. For the nine months ended September 30, 2019, our comparable mall tenant sales per square foot increased 12.9% from the comparable period in 2018. For the trailing 12-month period ended September 30, 2019, comparable mall tenant sales per square foot were \$868, a 12.0% increase from \$775 for the trailing 12-month period ended September 30, 2018. Although our mall tenant sales continue to be strong, the strong sales performance is not widespread amongst our tenant base and has been materially impacted by the sales performance of certain individual tenants.

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, overage 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 because most mall tenants sell goods at profitable margins and have certain fixed operating expenses, the occupancy costs that they can afford to pay and still be profitable are higher as sales per square foot increases.

Mall tenant sales directly impact the amount of overage 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 overage rents represent. Overage 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 overage rent upon renewal.

While mall tenant sales are critical over the long term, the high-quality mall business has generally 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 (Rental Revenues and Overage Rents excluding lease cancellation income and uncollectible tenant revenues) as a percentage of sales in our Consolidated Businesses and Unconsolidated Joint Ventures are as follows:

	Trailing 12-Months Ended September 30 ⁽¹⁾	
	2019	2018
Consolidated Businesses	13.2%	15.0%
Unconsolidated Joint Ventures	12.4%	13.1%
Combined	12.8%	14.0%

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

Occupancy and Leased Space

Mall tenant ending occupancy and leased space statistics as of September 30, 2019 and 2018 are as follows:

	2019 ⁽¹⁾	2018 ⁽¹⁾
Ending occupancy - all centers	92.9%	92.9%
Ending occupancy - comparable centers	93.4	93.3
Leased space - all centers	95.4	95.5
Leased space - comparable centers	95.9	95.8

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

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 2.5% this quarter, is consistent with our history of 1% to 3% in the third quarter.

During the nine months ended September 30, 2019, 2.4% of our stores were operated by tenants that sought the protection of the bankruptcy laws, as compared to 1.6% of our stores for the year ended December 31, 2018. Despite the increase in tenant bankruptcies, our occupancy and leased space statistics remain solid and at levels in line with our five year averages.

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. In periods of increasing sales, rents on new leases will generally tend to rise. In periods of slower growth or declining sales, rents on new leases will generally grow more slowly or will decline, as occurred in the third quarter of 2019, or we may execute shorter lease terms, as tenants' expectations of future growth become less optimistic.

Average and Base Rent Per Square Foot

Average and base rent per square foot statistics are computed using contractual rentals per the tenant lease agreements (excluding lease cancellation income, expense recoveries, and uncollectible tenant revenues), which reflect any lease modifications, including those for rental concessions. Rental information for comparable centers in our Consolidated Businesses and Unconsolidated Joint Ventures follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Average rent per square foot - all comparable centers: ⁽¹⁾				
Consolidated Businesses	\$ 70.52	\$ 70.56	\$ 70.97	\$ 71.65
Unconsolidated Joint Ventures	47.20	45.89	47.22	46.11
Combined	56.03	54.77	56.16	55.20

(1) Statistics exclude non-comparable centers.

	Trailing 12-Months Ended September 30 ⁽¹⁾⁽²⁾	
	2019	2018
Opening base rent per square foot:		
Consolidated Businesses	\$ 57.66	\$ 74.71
Unconsolidated Joint Ventures	44.68	45.89
Combined	51.09	59.48
Square feet of GLA opened:		
Consolidated Businesses	634,236	515,840
Unconsolidated Joint Ventures	649,404	577,646
Combined	1,283,640	1,093,486
Closing base rent per square foot:		
Consolidated Businesses	\$ 56.55	\$ 70.36
Unconsolidated Joint Ventures	47.55	44.87
Combined	51.62	56.04
Square feet of GLA closed:		
Consolidated Businesses	536,929	486,196
Unconsolidated Joint Ventures	650,258	623,731
Combined	1,187,187	1,109,927
Releasing spread per square foot:		
Consolidated Businesses	\$ 1.11	\$ 4.35
Unconsolidated Joint Ventures	(2.87)	1.02
Combined	(0.53)	3.44
Releasing spread per square foot growth:		
Consolidated Businesses	2.0 %	6.2%
Unconsolidated Joint Ventures	(6.0)%	2.3%
Combined	(1.0)%	6.1%

(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 greater than or equal to 10,000 square feet.

The spread between rents on openings and closings 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, duration of the lease, and average size of tenant space opening and closing in the period. Broadly, the lower or negative releasing spread reflects the recently decelerating environment for retail, as demonstrated by lower or negative rent growth.

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 nine months ended September 30, 2019 and 2018, or are expected to affect operations in the future.

The Gardens Mall Acquisition

In April 2019, we acquired a 48.5% interest in The Gardens Mall in Palm Beach Gardens, Florida in exchange for 1.5 million newly issued units of limited partnership in TRG (TRG Units). We also assumed our \$94.6 million share of the existing debt at the center, which bears interest at 6.8% and matures in July 2025. The debt assumed has been adjusted for our beneficial share of \$27.6 million of purchase accounting adjustments, which has the effect of reducing the stated rate on the debt of 6.8% to an average effective rate of 4.2% over the remaining term of the loan. The Forbes Company, our partner in The Mall at Millenia and Waterside Shops, also owns a 48.5% interest and manages and leases the center. Our ownership interest in the center is accounted for as an Unconsolidated Joint Venture under the equity method.

Simon Property Group (SPG) Common Shares Investment

In September 2018 and October 2018, we sold 150,000 SPG common shares in each month at an average price of \$184.19 per share and \$180.54 per share, respectively. In January 2019, all of our remaining 290,124 SPG common shares were sold at an average price of \$179.52 per share. Proceeds from each sale were used to pay down our revolving lines of credit.

Hurricane Maria and The Mall of San Juan

The Mall of San Juan incurred significant damage from Hurricane Maria in 2017. We have substantial insurance to cover hurricane and flood damage, as well as business and service interruption. In June 2019, we reached a final settlement with our insurer and received final payment related to our claims.

The following table presents a summary of the insurance proceeds received relating to our claim for The Mall of San Juan for the three and nine months ended September 30, 2019 and September 30, 2018:

Proceeds Description	Consolidated Statement of Operations and Comprehensive Income (Loss) Location	Three Months Ended September 30		Nine Months Ended September 30	
		2019	2018	2019	2018
Business interruption insurance recoveries	Nonoperating Income, Net			\$ 8,574	
Revenue reduction related to business interruption ⁽¹⁾	Reduction of Rental Revenues			(1,202)	
Expense reimbursement insurance recoveries	Nonoperating Income, Net		\$ 96	185	\$ 1,126
Reimbursement for capital items damaged in hurricane in 2017	Reversal of previously recognized Depreciation Expense			2,000 ⁽²⁾	4,866
Gain on insurance recoveries	Nonoperating Income, Net			1,418	

(1) Represents amounts recognized in prior periods that were credited back to tenants in the current period upon receipt of business interruption claim proceeds.

(2) Represents reduction of depreciation expense recorded in June 2019 for proceeds received in final settlement of insurance claim, which offset the original deductible expensed in 2017.

See "Note 9 - Commitments and Contingencies - Hurricane Maria and The Mall of San Juan" to our consolidated financial statements for more information regarding our litigation settlement related to the Saks Fifth Avenue store at The Mall of San Juan.

Taubman Asia

Partial Disposition of Ownership Interests (Blackstone Transactions)

In February 2019, we announced agreements to sell 50% of our interests in Starfield Hanam, CityOn.Xi'an, and CityOn.Zhengzhou to funds managed by The Blackstone Group L.P. (Blackstone). The interests to be sold were valued at \$480 million as of the sale agreement date, with net cash proceeds expected to be about \$315 million, after transaction costs and the allocation to Blackstone of its share of third party debt. Also, we may receive up to an additional \$50 million of contingent consideration based on the 2019 performance of the three assets. As of September 30, 2019, we recognized no contingent consideration based on current estimates (see "Note 7 - Derivative and Hedging Activities" to our consolidated financial statements for more information).

In September 2019, we completed the sale of 50% of our interest in Starfield Hanam. Net proceeds from the sale were \$235.7 million following the allocation to Blackstone of its share of third party debt and transaction costs. Net proceeds were used to pay down our revolving lines of credit. A gain of \$138.7 million was recognized as a result of the partial disposition of our interest, which represented the excess of the net consideration from the sale over our investment in the Unconsolidated Joint Venture. In addition, upon the completion of the sale, we remeasured our remaining 17.15% interest in the shopping center to fair value, resulting in the recognition of a \$145.0 million gain on remeasurement.

Following the CityOn.Xi'an and CityOn.Zhengzhou transactions, which are subject to customary closing conditions and are expected to close around year-end 2019, we will retain a 25% ownership interest in CityOn.Xi'an and a 24.5% ownership interest in CityOn.Zhengzhou. We will remain the partner responsible for the joint management of the three shopping centers, with Blackstone paying a property service fee recorded within Other revenue on the Consolidated Statement of Operations and Comprehensive Income (Loss).

Promote Fee Related to Starfield Hanam

In addition to the disposition of 50% of our ownership interest in Starfield Hanam, in September 2019, Blackstone also purchased the 14.7% interest in Starfield Hanam that was previously owned by our institutional joint venture partner. Our previous partnership agreement provided for a promote fee due to Taubman Asia upon the institutional partner's exit from the partnership based on performance measures under the prior agreement, which resulted in the recognition of a \$4.8 million promote fee less \$0.9 million of income tax expense during the three and nine months ended September 30, 2019, which have been recorded within Equity in Income of Unconsolidated Joint Ventures and Income Tax Expense, respectively, in our Statement of Operations and Comprehensive Income (Loss).

New Development

We have invested in a development project, Starfield Anseong, in South Korea for which we have formed a joint venture with Shinsegae Group (Shinsegae), one of South Korea's largest retailers, who is also our joint venture partner in Starfield Hanam. (See "Liquidity and Capital Resources - Capital Spending - New Development").

Debt Transactions

In October 2019, we amended and restated our primary unsecured revolving line of credit, which extended the maturity date to February 2024 with two six month extension options. Following the amendment and restatement, the line of credit now bears interest at a range of LIBOR plus 1.05% to 1.60% based on our total leverage ratio with a facility fee in the range of 0.20% to 0.25%.

Concurrently in October 2019, we amended and restated our unsecured term loan, which reduced the loan amount from \$300 million to \$275 million and extended the maturity date to February 2025. Payments for the reduction in the unsecured term loan were funded by our primary unsecured revolving line of credit. Following the amendment and restatement, the loan now bears interest at a range of LIBOR plus 1.15% to 1.80% based on our total leverage ratio. The LIBOR rate on this loan continues to be swapped to a fixed rate of 2.14% until February 2022, with the remaining \$25 million swap notional allocated to our primary unsecured revolving line of credit.

Lastly, in October 2019, we exercised the final remaining one year extension option on our \$150 million loan for The Mall at Green Hills, which was scheduled to mature in December 2019. The loan will now mature in December 2020, and beginning in December 2019, the loan will bear interest at LIBOR plus 1.45%, which is a reduction from the current interest rate of LIBOR plus 1.60%. Previously, in November 2018, we exercised the first of our two, one year extension options to extend The Mall at Green Hills loan maturity date to December 2019.

In March 2019, we entered into a new financing arrangement for CityOn.Xi'an. See "Liquidity and Capital Resources - Other Financing Arrangements for China Projects" for further details related to this financing.

In August 2018, we completed a three year, \$250 million financing for International Market Place. The payments on the loan, which bears interest at LIBOR plus 2.15%, are interest only for the initial three year term. The interest rate may be reduced to LIBOR plus 1.85% upon the achievement of certain performance measures. There are two, one year extension options. TRG has provided an unconditional guarantee of the loan balance during the term of the loan. Proceeds from the financing were used to pay off the previous construction facility, which had a balance of \$250.0 million after we made a repayment on the facility of \$43.8 million in July 2018.

In April 2018, we refinanced our loan at Fair Oaks Mall, a 50% owned Unconsolidated Joint Venture. The joint venture's new loan is a \$260 million, five year, non-recourse loan. The payments on the loan, which bears interest at a fixed rate of 5.32%, began in June 2018 and are amortizing principal based on 30 years. Proceeds were used to pay off the previous \$259 million loan.

In March 2018, we completed a \$250 million unsecured term loan that matures in March 2023 (see "Liquidity and Capital Resources - Term Loans").

Also in March 2018, proceeds from both the \$250 million unsecured term loan and the Twelve Oaks Mall loan (see below) were used to pay off our existing \$475 million unsecured term loan.

In February 2018, we completed a 10 year, \$300 million non-recourse financing for Twelve Oaks Mall. The payments on the loan, which bears interest at a fixed rate of 4.85%, began in April 2018 and are amortizing principal based on 30 years. As a result of this financing, Twelve Oaks Mall was removed as a guarantor under the primary unsecured revolving line of credit and the unsecured term loans.

Interest Expense

For several years our interest expense has been impacted in large part by our sizeable development and redevelopment pipelines, the associated borrowings and spending, and the mechanics of capitalized interest. In addition, although the LIBOR rate has decreased throughout 2019, it still remains higher than it was throughout 2018, which impacts our beneficial interest in debt that floats month to month (about 20% of our beneficial interest in debt as of both September 30, 2019 and December 31, 2018, respectively) and has a greater impact due to the spending for our development and redevelopment projects previously noted. In addition, effective from March 2019 through maturity, the LIBOR rate is fixed to 3.02% on our \$250 million unsecured term loan, which results in an effective interest rate in the range of 4.27% to 4.92%. This loan was previously swapped through February 2019 to an effective interest rate of 2.89% to 3.54%. Also, as of September 30, 2019, the LIBOR rate on \$225 million of our \$1.1 billion unsecured facility floated at the current LIBOR rate as the previously existing 1.65% swap matured in February 2019.

Our interest expense has been materially impacted by the capitalization of interest on the costs of our U.S. and Asia development and redevelopment projects. We have experienced, and will continue to experience, an increase in interest expense primarily due to the opening of four ground-up development and redevelopment projects, as well as increased capital costs at our stabilized centers (see "Liquidity and Capital Resources - Planned 2019 Capital Spending"). 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. As these projects were completed, interest capitalization generally ended and we began recognizing interest expense.

Redevelopment Agreement for Taubman Prestige Outlets Chesterfield

In May 2018, we entered into a redevelopment agreement for Taubman Prestige Outlets Chesterfield. On May 1, 2018, all operations at the center, as well as the building and improvements, were transferred to The Staenberg Group (TSG). TSG leases the land from us through a long-term, participating ground lease and we receive ground lease payments and a share of the property's revenues above a specified level. TSG is planning a significant redevelopment of the property, which will transform it into a unique entertainment, shopping and dining destination. We have no future capital obligation related to the redevelopment of the property. We have the right to terminate the ground lease in the event that the redevelopment has not begun within five years, with the buildings and improvements reverting to us upon termination. Taubman Prestige Outlet Chesterfield's historic contribution to our results of operations has been immaterial. We will defer recognition of a sale of the building and improvements until the foregoing termination right is no longer available to us, with this right ceasing upon TSG commencing the redevelopment. As of September 30, 2019, we did not believe the redevelopment was probable of beginning within one year, therefore the building and improvements, which had a net book value of approximately \$60 million, were included within net properties on our Consolidated Balance Sheet.

Adoption of ASC Topic 842 ("Leases")

Upon adoption of ASC Topic 842, "Leases", on January 1, 2019, minimum rents and expense recoveries are now presented within a single revenue line item, Rental Revenues; the presentation of lease cancellation income has changed from Other revenue to Rental Revenues; the presentation of uncollectible tenant revenues has changed from Other Operating expense to Rental Revenues as a contra-revenue; and Other Operating expense includes certain indirect leasing costs, which were capitalizable under the previous lease accounting standard. Comparative periods presented were not adjusted to reflect the change in accounting, which results in variances between the three and nine months ended September 30, 2019 and 2018, as further described in the sections below.

Comparison of the Three Months Ended September 30, 2019 to the Three Months Ended September 30, 2018

The following is a comparison of our results for the three months ended September 30, 2019 and 2018, as disclosed in our Consolidated Statement of Operations and Comprehensive Income (Loss).

Total revenues for the three months ended September 30, 2019 were \$162.5 million, a \$3.4 million or 2.1% increase from the comparable period in 2018. The following impacted total revenues:

- increases in occupancy and food and beverage revenues of our restaurant joint venture;
- increases in management, leasing, and development services revenue related to our third party service agreements in Asia; and
- these increases were partially offset by a decrease in lease cancellation income and a decrease resulting from uncollectible tenant revenues now recorded as contra-revenue in 2019 upon adoption of ASC Topic 842, "Leases".

Total expenses for the three months ended September 30, 2019 were \$159.2 million, a \$11.6 million or 7.8% increase from the comparable period in 2018. The following impacted total expenses:

- the increase in maintenance, taxes, utilities, and promotion expense was primarily attributable to increases in common area maintenance and property tax expenses;
- the increase in management, leasing, and development expenses related to our third party service agreements in Asia;
- the increase in general and administrative expense was primarily attributable to unanticipated non-recurring legal expenses in 2019;
- the increase in interest expense was attributable to an increase in rates and reduced capitalization of interest on developments and redevelopments; and
- the increase in depreciation expense was primarily attributable to new assets being placed into service at Beverly Center and The Mall at Green Hills in connection with our redevelopment projects at the centers. These increases were partially offset by a decrease due to changes in depreciable lives of tenant allowances in connection with early terminations in 2018.

Nonoperating income, net increased primarily due to the gain recognized on the Saks settlement at The Mall of San Juan. This increase was partially offset by the fluctuation in the fair value of equity securities in 2018, reduced dividend income from our SPG common shares investment as the shares were sold in late 2018 and early 2019, and a gain from the sale of peripheral land in 2018.

Income tax expense increased primarily due to increased income of our taxable subsidiaries in 2019 primarily related to our restaurant joint venture, as well as income tax expense recognized on promote fee income related to Starfield Hanam.

Equity in Income of the Unconsolidated Joint Ventures for the three months ended September 30, 2019 increased by \$3.3 million to \$20.3 million from the comparable period in 2018. The increase was primarily attributable to the promote fee income related to Starfield Hanam.

In 2019, a gain of \$138.7 million was recognized as a result of the disposition of 50% of our interest in Starfield Hanam. In addition, upon the completion of the sale, we remeasured our remaining 17.15% interest in the shopping center to fair value, resulting in the recognition of a \$145.0 million gain on remeasurement.

Net Income

Net income was \$316.4 million for the three months ended September 30, 2019 compared to \$38.1 million for the three months ended September 30, 2018. After allocation of income to noncontrolling, preferred, and participating interests, the net income attributable to TCO common shareholders for the three months ended September 30, 2019 was \$215.4 million compared to \$21.0 million in the comparable period in 2018. Diluted earnings per common share was \$3.48 for the three months ended September 30, 2019 compared to \$0.34 for the three months ended September 30, 2018.

Funds from Operations (FFO) and FFO per Common Share

Our FFO attributable to partnership unitholders and participating securities of TRG was \$78.4 million for the three months ended September 30, 2019 compared to \$91.1 million for the three months ended September 30, 2018. FFO per diluted common share was \$0.88 for the three months ended September 30, 2019 and \$1.05 per diluted common share for the three months ended September 30, 2018. Adjusted FFO attributable to partnership unitholders and participating securities of TRG for the three months ended September 30, 2019 was \$76.0 million, and excluded restructuring charges, a promote fee, net of tax, related to Starfield Hanam, and costs incurred associated with shareholder activism. Adjusted FFO attributable to partnership unitholders and participating securities of TRG for the three months ended September 30, 2018 was \$87.6 million, and excluded costs incurred associated with shareholder activism and the fluctuation in the fair value of equity securities. Adjusted FFO per diluted common share was \$0.86 for the three months ended September 30, 2019 and \$1.01 per diluted common share for the three months ended September 30, 2018. 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 TCO Common Shareholders to Funds from Operations and Adjusted Funds from Operations.

Comparable and Non-Comparable Center Operations

During the three months ended September 30, 2019, the consolidated non-comparable centers contributed total operating revenues of \$22.9 million, and incurred operating expenses, excluding interest expense and depreciation and amortization, of \$11.6 million. During the three months ended September 30, 2018, the consolidated non-comparable centers contributed total operating revenues of \$23.1 million, and incurred operating expenses, excluding interest expense and depreciation and amortization, of \$9.6 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, including variations of NOI. NOI growth for the three months ended September 30, 2019 over the comparable period in 2018 was as follows:

	Three Months Ended September 30, 2019
Comparable Center NOI Growth	
Excluding lease cancellation income	(1.5)%
Excluding lease cancellation income using constant currency exchange rates	(0.9)%
Including lease cancellation income	(2.5)%
Total Portfolio NOI Growth	
Excluding lease cancellation income	0.7%

For the three months ended September 30, 2019, we recognized our \$1.4 million share of lease cancellation income, as compared to \$3.5 million for the three months ended September 30, 2018.

Comparison of the Nine Months Ended September 30, 2019 to the Nine Months Ended September 30, 2018

The following is a comparison of our results for the nine months ended September 30, 2019 and 2018, as disclosed in our Consolidated Statement of Operations and Comprehensive Income (Loss).

Total revenues for the nine months ended September 30, 2019 were \$484.3 million, a \$10.9 million or 2.3% increase from the comparable period in 2018. The following impacted total revenues:

- increases in occupancy and food and beverage revenues of our restaurant joint venture;
- improved performance at Beverly Center as disruption related to the redevelopment has abated;
- increases in recoverable common area maintenance and property taxes;
- increases in overage rents due to increases in sales;
- increases in management, leasing, and development services revenue related to our third party service agreements in Asia;
- these increases were partially offset by a decrease in lease cancellation income, a decrease in average rent per square foot, and a decrease resulting from uncollectible tenant revenues now recorded as contra-revenue in 2019 upon adoption of ASC Topic 842, "Leases"; and
- these increases were also partially offset by revenue recognized at The Mall of San Juan in prior periods that were credited back to tenants in the current period upon receipt of business interruption claim proceeds.

Total expenses for the nine months ended September 30, 2019 were \$476.3 million, a \$40.4 million or 9.3% increase from the comparable period in 2018. The following impacted total expenses:

- the increase in maintenance, taxes, utilities, and promotion expense was primarily attributable to increases in property tax and common area maintenance expenses;
- the decrease in other operating expense was primarily due to bad debt expense now recorded as contra-revenue within Rental Revenues in 2019 upon adoption of ASC Topic 842, "Leases". This decrease was partially offset by additional indirect leasing costs in 2019 upon adoption of ASC Topic 842, "Leases", which were capitalizable under the previous lease accounting standard in 2018;
- the increase in management, leasing, and development expenses related to our third party service agreements in Asia;
- the increase in general and administrative expense was primarily attributable to unanticipated non-recurring legal expenses in 2019;
- restructuring charges in 2019 as compared to a reduction of previously expensed restructuring charges in 2018;
- an increase in costs associated with shareholder activism, primarily attributable to a reimbursement of a portion of the billed fees and expenses incurred by Land & Buildings and its affiliated funds in connection with Land & Buildings' activist involvement with TCO and the service on our Board of Directors of its founder and Chief Investment Officer, Jonathan Litt, which reimbursement represented a related party transaction;
- the increase in interest expense was attributable to an increase in rates and reduced capitalization of interest on developments and redevelopments; and
- the increase in depreciation expense was primarily attributable to new assets being placed into service at Beverly Center, The Mall at Green Hills, and The Mall at Short Hills in connection with our redevelopment projects at the centers. The increase was also attributable to a larger reduction of expenses in 2018 over 2019 related to insurance proceeds received for previously capitalized expenditures at The Mall of San Juan. These increases were partially offset by a decrease due to changes in depreciable lives of tenant allowances in connection with early terminations in 2018.

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Nonoperating income, net increased primarily due to the gain recognized on the Saks settlement at The Mall of San Juan, as well as the receipt of business interruption proceeds and a gain on insurance proceeds for The Mall of San Juan. These increases were partially offset by reduced dividend income from our SPG common shares investment as the shares were sold in late 2018 and early 2019, a gain from the sale of peripheral land in 2018, reduced interest income, and a decrease in the fair value of our equity securities.

Income tax expense increased primarily due to increased income of our taxable subsidiaries in 2019 primarily related to our restaurant joint venture, income tax expense incurred in 2019 related to the pending Blackstone transactions (see "Note 3 - Income Taxes" to our consolidated financial statements for more information), and income tax expense recognized on the promote fee income related to Starfield Hanam.

In 2019, a gain of \$138.7 million was recognized as a result of the disposition of 50% of our interest in Starfield Hanam. In addition, upon the completion of the sale, we remeasured our remaining 17.15% interest in the shopping center to fair value, resulting in the recognition of a \$145.0 million gain on remeasurement.

Net Income

Net income was \$363.0 million for the nine months ended September 30, 2019 compared to \$102.8 million for the nine months ended September 30, 2018. After allocation of income to noncontrolling, preferred, and participating interests, the net income attributable to TCO common shareholders for the nine months ended September 30, 2019 was \$236.7 million compared to \$54.9 million in the comparable period in 2018. Diluted earnings per common share was \$3.84 for the nine months ended September 30, 2019 compared to \$0.90 for the nine months ended September 30, 2018.

Funds from Operations (FFO) and FFO per Common Share

Our FFO attributable to partnership unitholders and participating securities of TRG was \$228.5 million for the nine months ended September 30, 2019 compared to \$248.0 million for the nine months ended September 30, 2018. FFO per diluted common share was \$2.59 for the nine months ended September 30, 2019 and \$2.85 per diluted common share for the nine months ended September 30, 2018. Adjusted FFO attributable to partnership unitholders and participating securities of TRG for the nine months ended September 30, 2019 was \$241.5 million, and excluded restructuring charges, costs incurred related to the Blackstone transactions, a promote fee, net of tax, related to Starfield Hanam, costs incurred associated with shareholder activism, and the fluctuation in the fair value of equity securities. Adjusted FFO attributable to partnership unitholders and participating securities of TRG for the nine months ended September 30, 2018 was \$253.9 million, and excluded a reduction of previously expensed restructuring charges, costs incurred associated with shareholder activism, the fluctuation in the fair value of equity securities, and a charge recognized in connection to the write-off of deferred financing costs related to the early payoff of our \$475 million unsecured term loan. Adjusted FFO per diluted common share was \$2.74 for the nine months ended September 30, 2019 and \$2.92 per diluted common share for the nine months ended September 30, 2018. 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 TCO Common Shareholders to Funds from Operations and Adjusted Funds from Operations.

Comparable and Non-Comparable Center Operations

During the nine months ended September 30, 2019, the consolidated non-comparable centers contributed total operating revenues of \$68.5 million, and incurred operating expenses, excluding interest expense and depreciation and amortization, of \$33.1 million. During the nine months ended September 30, 2018, the consolidated non-comparable centers contributed total operating revenues of \$66.0 million, and incurred operating expenses, excluding interest expense and depreciation and amortization, of \$33.5 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, including variations of NOI. NOI growth for the nine months ended September 30, 2019 over the comparable period in 2018 was as follows:

	Nine Months Ended September 30, 2019
Comparable Center NOI Growth	
Excluding lease cancellation income	0.3%
Excluding lease cancellation income using constant currency exchange rates	1.1%
Including lease cancellation income	(1.3)%
Total Portfolio NOI Growth	
Excluding lease cancellation income	3.6%

For the nine months ended September 30, 2019, we recognized our \$7.8 million share of lease cancellation income, as compared to \$16.4 million for the nine months ended September 30, 2018.

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. Excess proceeds from refinancings are used 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 five unencumbered shopping center properties. As of September 30, 2019, the entities that owned Beverly Center, Dolphin Mall, and The Gardens on El Paseo were guarantors under our primary unsecured revolving credit facility, \$250 million unsecured term loan, and \$300 million unsecured term loan, and were 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. Therefore, while 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, a replacement eligible unencumbered asset would need to be added to the unencumbered asset pool. Besides the three centers previously noted, 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 September 30, 2019, we had a consolidated cash balance of \$62.6 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 September 30, 2019, after considering the outstanding balances, the outstanding letters of credit, and the current values of the unencumbered asset pool, was \$485.3 million. As of September 30, 2019, fourteen banks participated 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 facility bears interest at a range based on our total leverage ratio. As of September 30, 2019, the total leverage ratio resulted in a rate of LIBOR plus 1.45% with a 0.225% facility fee. In October 2019, we amended and restated our \$1.1 billion primary unsecured line of credit, which extended the maturity date to February 2024 with two six month extension options. Following the amendment and restatement, the line of credit now bears interest at a range of LIBOR plus 1.05% to 1.60% based on our total leverage ratio with a facility fee in the range of 0.20% to 0.25%. As of September 30, 2019, the primary unsecured revolving line of credit included 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. There were no changes to the aggregate borrowing capacity available under the accordion feature as a result of the amendment to our unsecured revolving line of credit and unsecured term loan in October 2019. As of September 30, 2019, we could not utilize the accordion feature unless additional assets were added to our unencumbered asset pool.

Other Financing Arrangements for China Projects

In addition to the revolving lines of credit described above, we have other financing arrangements outstanding for our shopping centers in China. 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 required our Xi'an and Zhengzhou ventures to obtain other financing arrangements, in the form of loans from partners or fully cash collateralized bank loans, to meet certain construction funding commitments in local currency. As of September 30, 2019, only one of these loans remained, our share of which was approximately \$43 million, at a fixed interest rate of 3.5%.

In February 2019, we announced agreements to sell 50% of our interests in Starfield Hanam, CityOn.Xi'an, and CityOn.Zhengzhou to funds managed by Blackstone (see "Results of Operations - Taubman Asia - Partial Disposition of Ownership Interests (Blackstone Transactions)"). In connection with the transactions, we are working to refinance our existing partner loans and fully cash collateralized bank loans on our Chinese assets with mortgage debt, which is expected to result in approximately \$140 million being returned to us after the refinancings.

In addition to the refinancings, net cash proceeds from the Blackstone sale are expected to be about \$315 million, after transaction costs and the allocation to Blackstone of its share of third party debt, which in total will result in approximately \$455 million of increased liquidity. Also, we may receive up to an additional \$50 million of consideration based on the 2019 performance of the three assets. As of September 30, 2019, we do not expect to receive any of the additional contingent consideration based on expectations of the 2019 performance of the three assets. In September 2019, we completed the sale of 50% of our interest in Starfield Hanam. Net proceeds from the sale were \$235.7 million following the allocation to Blackstone of its share of third party debt and transaction costs, which were used to pay down our revolving lines of credit. The net proceeds received from the pending additional sales of interests remaining are also expected to be used to pay down our revolving lines of credit.

In March 2019, we completed a new non-recourse mortgage financing for CityOn.Xi'an. The joint venture's new loan has a maximum borrowing amount of \$1.2 billion Renminbi (RMB) (\$167.9 million U.S. dollars using the September 30, 2019 exchange rate). The 10 year loan bears interest at an all-in fixed rate of 6.0%. The loan amortizes principal based on 10 years for each draw, with 70% of the loan repaid over the final five years. As of September 30, 2019, the loan had an outstanding balance of \$146.6 million U.S. dollars, with approximately \$21.3 million U.S. dollars available for future borrowings using the September 30, 2019 exchange rate. Proceeds from the loan were used to unwind the existing other financing arrangements of the joint venture, and will ultimately result in the repatriation of approximately \$95 million of the \$140 million liquidity projected from the refinancing of the China assets. As of September 30, 2019, \$72.5 million of cash collateral has been repatriated to us and was used to pay down our revolving lines of credit. The balance of the cash collateral has been released and is included within Cash and Cash Equivalents on our Consolidated Balance Sheet.

Term Loans

We have a \$250 million unsecured term loan that matures in March 2023. 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 September 30, 2019, the total leverage ratio resulted in an interest rate of LIBOR plus 1.60%. The LIBOR rate is swapped to a fixed rate of 3.02% through maturity, which results in an effective interest rate in the range of 4.27% to 4.92%. The loan includes an accordion feature which would increase our borrowing capacity to as much as \$400 million 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 September 30, 2019, we could not utilize the accordion feature unless additional assets were added to our unencumbered asset pool.

As of September 30, 2019, we had a \$300 million unsecured term loan bearing interest at a range based on our total leverage ratio. As of September 30, 2019, the total leverage ratio resulted in an interest rate of LIBOR plus 1.60%. In October 2019, we amended and restated our unsecured term loan, which reduced the loan amount from \$300 million to \$275 million and extended the maturity date to February 2025. Payments for the reduction in the unsecured term loan were funded by our primary unsecured revolving line of credit. Following the amendment and restatement, the loan now bears interest at a range of LIBOR plus 1.15% to 1.80% based on our total leverage ratio. The LIBOR rate is swapped to a fixed rate of 2.14% through February 2022, which under the amended agreement results in an effective interest rate in the range of 3.29% to 3.94%. The loan includes an accordion feature which in combination with our \$1.1 billion unsecured revolving line of credit (see "Liquidity and Capital Resources - Cash and Revolving Lines 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 September 30, 2019, we could not utilize the accordion feature unless additional assets were added to our unencumbered asset pool.

Summaries of Capital Activities and Transactions for the Nine Months Ended September 30, 2019 and 2018

Operating Activities

Our net cash provided by operating activities was \$213.7 million in 2019, compared to \$209.7 million in 2018. See also "Results of Operations" for descriptions of 2019 and 2018 transactions affecting operating cash flows.

Investing Activities

Net cash provided by investing activities was \$110.4 million in 2019, compared to \$278.8 million used in investing activities in 2018. Additions to properties in 2019 and 2018 related primarily to capital and tenant improvements at existing centers, including centers under redevelopment. A tabular presentation of 2019 and 2018 capital spending is shown in "Capital Spending." In 2019, we received \$20 million for the initial payment of a litigation settlement related to the Saks Fifth Avenue store at The Mall of San Juan, which was a partial reimbursement of the previously paid anchor allowance in exchange for the termination of their obligations under their agreements. Net cash proceeds from the disposition of 50% of our interest in Starfield Hanam was \$235.7 million in 2019 (see "Results of Operations - Taubman Asia - Partial Disposition of Ownership Interests (Blackstone Transactions)"). Net cash proceeds from the sale of peripheral land was \$1.3 million in 2018. Proceeds from the sale of equity securities were \$52.1 million and \$27.6 million in 2019 and 2018, respectively, related to the sale of our remaining 290,124 SPG common shares in 2019 and the sale of 150,000 SPG common shares in 2018. In 2019 and 2018, we received insurance proceeds of \$0.9 million and \$5.8 million, respectively, for capital items at The Mall of San Juan related to property damage for which we previously took write-offs.

Contributions to Unconsolidated Joint Ventures were \$47.8 million in 2019 and \$94.2 million in 2018, primarily related to the funding of Starfield Anseong. Distributions from Unconsolidated Joint Ventures in excess of income were \$8.1 million in 2019, compared to \$1.5 million in 2018.

Financing Activities

Net cash used in financing activities was \$402.1 million in 2019, compared to \$42.8 million provided by financing activities in 2018. In 2019, payments of debt were \$198.1 million, primarily for payments on our revolving lines of credit provided by cash proceeds received from the disposition of 50% of our interest in Starfield Hanam. In 2018, proceeds from the issuance of debt, net of payments and issuance costs were \$235.2 million, provided by the proceeds from our \$250 million unsecured term loan and our \$300 million financing on Twelve Oaks Mall, and borrowings on our revolving lines of credit, partially offset by the payoff of our \$475 million unsecured term loan.

In 2019 and 2018, \$0.7 million and \$2.3 million were paid in connection with incentive plans, respectively. Total dividends and distributions paid were \$203.3 million and \$190.1 million in 2019 and 2018, respectively. Distributions in 2019 include \$6 million in connection with the acquisition of the Former Asia President's 5% ownership interest in Taubman Asia.

Effect of Exchange Rate Fluctuations

Net decreases in cash, cash equivalents, and restricted cash related to exchange rate fluctuations were \$1.7 million and \$4.9 million in 2019 and 2018, respectively. The fluctuations are related to our restricted cash denominated in foreign currencies held as collateral for financing arrangements related to our Asia investments. See "Note 13 - Cash Flow Disclosures and Non-Cash Investing and Financing Activities" to our consolidated financial statements for more information regarding our restricted cash related to our Asia investments.

Beneficial Interest in Debt

At September 30, 2019, TRG's debt and its beneficial interest in the debt of its Consolidated Businesses and Unconsolidated Joint Ventures totaled \$4,885.3 million, with an average interest rate of 3.98% 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. As of September 30, 2019, there were no interest rate hedging costs being amortized. Interest expense includes non-cash amortization of premiums relating to acquisitions. On an annualized basis, this amortization of acquisition premium is equal to 0.04% of the average all-in rate. Beneficial interest in debt includes debt used to fund development and expansion costs. Beneficial interest in construction work in progress totaled \$258.6 million as of September 30, 2019, which includes \$194.6 million of assets on which interest is being capitalized. The following table presents information about our beneficial interest in debt as of September 30, 2019:

	Amount (in millions)	Interest Rate Including Spread
Fixed rate debt	\$ 3,260.4	4.01% ⁽¹⁾⁽²⁾
Floating rate debt swapped to fixed rate:		
Swap maturing in September 2020	8.9	3.12%
Swap maturing in December 2021	79.9	3.58%
Swap maturing in February 2022	300.0	3.74%
Swaps maturing in March 2023	250.0	4.62%
Swaps maturing in March 2024	12.0	3.49%
	<u>\$ 650.8</u>	<u>4.04% ⁽¹⁾</u>
Floating month to month	988.4 ⁽³⁾	3.83% ⁽¹⁾⁽³⁾
Total floating rate debt	<u>\$ 1,639.2</u>	<u>3.92% ⁽¹⁾</u>
Total beneficial interest in debt	<u>\$ 4,899.6</u>	<u>3.98% ⁽¹⁾</u>
Total beneficial interest in deferred financing costs, net	<u>\$ (14.3)</u>	
Net beneficial interest in debt	<u><u>\$ 4,885.3</u></u>	
Amortization of deferred financing costs ⁽⁴⁾		<u>0.18%</u>
Average all-in rate		<u><u>4.16%</u></u>

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

(2) Includes non-cash amortization of debt premium related to acquisition.

(3) As of September 30, 2019, the LIBOR rate was capped at 4.25% on \$150 million of this debt related to our loan for The Mall at Green Hills. In October 2019, the final one year extension option for this loan was exercised to extend the maturity date to December 2020. The LIBOR rate is capped at 4.25% until November 2019 and 3.00% from November 2019 to maturity.

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

(5) 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 TRG's beneficial interest in floating rate debt in effect at September 30, 2019, a one percent increase in interest rates on this floating rate debt would decrease cash flows by \$9.9 million, and due to the effect of capitalized interest, decrease annual earnings by \$9.3 million. A one percent decrease in interest rates would increase cash flows by \$9.9 million and due to the effect of capitalized interest, increase annual earnings by \$9.3 million. Based on our consolidated debt and interest rates in effect at September 30, 2019, a one percent increase in interest rates would decrease the fair value of debt by \$138.2 million, while a one percent decrease in interest rates would increase the fair value of debt by \$149.3 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, as well as our unsecured term loans, and the loan 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, and The Gardens on El Paseo 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 September 30, 2019, the corporate total leverage ratio was the most restrictive covenant. We were in compliance with all of our loan covenants and obligations as of September 30, 2019. 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

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 our developments and redevelopments, but we also expect additional proceeds from the Blackstone transactions (see "Results of Operations - Taubman Asia - Partial Disposition of Ownership Interests (Blackstone Transactions)") and our other financing arrangements (see "Liquidity and Capital Resources - Other Financing Arrangements for China Projects" above).

New Development

We have partnered with Shinsegae to build, lease, and manage Starfield Anseong, an approximately 1.1 million square foot shopping center, in Anseong, Gyeonggi Province, South Korea, which is scheduled to open in late 2020. We have a 49% interest in the project and no longer expect to admit an additional partner during the development period. As of September 30, 2019, we had invested \$142.8 million in the project, after cumulative currency translation adjustments. Our total anticipated investment, including capitalized interest, will be about \$280 million to \$300 million for our interest in the project, excluding fluctuations in foreign currency exchange rates. We are expecting a 6.25% to 6.75% unlevered after-tax return at stabilization. Our investment is being accounted for on the equity method as an Unconsolidated Joint Venture.

Redevelopment

We substantially completed our redevelopment project at The Mall at Green Hills in June 2019. We expect some capital spending to continue for the remainder of 2019 as certain costs are incurred subsequent to the project's completion, including construction on certain tenant spaces.

2019 Capital Spending

Capital spending for routine maintenance of the shopping centers is generally recovered from tenants. Capital spending through September 30, 2019, is summarized in the following table:

	2019 ⁽¹⁾			
	Consolidated Businesses	Beneficial Interest in Consolidated Businesses	Unconsolidated Joint Ventures	Beneficial Interest in Unconsolidated Joint Ventures
	(in millions)			
New development projects - Asia ⁽²⁾			⁽³⁾	\$ 49.0
Existing centers:				
Projects with incremental GLA or anchor replacement ⁽⁴⁾	\$ 26.6	\$ 26.6	\$ 10.0	\$ 5.0
Projects with no incremental GLA and other ⁽⁵⁾	64.4	60.9	12.5	6.8
Mall tenant allowances	25.2	21.8	16.2	9.3
Asset replacement costs recoverable from tenants	12.6	11.7	7.3	4.6
Corporate office improvements, technology, equipment, and other	0.7	0.7		
Total	\$ 129.5	\$ 121.7	\$ 45.9	\$ 74.7

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

(2) Asia balance excludes net fluctuations of total project costs due to changes in exchange rates during the period.

(3) Asia spending for Starfield Anseong is only included at our beneficial interest in the Unconsolidated Joint Ventures at beneficial interest column until development is completed.

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

(5) Includes costs related to the Beverly Center redevelopment for certain amounts incurred subsequent to the project's completion, including construction on certain tenant spaces.

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

For the nine months ended September 30, 2019, in addition to the costs above, we incurred our \$4.9 million share of Consolidated Businesses' capitalized leasing costs and \$1.3 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 nine months ended September 30, 2019:

	(in millions)
Consolidated Businesses' capital spending	\$ 129.5
Other differences between cash and accrual basis	29.2
Additions to properties	\$ 158.7

Planned 2019 Capital Spending

The following table summarizes planned capital spending for 2019, including actual spending through September 30, 2019 and anticipated spending for the remainder of the year:

	2019 ⁽¹⁾			
	Consolidated Businesses	Beneficial Interest in Consolidated Businesses	Unconsolidated Joint Ventures	Beneficial Interest in Unconsolidated Joint Ventures
	(in millions)			
New development projects - Asia ⁽²⁾			⁽³⁾	\$ 78.5
Existing centers:				
Projects with incremental GLA or anchor replacement ⁽⁴⁾	\$ 42.8	\$ 42.8	\$ 31.9	15.9
Projects with no incremental GLA and other ⁽⁵⁾	117.6	110.8	28.9	14.9
Mall tenant allowances	47.9	42.0	26.9	14.6
Asset replacement costs recoverable from tenants	35.1	33.6	27.6	15.6
Corporate office improvements, technology, equipment, and other	2.6	2.6		
Total	<u>\$ 246.0</u>	<u>\$ 231.7</u>	<u>\$ 115.3</u>	<u>\$ 139.6</u>

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

(2) Asia balance excludes net fluctuations of total project costs due to changes in exchange rates during the period.

(3) Asia spending for Starfield Anseong is only included at our beneficial interest in the Unconsolidated Joint Ventures at beneficial interest column until development is completed.

(4) Includes costs related to The Mall at Green Hills redevelopment for costs incurred to date, as well as certain costs to be incurred subsequent to the project's completion, including construction on certain tenant spaces.

(5) Includes costs related to the Beverly Center redevelopment for certain amounts to be incurred subsequent to the project's completion, including construction on certain tenant spaces.

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

We continue to expect spending related to mall tenant allowances to be higher than our historical averages. As our tenant mix continues to evolve to include tenants such as digitally native concepts, luxury, entertainment, restaurants, fast fashion, and coworking, increased tenant allowances are being provided to attract the best tenants to our centers. We believe bringing in great retailers will drive traffic and productivity to our centers, enhancing the long-term strategic position of each center.

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, (13) fluctuations in foreign currency exchange rates, and (14) other risks included in "Risk Factors" in our most recent Annual Report on Form 10-K. 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 shareholders and expect to continue to pay dividends for the foreseeable future. However, dividends to our common shareholders 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 shareholders, 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 shareholders 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 shareholders 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 TRG 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 TRG and funds available to us for the payment of dividends.

On September 5, 2019, we declared a quarterly dividend of \$0.675 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 September 30, 2019 to shareholders of record on September 16, 2019.

Application of Critical Accounting Policies and New Accounting Pronouncement

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the financial statements and disclosures. Some of these estimates and assumptions require application of difficult, subjective, and/or complex judgment, often about the effect of matters that are inherently uncertain and that may change in subsequent periods. In connection with the adoption of ASC Topic 842, "Leases" on January 1, 2019, we are required to make such estimates and assumptions when applying the following accounting policies. Refer to our most recent Annual Report on Form 10-K for discussion of the application of our other critical accounting policies.

Accounts Receivable and Uncollectible Tenant Revenues

We now review the collectibility of both billed and accrued charges under our tenant leases each quarter taking into consideration the tenant's historical payment status, credit profile, and known issues related to tenant operations. For any tenant receivable balances thought to be uncollectible, we now record an offset for uncollectible tenant revenues directly to Rental Revenues on the Consolidated Statement of Operations and Comprehensive Income (Loss). Uncollectible tenant revenues were previously reported as bad debt expense in Other Operating expense on our Consolidated Statement of Operations and Comprehensive Income (Loss).

As a result of the above change in evaluation in uncollectible tenant revenues, the allowance for doubtful accounts was written off and an entry was recorded as of January 1, 2019 to adjust the receivables and equity balances of our Consolidated Businesses and Unconsolidated Joint Ventures. This resulted in a cumulative effect adjustment increasing Dividends in Excess of Net Income by \$3.2 million and Non-redeemable Noncontrolling Interest by \$1.8 million on our Consolidated Balance Sheet with offsetting increases in Accounts and Notes Receivable, Investment in Unconsolidated Joint Ventures, and Distributions in Excess of Investments In and Net Income of Unconsolidated Joint Ventures balances on our Consolidated Balance Sheet.

Recognition of Operating Lease Liabilities and Related Right-of-Use Assets

We now recognize operating lease liabilities and related right-of-use assets for ground and office leases under which we are the lessee on our Consolidated Balance Sheet. These lease liabilities and related right-of-use assets will amortize over the remaining life of the respective leases. In order to determine the operating lease liabilities and related right-of-use assets for ground and office leases under which we are the lessee, we utilized a synthetic corporate yield curve to determine an incremental borrowing rate for each of our leases. Significant judgment was required to develop the yield curve, which utilized certain peer and market observations. As of September 30, 2019, the weighted average discount rate for operating leases reported on our Consolidated Balance Sheet was 5.8%. In instances where variable consideration not dependent upon an index or rate existed, such future payments were excluded from the determination of the related operating lease liability and right-of-use asset.

New Accounting Pronouncement

Refer to "Note 14 - New Accounting Pronouncement" to our consolidated financial statements, regarding our ongoing evaluation of Accounting Standards Update (ASU) No. 2016-13, addressing credit losses for financial instruments.

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, property taxes, utilities, promotion, ground rent (including straight-line adjustments), and other property operating expenses. Beneficial interest in NOI represents our share of NOI (as previously defined) of our consolidated and unconsolidated businesses. 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. We also use NOI excluding lease cancellation income using constant currency exchange rates as an alternative measure because exchange rates may vary significantly from period to period, which can affect comparability and trend analysis.

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 (calculated in accordance with GAAP), excluding depreciation and amortization related to real estate, gains and losses from the sale of certain real estate assets, gains and losses from change in control, and impairment write-downs of certain real estate assets and investments in entities when the impairment is directly attributable to decreases in the value of depreciable real estate held by the entity. 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 and nine months ended September 30, 2019, FFO was adjusted to exclude restructuring charges, a promote fee, net of tax, related to Starfield Hanam, and costs incurred associated with shareholder activism. In addition, for the nine months ended September 30, 2019, FFO was adjusted to exclude costs incurred related to the pending Blackstone transactions and the fluctuation in the fair value of equity securities. For the three and nine months ended September 30, 2018, FFO was adjusted to exclude costs incurred associated with shareholder activism and the fluctuation in the fair value of equity securities. In addition, for the nine months ended September 30, 2018, FFO was also adjusted to exclude a reduction of previously expensed restructuring charges and a charge recognized in connection with the write-off of deferred financing costs related to the early payoff of our \$475 million unsecured term loan.

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 TCO Common Shareholders 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 TCO Common Shareholders to Funds from Operations and Adjusted Funds from Operations and Net Income to Net Operating Income.

Reconciliation of Net Income Attributable to TCO Common Shareholders to Funds from Operations and Adjusted Funds from Operations

	Three Months Ended September 30					
	2019			2018		
	Dollars in millions	Diluted Shares/ Units	Per Share/ Unit	Dollars in millions	Diluted Shares/ Units	Per Share/ Unit
Net income attributable to TCO common shareholders - basic	\$ 215.4	61,211,249	\$ 3.52	\$ 21.0	61,001,357	\$ 0.34
Add distributions to participating securities of TRG	0.6	871,262				
Add impact of share-based compensation	0.9	162,903		—	294,710	
Net income attributable to TCO common shareholders - diluted	\$ 216.9	62,245,414	\$ 3.48	\$ 21.0	61,296,067	\$ 0.34
Add depreciation of TCO's additional basis	1.6		0.03	1.6		0.03
Less TCO's additional income tax benefit				(0.1)		—
Net income attributable to TCO common shareholders, excluding step-up depreciation and additional income tax benefit	\$ 218.5	62,245,414	\$ 3.51	\$ 22.5	61,296,067	\$ 0.37
Add:						
Noncontrolling share of income of TRG	93.7	26,430,716		9.2	24,943,960	
Distributions to participating securities of TRG				0.6	871,262	
Net income attributable to partnership unitholders and participating securities of TRG	\$ 312.2	88,676,130	\$ 3.52	\$ 32.3	87,111,289	\$ 0.37
Add (less) depreciation and amortization (1):						
Consolidated businesses at 100%	47.8		0.54	46.3		0.53
Depreciation of TCO's additional basis	(1.6)		(0.02)	(1.6)		(0.02)
Noncontrolling partners in consolidated joint ventures	(1.8)		(0.02)	(1.9)		(0.02)
Share of Unconsolidated Joint Ventures	17.7		0.20	17.2		0.20
Non-real estate depreciation	(1.2)		(0.01)	(1.1)		(0.01)
Less gain on Saks settlement - The Mall of San Juan	(10.1)		(0.11)			
Less gain on partial disposition of ownership interest in Unconsolidated Joint Venture	(138.7)		(1.56)			
Less gain on remeasurement of ownership interest in Unconsolidated Joint Venture	(145.0)		(1.64)			
Less impact of share-based compensation	(0.9)		(0.01)	—		—
Funds from Operations attributable to partnership unitholders and participating securities of TRG	\$ 78.4	88,676,130	\$ 0.88	\$ 91.1	87,111,289	\$ 1.05
TCO's average ownership percentage of TRG - basic	69.8%			71.0%		
Funds from Operations attributable to TCO's common shareholders, excluding additional income tax benefit	\$ 54.7		\$ 0.88	\$ 64.7		\$ 1.05
Add TCO's additional income tax benefit				0.1		—
Funds from Operations attributable to TCO's common shareholders	\$ 54.7		\$ 0.88	\$ 64.8		\$ 1.05
Funds from Operations attributable to partnership unitholders and participating securities of TRG	\$ 78.4	88,676,130	\$ 0.88	\$ 91.1	87,111,289	\$ 1.05
Restructuring charges	0.9		0.01			
Promote fee, net of tax - Starfield Hanam (2)	(4.0)		(0.04)			
Costs associated with shareholder activism	0.7		0.01	1.5		0.02
Fluctuation in fair value of equity securities				(5.0)		(0.06)
Adjusted Funds from Operations attributable to partnership unitholders and participating securities of TRG	\$ 76.0	88,676,130	\$ 0.86	\$ 87.6	87,111,289	\$ 1.01
TCO's average ownership percentage of TRG - basic	69.8%			71.0%		
Adjusted Funds from Operations attributable to TCO's common shareholders	\$ 53.1		\$ 0.86	\$ 62.2		\$ 1.01

(1) Depreciation includes \$6.4 million and \$5.0 million of mall tenant allowance amortization for the three months ended September 30, 2019 and 2018, respectively.

(2) Includes \$4.8 million of promote fee income related to Starfield Hanam less \$0.9 million of income tax expense, which have been recorded within Equity in Income of Unconsolidated Joint Ventures and Income Tax Expense, respectively, in our Statement of Operations and Comprehensive Income (Loss).

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

Reconciliation of Net Income Attributable to TCO Common Shareholders to Funds from Operations and Adjusted Funds from Operations

	Nine Months Ended September 30					
	2019			2018		
	Dollars in millions	Diluted Shares/ Units	Per Share/ Unit	Dollars in millions	Diluted Shares/ Units	Per Share/ Unit
Net income attributable to TCO common shareholders - basic	\$ 236.7	61,169,279	\$ 3.87	\$ 54.9	60,970,572	\$ 0.90
Add distributions to participating securities of TRG	1.8	871,262				
Add impact of share-based compensation	0.7	191,955		0.1	274,729	
Net income attributable to TCO common shareholders - diluted	\$ 239.2	62,232,496	\$ 3.84	\$ 55.0	61,245,301	\$ 0.90
Add depreciation of TCO's additional basis	4.9		0.08	4.9		0.08
Less TCO's additional income tax benefit				(0.1)		—
Net income attributable to TCO common shareholders, excluding step-up depreciation and additional income tax benefit	\$ 244.1	62,232,496	\$ 3.92	\$ 59.7	61,245,301	\$ 0.97
Add:						
Noncontrolling share of income of TRG	103.9	25,928,316		24.4	24,950,161	
Distributions to participating securities of TRG				1.8	871,262	
Net income attributable to partnership unitholders and participating securities of TRG	\$ 348.0	88,160,812	\$ 3.95	\$ 85.9	87,066,724	\$ 0.98
Add (less) depreciation and amortization (1):						
Consolidated businesses at 100%	137.1		1.55	124.3		1.43
Depreciation of TCO's additional basis	(4.9)		(0.06)	(4.9)		(0.06)
Noncontrolling partners in consolidated joint ventures	(6.2)		(0.07)	(5.5)		(0.06)
Share of Unconsolidated Joint Ventures	53.8		0.61	51.6		0.59
Non-real estate depreciation	(3.4)		(0.04)	(3.4)		(0.04)
Less gain on insurance recoveries - The Mall of San Juan	(1.4)		(0.02)			
Less gain on Saks settlement - The Mall of San Juan	(10.1)		(0.11)			
Less gain on partial disposition of ownership interest in Unconsolidated Joint Venture	(138.7)		(1.57)			
Less gain on remeasurement of ownership interest in Unconsolidated Joint Venture	(145.0)		(1.64)			
Less impact of share-based compensation	(0.7)		(0.01)	(0.1)		—
Funds from Operations attributable to partnership unitholders and participating securities of TRG	\$ 228.5	88,160,812	\$ 2.59	\$ 248.0	87,066,724	\$ 2.85
TCO's average ownership percentage of TRG - basic	70.2%			71.0%		
Funds from Operations attributable to TCO's common shareholders, excluding additional income tax benefit	\$ 160.5		\$ 2.59	\$ 176.0		\$ 2.85
Add TCO's additional income tax benefit				0.1		—
Funds from Operations attributable to TCO's common shareholders	\$ 160.5		\$ 2.59	\$ 176.1		\$ 2.85
Funds from Operations attributable to partnership unitholders and participating securities of TRG	\$ 228.5	88,160,812	\$ 2.59	\$ 248.0	87,066,724	\$ 2.85
Restructuring charges	1.6		0.02	(0.4)		—
Costs related to pending Blackstone transactions (2)	2.1		0.02			
Promote fee, net of tax - Starfield Hanam (3)	(4.0)		(0.04)			
Costs associated with shareholder activism	16.7		0.19	10.0		0.11
Fluctuation in fair value of equity securities	(3.3)		(0.04)	(4.1)		(0.05)
Write-off of deferred financing costs				0.4		—
Adjusted Funds from Operations attributable to partnership unitholders and participating securities of TRG	\$ 241.5	88,160,812	\$ 2.74	\$ 253.9	87,066,724	\$ 2.92
TCO's average ownership percentage of TRG - basic	70.2%			71.0%		
Adjusted Funds from Operations attributable to TCO's common shareholders	\$ 169.6		\$ 2.74	\$ 180.1		\$ 2.92

- (1) Depreciation includes \$17.7 million and \$12.8 million of mall tenant allowance amortization for the nine months ended September 30, 2019 and 2018, respectively.
- (2) Includes \$0.5 million of disposition costs and \$1.6 million of income tax expense related to the pending Blackstone transactions, which have been recorded within Nonoperating Income, Net and Income Tax Expense, respectively, in our Statement of Operations and Comprehensive Income (Loss).
- (3) Includes \$4.8 million of promote fee income related to Starfield Hanam less \$0.9 million of income tax expense, which have been recorded within Equity in Income of Unconsolidated Joint Ventures and Income Tax Expense, respectively, in our Statement of Operations and Comprehensive Income (Loss).
- (4) Amounts in this table may not recalculate due to rounding.

Reconciliation of Net Income to Net Operating Income

	Three Months Ended September 30	
	(in millions)	
	2019	2018
Net income	\$ 316.4	\$ 38.1
Add (less) depreciation and amortization:		
Consolidated businesses at 100%	47.8	46.3
Noncontrolling partners in consolidated joint ventures	(1.8)	(1.9)
Share of Unconsolidated Joint Ventures	17.7	17.2
Add (less) interest expense and income tax expense (benefit):		
Interest expense:		
Consolidated businesses at 100%	37.7	33.4
Noncontrolling partners in consolidated joint ventures	(2.8)	(3.0)
Share of Unconsolidated Joint Ventures	17.8	17.1
Income tax expense (benefit):		
Consolidated businesses at 100%	2.0	(1.0)
Noncontrolling partners in consolidated joint ventures	—	(0.1)
Share of Unconsolidated Joint Ventures	1.0	1.0
Less noncontrolling share of income of consolidated joint ventures	(1.0)	(1.6)
Add EBITDA attributable to outside partners:		
EBITDA attributable to noncontrolling partners in consolidated joint ventures	5.6	6.5
EBITDA attributable to outside partners in Unconsolidated Joint Ventures	50.4	48.4
EBITDA at 100%	\$ 490.8	\$ 200.6
Add (less) items excluded from shopping center Net Operating Income:		
General and administrative expenses	9.6	8.5
Management, leasing, and development services, net	—	(0.4)
Restructuring charges	0.9	
Costs associated with shareholder activism	0.7	1.5
Straight-line of rents	(0.8)	(2.3)
Nonoperating income, net	(16.8)	(9.3)
Gain on partial disposition of ownership interest in Unconsolidated Joint Venture	(138.7)	
Gain on remeasurement of ownership interest in Unconsolidated Joint Venture	(145.0)	
Unallocated operating expenses and other	6.7	8.1
Net Operating Income at 100% - total portfolio	\$ 207.4	\$ 206.8
Less Net Operating Income of non-comparable centers ⁽¹⁾	(18.7)	(13.2)
Net Operating Income at 100% - comparable centers	\$ 188.7	\$ 193.6
Less lease cancellation income - comparable centers	(1.0)	(3.0)
Net Operating Income at 100% - comparable centers excluding lease cancellation income ⁽²⁾	\$ 187.6	\$ 190.6
NOI at 100% - comparable centers excluding lease cancellation income	\$ 187.6	\$ 190.6
Foreign currency exchange rate fluctuation adjustment	1.2	
NOI at 100% - comparable centers excluding lease cancellation income using constant currency exchange rates	\$ 188.8	\$ 190.6
NOI at 100% - total portfolio	\$ 207.4	\$ 206.8
Less lease cancellation income - total portfolio	(2.4)	(3.8)
Less NOI attributable to noncontrolling partners in consolidated joint ventures and outside partners in Unconsolidated Joint Ventures excluding lease cancellation income - total portfolio	(56.4)	(55.3)
Beneficial interest in NOI - total portfolio excluding lease cancellation income	\$ 148.6	\$ 147.6

- (1) Includes Beverly Center, The Gardens Mall, The Mall of San Juan, and Taubman Prestige Outlets Chesterfield.
- (2) 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.
- (3) Amounts in this table may not add due to rounding.

Reconciliation of Net Income to Net Operating Income

	Nine Months Ended September 30	
	(in millions)	
	2019	2018
Net income	\$ 363.0	\$ 102.8
Add (less) depreciation and amortization:		
Consolidated businesses at 100%	137.1	124.3
Noncontrolling partners in consolidated joint ventures	(6.2)	(5.5)
Share of Unconsolidated Joint Ventures	53.8	51.6
Add (less) interest expense and income tax expense (benefit):		
Interest expense:		
Consolidated businesses at 100%	112.6	97.2
Noncontrolling partners in consolidated joint ventures	(8.9)	(9.0)
Share of Unconsolidated Joint Ventures	52.6	51.1
Income tax expense (benefit):		
Consolidated businesses at 100%	4.9	(0.8)
Noncontrolling partners in consolidated joint ventures	(0.2)	(0.1)
Share of Unconsolidated Joint Ventures	2.7	2.4
Less noncontrolling share of income of consolidated joint ventures	(3.2)	(4.4)
Add EBITDA attributable to outside partners:		
EBITDA attributable to noncontrolling partners in consolidated joint ventures	18.5	19.0
EBITDA attributable to outside partners in Unconsolidated Joint Ventures	146.6	145.7
EBITDA at 100%	\$ 873.3	\$ 574.3
Add (less) items excluded from shopping center Net Operating Income:		
General and administrative expenses	26.8	25.5
Management, leasing, and development services, net	(1.1)	(1.3)
Restructuring charges	1.6	(0.4)
Costs associated with shareholder activism	16.7	10.0
Straight-line of rents	(6.0)	(9.7)
Nonoperating income, net	(33.4)	(15.3)
Gain on partial disposition of ownership interest in Unconsolidated Joint Venture	(138.7)	
Gain on remeasurement of ownership interest in Unconsolidated Joint Venture	(145.0)	
Unallocated operating expenses and other	22.9	24.7
Net Operating Income at 100% - total portfolio	\$ 616.9	\$ 607.7
Less Net Operating Income of non-comparable centers ⁽¹⁾	(48.7)	(32.0)
Net Operating Income at 100% - comparable centers	\$ 568.3	\$ 575.7
Less lease cancellation income - comparable centers	(7.5)	(16.8)
Net Operating Income at 100% - comparable centers excluding lease cancellation income ⁽²⁾	\$ 560.8	\$ 558.9
NOI at 100% - comparable centers excluding lease cancellation income	\$ 560.8	\$ 558.9
Foreign currency exchange rate fluctuation adjustment	4.6	
NOI at 100% - comparable centers excluding lease cancellation income using constant currency exchange rates	\$ 565.3	\$ 558.9
NOI at 100% - total portfolio	\$ 616.9	\$ 607.7
Less lease cancellation income - total portfolio	(10.4)	(19.7)
Less NOI attributable to noncontrolling partners in consolidated joint ventures and outside partners in Unconsolidated Joint Ventures excluding lease cancellation income - total portfolio	(165.3)	(162.2)
Beneficial interest in NOI - total portfolio excluding lease cancellation income	\$ 441.2	\$ 425.9

- (1) Includes Beverly Center, The Gardens Mall, The Mall of San Juan, and Taubman Prestige Outlets Chesterfield.
- (2) 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.
- (3) 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 September 30, 2019, 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 September 30, 2019 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

In August 2019, we settled previously ongoing litigation in the Commonwealth of Puerto Rico Court of First Instance, San Juan Judicial Center, Superior Court, Civil No. SJ2017CV02094 (503) related to the Saks Fifth Avenue store at The Mall of San Juan. As a result of the settlement, Saks Fifth Avenue agreed to pay us \$26 million for partial reimbursement of the previously paid anchor allowance in exchange for the termination of their obligations under their agreements. Along with the settlement of the lawsuit, we have resolved the operating covenant with Nordstrom and substantially all of the leases with other mall tenants that had co-tenancy requirements related to Saks Fifth Avenue. See “Part II, Item 1. – Legal Proceedings” in our Annual Report on Form 10-K for the year ended December 31, 2018 and our Quarterly Reports on Form 10-Q for the quarters ended March 31 and June 30, 2019 for additional information.

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, 2018.

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	Office Building Sublease Between The Taubman Company LLC and Taubman Ventures Group, LLC, effective September 30, 2019.					X
31.1	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.					X
31.2	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.					X
32.1	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.					**
32.2	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.					**
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document.					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.					X
104	104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).					
**	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: October 30, 2019

TAUBMAN CENTERS, INC.

By: /s/ Simon J. Leopold

Simon J. Leopold

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

OFFICE BUILDING SUBLEASE

200 EAST LONG LAKE ROAD
BLOOMFIELD HILLS, MICHIGAN

TAUBMAN OFFICE CENTER LLC
AS LANDLORD

AND

TAUBMAN VENTURES GROUP LLC
AS TENANT

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200 EAST LONG LAKE ROAD
BLOOMFIELD HILLS, MICHIGAN

OFFICE BUILDING SUBLEASE

THIS SUBLEASE (“Sublease”) is made this day of February 28, 2017, between THE TAUBMAN COMPANY LLC, a Delaware limited liability company as Sublessor, the address of which is 200 East Long Lake Road, Suite 300, Bloomfield Hills, Michigan 48304, and TAUBMAN VENTURES GROUP, LLC, a Michigan limited liability company (“Sublessee”), whose address is 200 East Long Lake Road, Suite 180, Bloomfield Hills, Michigan 48304.

WHEREAS, on June 18, 2004, Ridge Road Properties, a Michigan partnership, as landlord, and Sublessor’s predecessor-in-interest entered into a certain lease, as subsequently amended (the “Original Lease”) covering certain premises, as more particularly described therein (the “Original Premises”), situated in the building located at and known as 200 East Long Lake Road, in the city of Bloomfield Hills, Oakland County, Michigan (the “Building”);

WHEREAS, TAUBMAN OFFICE CENTER LLC, (“Landlord”) acquired title to the Building and succeeded to the interest of the landlord under the Original Lease; and

WHEREAS, the parties are desirous of entering in to a Sublease for a certain portion of the Original Premises in the manner hereinafter set forth.

NOW, THEREFORE, for and in consideration of the foregoing, it is hereby agreed by and between the parties hereto as follows:

1. Basic Sublease Terms and Provisions.

The following is intended to summarize the principal terms of this Sublease, but is not intended to be all inclusive. In the event that anything contained in this Section 1 conflicts with other provisions hereinafter contained in this Sublease, the latter shall be deemed to control in the absence of express statements to the contrary.

- A. Building: 200 East Long Lake Road, Bloomfield Hills, MI 48304, as defined above.
 - B. Leased Premises or Premises: Suite No. 180, located on the first floor (as further described in Paragraph 2) and consisting of approximately 6,502 rentable square feet, as said term is defined in Paragraph 34 of the Sublease.
 - C. Sublease Term: Term of five (5) years, commencing upon March 1, 2017 (“Commencement Date”) and terminating upon February 23, 2023 (“Termination Date”).
 - D. Base Rent:

	Monthly	Annually
\$24.50 per square foot	\$13,274.92	\$159,299.00
 - E. Operating and Tax Expenses: Shall be passed through to Sublessee on a pro rata basis of Sublessor’s Operating and Tax expenses billed by Landlord.
 - F. Use: General office use and any permitted legally ancillary use.
-

- G. Maximum Occupancy: maximum number of persons determined by local code and subject to restrictions in the Original Lease.
- H. Security Deposit: none
- I. Broker: none
- J. Sublessee Termination Right: Notwithstanding anything contained in this Sublease to the contrary, in the event that, at any time during the Sublease term, (i) neither The Taubman Company, The Taubman Realty Group, Taubman Centers, Inc., has direct or indirect ownership in either the Landlord entity for the Building (e.g., the Building is sold and the Original Lease is assigned to an unaffiliated entity), (ii) neither The Taubman Company, The Taubman Realty Group, Taubman Centers, Inc., has its offices in the Building (e.g., the Original Lease is assigned or sublet to an unaffiliated entity), or (iii) neither Robert Taubman, nor William Taubman are actively involved in the day-to-day operations of The Taubman Company, The Taubman Realty Group, Taubman Centers, Inc., then Sublessee may terminate this Sublease upon thirty (30) days prior written notice to Sublessor. In furtherance of the foregoing, if any of the conditions set forth in the preceding sentence occurs, such termination right shall continue for the remainder of the Sublease term.
- K. Original Lease: This Sublease shall be subject to the terms and conditions of the Original Lease and in the event of an express conflict between this Sublease and the Original Lease, the Original Lease shall control; provided, however, notwithstanding the foregoing, the Original Lease shall not increase Sublessee's obligations or liabilities or decrease Sublessee's rights or remedies under this Sublease.
- L. This Sublease supersedes and replaces any and all previous agreements and understandings (written or otherwise) between the parties, including their predecessors in interest, with respect to the Premises.

2. Premises.

Sublessor hereby subleases to Sublessee those certain premises designated as "Suite 180" on the floor plan attached hereto as Exhibit "A" (the "Premises"), as more particularly defined in subparagraph B of Paragraph 1 hereof, together with a non-exclusive right, subject to the provisions hereof, to use all appurtenances thereunto, including but not limited to, uncovered parking areas (subject to any limitations on Sublessor's rights thereto and this Sublease) and any other areas and facilities designated by Landlord for use in common by tenants of the Building. The Building, real property on which the same is situated, parking areas, other areas and appurtenances are hereinafter collectively sometimes called the "Building Complex". This Sublease is subject to the terms, covenants and conditions set forth herein and Sublessee and Sublessor each covenant as a material part of the consideration for this Sublease to keep and perform each and all of said terms, covenants and conditions by it to be kept and performed and that this Sublease is made upon the condition of such performance.

3. Term.

- (a) The term of this Sublease shall be for the period of years referred to in subparagraph C of Paragraph 1 hereof (the "Primary Sublease Term") commencing at 12:01 a.m. on the Commencement Date, and terminating at 12:00 midnight on Termination Date, unless sooner terminated pursuant to this Sublease.
 - (b) If, as a result of the postponement or acceleration of the Commencement Date, the term would begin other than on the first day of the month, Sublessee shall pay proportionate rent at the same monthly rate set forth herein (also in advance) for such partial month and all other terms and conditions of this Sublease shall be in force and effect during such partial month. In the event Sublessor fails to deliver the Premises on the Commencement Date because the Premises are not then ready for occupancy, or because the previous occupant of the Premises is holding over, or for any other cause beyond Sublessor's control, Sublessor shall not be liable to Sublessee for any damages as a result of Sublessor's delay in delivering the Premises and the Commencement Date shall be postponed until such date as the Premises are ready for Sublessee's
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occupancy and the Termination Date shall be postponed for a like number of days. In the event of any such postponement, the parties agree to enter into a Supplement to Sublease at the time that the Commencement Date is determined. Such Supplement to Sublease shall stipulate the Commencement Date and Termination Date of this Sublease.

4. Rent.

Sublessee shall pay to Sublessor, as Base Rent for the Premises, the rental set forth in subparagraph D of Paragraph 1 hereof. Rent for the first and last months of the term hereof shall be prorated based upon the number of days during each of said months that the Sublease term was in effect. All other rent shall be payable on the first day of each calendar month during the term hereof. All such rent shall be paid in advance without deduction or offset at the office of Sublessor or to such other person or at such other place as Sublessor may designate in writing.

In the event Sublessee shall fail to pay, when the same is due and payable, any installment of the Base Rent or any additional rent to be paid by Sublessee to Sublessor under the terms of this Sublease, then such unpaid amounts shall bear interest from the due date thereof to the date of payment at the rate of twelve percent (12%) per annum. In any event, however, Sublessee shall be charged a service charge with respect to each monthly installment of rental not received by the fifth (5th) day of the calendar month for which said installment is due. Such service charge shall reimburse Sublessor for the additional administrative expenses incurred by Sublessor in connection with the collection of such late installment of monthly rental. The service charge shall be Twenty and 00/100ths Dollars (\$20.00) for any rental not paid by the fifth (5th) day of the month and Fifty and 00/100ths Dollars (\$50.00) for any rental not paid by the fifteenth (15th) day of such month.

5. Rent Adjustment.

(a) The following terms shall have the following meanings with respect to the provisions of this Paragraph 5:

- (1) "Operating and Tax Expenses" shall mean the amount set forth in subparagraph E of Paragraph 1 of this Sublease.
- (2) "Sublessee's Pro Rata Share" shall mean that proportion of any Operating Expenses (as hereinafter defined) and Taxes for any calendar year as the total number of rentable square feet of the Premises compares to the total number of rentable square feet in the Original Premises. At such time, if ever, any space is added to the Original Premises pursuant to the terms of this Sublease, Sublessee's Pro Rata Share shall be decreased by the percentage calculated by dividing the number of additional rentable square feet by the total number of rentable square feet in the Original Premises.
- (3) "Operating Expenses" shall mean all "Operating Expenses" as defined in the Original Lease.

(b) It is hereby agreed that during each calendar year of the term hereof, Sublessee shall pay to Sublessor Sublessee's Pro Rata Share of the amount of any estimated Operating Expenses billed to Sublessor by Landlord. As soon as practicable following the end of each calendar year during the term of this Sublease, Sublessor shall submit to Sublessee a statement setting forth the exact amount of the increase, if any, in Sublessee's Pro Rata Share of the Operating Expenses for the calendar year just completed over Sublessee's Pro Rata Share of the Base Operating Expenses, and the difference, if any, between Sublessee's actual Pro Rata Share of the Operating Expenses for the calendar year just completed and the estimated amount of Sublessee's Pro Rata Share of the Operating Expenses (on which its rent was based) for such year. Prior to the end of each calendar year during the term hereof, Sublessor shall submit to Sublessee a statement setting forth the amount reasonably estimated by Sublessor as the increase, if any, in the Base Operating Expenses for the subsequent year and the amount of the increased monthly rent to be paid by Sublessee for such subsequent year computed in accordance with the foregoing provisions.

- (c) If Sublessee occupies the Premises for less than a full calendar year during the first or last calendar years of the term hereof, Sublessee's Pro Rata Share for such partial year shall be calculated by proportionately reducing the Operating Expenses to reflect the number of months in such year during which Sublessee occupied the Premises (the "Adjusted Operating Expenses"). The Adjusted Operating Expenses shall then be compared with the actual Operating expenses for said partial year to determine the amount, if any, of any increases in the actual Operating Expenses for such partial year over the Adjusted Operating Expenses. Sublessee shall pay its Pro Rata Share of any such increases within thirty (30) days following receipt of notice thereof.
- (d) Sublessor's failure during the Sublease term to prepare and deliver any statements or bills, or Sublessor's failure to make a demand under this Paragraph or under any other provision of this Sublease shall not in any way be deemed to be a waiver of, or cause Sublessor to forfeit or surrender, its rights to collect any items of additional rent which may have become due pursuant to this Paragraph during the term of this Sublease, except as otherwise specifically set forth in this Sublease. Sublessee's liability for all additional rent due under this Paragraph 5 shall survive the expiration or earlier termination of this Sublease.

6. Character of Occupancy.

- (a) The Premises are to be used only for those purposes set forth in subparagraph F of Paragraph 1 hereof and any other incidental use which is legally permitted and is not inconsistent with the character and type of tenancy found in first-class office buildings in the Detroit, Michigan Metropolitan Area. The parties hereto agree that the Premises may only be occupied by the maximum number of persons stipulated in subparagraph G of Paragraph 1 hereof and in the event of any violation of such provision, Sublessee agrees, upon notice from Sublessor, to reduce the number of persons occupying the Premises to the maximum number set forth therein.
 - (b) Sublessee shall not suffer nor permit the Premises nor any part thereof to be used in any manner, nor anything to be done therein, nor suffer or permit anything to be brought into or kept therein, which would in any way (i) make void or voidable any fire or liability insurance policy then in force with respect to the Building; (ii) make unobtainable from reputable insurance companies authorized to do business in Michigan any fire insurance with extended coverage, or liability, elevator, boiler or other insurance required to be furnished by Sublessor under the terms of any lease or mortgage to which this Sublease is subordinate at standard rates provided Sublessee is not deprived of its intended use of the Premises; (iii) cause or in Sublessor's reasonable opinion be likely to cause physical damage to the Building or any part thereof; (iv) constitute a public or private nuisance; (v) impair, in the reasonable opinion of Sublessor, the appearance, character or reputation of the Building; (vi) discharge objectionable fumes, vapors or odors into the Building air conditioning system or into the Building flues or vents not designed to receive them or otherwise in such manner as may unreasonably offend other occupants; (vii) impair or interfere with any of the Building services or impair or interfere with or tend to impair or interfere with the use of any of the other areas of the Building by, or occasion discomfort, or annoyance to Sublessor or any of the other tenants or occupants of the Building, any such impairment or interference to be in the reasonable judgment of Sublessor; (viii) increase on an ongoing periodic basis the pedestrian traffic in and out of the Premises or the Building above an ordinary level; (ix) constitute waste; or (x) make any noise or set up any vibration which will disturb other tenants, except in the course of permitted repairs or alterations.
 - (c) Sublessee shall not use the Premises nor permit anything to be done in or about the Premises which will in any way conflict with any law, statute, ordinance or governmental rule or regulation now in force or which may hereafter be enacted or promulgated. Sublessee shall give prompt notice to Sublessor of any notice it receives of the violation of any law or requirement of any public authority with respect to the Premises or the use or occupation thereof. Sublessor shall give prompt notice to Sublessee of any notice it receives relative to the violation by Sublessee of any law or requirement of any public authority with respect to the Premises or the use or occupation thereof.
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7. Services and Utilities.

- (a) Landlord and/or Sublessor agree, without charge except as provided herein, and in accordance with standards reasonably established from time to time prevailing for office buildings in the Metropolitan Detroit Area, to furnish water to the Building for use in lavatories and drinking fountains (and to the Premises if the plans for the Premises so provide); during the hours from 8:00 a.m. to 6:00 p.m. on Monday through Friday and 8:00 a.m. to 1:00 p.m. on Saturday, (excluding holidays) to furnish such heated or cooled air to the Premises as may, in the judgment of Sublessor, be reasonably required for the comfortable use and occupancy of the Premises provided that Sublessee complies with the recommendations of Landlord's engineer regarding occupancy and use of the Premises; to provide janitorial services for the Premises (including such interior and exterior window washing as may be determined by Landlord but no less frequently than two (2) times per year), such janitorial services to be provided after 6:00 p.m. five (5) days a week or Monday through Friday (excluding legal holidays); during ordinary business hours to cause electric current to be supplied for lighting the public portions of the Building or Building Complex; and to furnish such snow removal services to the Building Complex as may, in the judgment of Sublessor, be reasonably required for safe access to the Building Complex.
 - (b) Sublessee hereby agrees to pay all charges with respect to electrical services furnished to or used within the Premises. It is acknowledged and agreed that there are appropriate meters at the Premises for measuring Sublessee's consumption of electricity. Sublessee shall either (i) pay directly to the provider of the electric utility, or (ii) if electricity is provided by Landlord pay all such charges for electricity within ten (10) days after the date of submission of a monthly statement to Sublessee by Sublessor. Charges for electricity shall be at the same rates, terms and conditions as rates, terms and conditions for comparable services from The Detroit Edison Company (or its successor in interest to providing such public utility to the Building).
 - (c) If Sublessee requires water in excess of that usually furnished or supplied for use in the Premises as general office space, Sublessee shall first procure the consent of Sublessor for the use thereof, and Sublessor will attempt to procure consent from Landlord for Sublessee's proposed increased use. Sublessee agrees to pay to Sublessor such amounts as Sublessor reasonably determines are necessary to cover the costs of such increased use of water, including any cost incurred in connection with the installation of a meter required to measure such use.
 - (d) Sublessee agrees that Sublessor shall not be liable for failure to supply any heating, air conditioning, elevator, electrical, janitorial, lighting or other services during any period when Landlord uses reasonable diligence to supply such services, or during any period Landlord is required to reduce or curtail such services pursuant to any applicable laws, rules or regulations, now or hereafter in force or effect, it being understood that Landlord may discontinue, reduce or curtail such services, or any of them (either temporarily or permanently), at such times as it may be necessary by reason of accident, unavailability of employees, repairs, alterations, improvements, strikes, lockouts, riots, acts of God, application of applicable laws, statutes, rules and regulations, or due to any other happening beyond the control of Landlord. In the event of any such interruption, reduction or discontinuance of Landlord's services (either temporary or permanent), Sublessor shall not be liable for damages to persons or property as a result thereof, nor shall the occurrence of any such event in any way be construed as an eviction of Sublessee or cause or permit an abatement, reduction or setoff of rent, or operate to release Sublessee from any of Sublessee's obligations hereunder.
 - (e) Whenever heat generating machines or equipment are used by Sublessee in the Premises which affect the temperature otherwise maintained by the air conditioning system, Landlord reserves the right to install supplementary air conditioning units in the Premises in the event Landlord's independent consulting engineer determines same are reasonably necessary as a result of Tenant's use of lights or equipment which generate heat loads in excess of those for which the HVAC system is designed and the cost therefor, including the cost of installation, operation and maintenance thereof, shall be paid by Tenant to Landlord upon demand by Landlord.
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8. Quiet Enjoyment.

Landlord and Sublessor warrant and agree to defend Sublessee in the quiet enjoyment and possession of the Premises during the term of this Sublease so long as Sublessee complies with the provisions hereof. In the event of any transfer or transfers of Sublessor's interest in the Premises or in the real property of which the Premises are a part, other than a transfer for security purposes only, the transferor shall be automatically relieved of any and all obligations and liabilities on the part of Sublessor accruing from and after the date of such transfer.

9. Maintenance and Repairs.

- (a) Landlord and/or Sublessor shall make all necessary repairs and replacements to the non-leaseable areas of the Building, to the heating, air conditioning and electrical systems located in the Building, and to the common areas, including parking areas, and Landlord shall also make all repairs to the Premises which are structural in nature; provided, however, that Sublessee shall make all repairs and replacements arising from its act, neglect or default and that of its agents, servants and employees.

In the event that the Sublessor or Landlord shall deem it necessary, or be required by any governmental authority to repair, alter, remove, reconstruct or improve any part of the Premises or of the Building (unless the same result from Sublessee's act, neglect, default or mode of operation in which event Sublessee shall make all such repairs, alterations and improvements), then the same shall be made by Landlord or Sublessor with reasonable dispatch, and should the making of such repairs, alterations or improvements cause any interference with Sublessee's use of the Premises, such interference shall not relieve Sublessee from the performance of its obligations hereunder.

Landlord and/or Sublessor shall repair (without any charge to Sublessee) any damage to the Premises or the improvements therein which is caused by the act, omission or negligence of Landlord or Sublessor, their agents, employees, contractors or representatives. Notwithstanding anything contained herein to the contrary, in performing any repair or maintenance activities hereunder or in making any alterations, improvements or changes to the Building or areas or facilities serving the Building, Landlord and/or Sublessor shall use commercially reasonable efforts to minimize any interference with Sublessee's business operations.

- (b) Sublessee, at Sublessee's sole cost and expense, except for services furnished by Sublessor pursuant to Paragraph 7 hereof, shall maintain the interior of the Premises in good order, condition and repair including the interior surfaces of the ceilings (if damaged or discolored due to the fault of Sublessee), walls and floors, all doors, interior glass partitions or glass surfaces (not exterior windows); and to the extent such items exceed Building standards, plumbing pipes, electrical wiring, switches, fixtures and other special items subject to the provisions of Paragraph 15. In connection with the foregoing, Sublessee agrees to shampoo all carpeted areas of the Premises at least once during each year of the term of this Sublease. Upon request from Sublessor, Sublessee shall submit evidence to Sublessor of compliance by Sublessee with the foregoing shampoo obligation. In the event Sublessee fails to comply with the foregoing requirement, Sublessor shall have the right to shampoo said carpet and Sublessee agrees to reimburse Sublessor for all costs incurred by it in connection therewith. In the event Sublessee fails to maintain the Premises in good order, condition and repair, Sublessor shall give Sublessee notice to do such acts as are reasonably required to so maintain the Premises. In the event Sublessee fails to promptly commence such work and diligently prosecute it to completion, then Sublessor shall have the right, but shall not be required, to do such acts and expend such funds at the expense of Sublessee as are reasonably required to perform such work. Sublessor shall have no liability to Sublessee for any damage, inconvenience or interference with the use of the Premises by Sublessee as a result of performing any such work.
- (c) Sublessor and Sublessee shall each do all acts required to comply with all applicable laws, ordinances, regulations and rules of any public authority relating to their respective maintenance obligations as set forth herein.

10. Alterations and Additions.

- (a) Sublessee shall make no alterations, additions or improvements to the Premises or any part thereof without obtaining the prior written consent of Sublessor. Sublessor may impose, as a condition to the aforesaid consent, such requirements as Sublessor may deem necessary in its reasonable judgment, including without limitation the manner in which the work is done, a right to require Sublessee to use Sublessor's contractor and the times during which it is to be accomplished. Sublessee further agrees not to connect with Building systems, including electric wires, water pipes, fire safety and mechanical systems, any apparatus, machinery or device without the prior written consent of Sublessor.
- (b) All alterations and additions to the Premises (whether performed with or without Sublessor's consent as provided herein), shall be deemed a part of the real estate and the property of Sublessor and shall remain upon and be surrendered with the Premises as a part thereof without molestation, disturbance or injury at the end of said term, whether by lapse of time or otherwise, unless Sublessor, by notice given to Sublessee no later than fifteen (15) days prior to the end of the term, shall elect to remove or to have Sublessee remove all or any of such alterations or additions (excluding standard Sublessee finish work and non-movable office walls), and in such event, Sublessee shall promptly remove, at its sole cost and expense, such alterations and additions and restore the Premises to the condition in which the premises were prior to the making of the same, reasonable wear and tear excepted. Any such removal, whether required or permitted by Sublessor, shall be at Sublessee's sole cost and expense, and Sublessee shall restore the Premises to the condition in which the Premises were prior to the making of the same, reasonable wear and tear excepted. All movable partitions, machines and equipment which are installed in the Premises by or for the account of Sublessee, without expense to Sublessor, and can be removed without permanent structural damage to or defacement of the Building or the Premises, and all furniture, furnishings and other articles of personal property owned by Sublessee and located in the Premises (all of which are herein called "Sublessee's Property"), shall be and remain the property of Sublessee and may be removed by it at any time during the term of this Sublease. However, if any of Sublessee's Property is removed, Sublessee shall repair or pay the cost of repairing any damage to the Building or the Premises resulting from such removal. All additions or improvements which are to be surrendered with the Premises shall be surrendered with the Premises, as a part thereof, at the end of the term or the earlier termination of this Sublease.
- (c) Subject to any other terms or conditions imposed by Landlord, if Sublessor authorizes persons requested by Sublessee to perform any alterations, repairs, modifications or additions to the Premises, then prior to the commencement of any such work, Sublessee shall on request of Sublessor deliver to Sublessor certificates issued by insurance companies qualified to do business in the State of Michigan evidencing that Workmen's Compensation, public liability insurance and property damage insurance, all in amounts, with companies and on forms reasonably satisfactory to Sublessor, are in force and effect and maintained by all such contractors and subcontractors engaged by Sublessee to perform such work. All such policies shall name Sublessor as an additional insured. Each such certificate shall provide that the same may not be cancelled or modified without thirty (30) days prior written notice to Sublessor.
- (d) Sublessee, at its sole cost and expense, shall cause any permitted alterations, decorations, installations, additions or improvements in or about the Premises to be performed in compliance with all applicable requirements of insurance bodies having jurisdiction, and in such manner as not to interfere with, delay, or impose any additional expense upon Landlord or Sublessor in the construction, maintenance or operation of the Building, and so as to maintain harmonious labor relations in the Building.

11. Entry by Landlord or Sublessor.

Landlord and Sublessor and its agents shall have the right to enter the Premises at all reasonable times and upon reasonable notice for the purpose of examining or inspecting the same, to supply any services to be provided by Landlord or Sublessor for Sublessee hereunder, to show the same to prospective purchasers of the Building, to make such alterations, repairs, improvements or additions to the Premises or to the Building of which they are a part as Landlord or Sublessor may deem necessary or desirable, and to show the same to prospective tenants of the Premises

(provided that in the event of a bona fide emergency, Landlord or Sublessor may enter the Premises without advance notice solely for the purpose of taking emergency action). Landlord or Sublessor may for the purpose of supplying scheduled janitorial services, enter the Premises by means of a master key without liability to Sublessee and without affecting this Sublease. If, during the last sixty (60) days of the term hereof, Sublessee shall have removed substantially all of its property from the Premises, Landlord or Sublessor may immediately enter and alter, renovate and redecorate the Premises without elimination or abatement of rent or incurring liability to Sublessee for any compensation. Sublessee shall not, without the prior consent of Landlord and Sublessor, change the locks or install additional locks on any entry door or doors to the Premises.

12. Construction Liens.

Sublessee shall pay or cause to be paid all costs for work done by Sublessee or caused to be done by Sublessee on the Premises of a character which will or may result in liens on Sublessor's interest therein and Sublessee will keep the Premises free and clear of all mechanic's liens and other liens on account of work done for Sublessee or persons claiming under it. Sublessee and Sublessor each hereby agree to indemnify, defend and save each other harmless of and from all liability, loss, damage, costs or expenses, including reasonable attorneys' fees, incurred on account of any claims of any nature whatsoever for work performed for, or materials or supplies furnished to Sublessee, including lien claims of laborers, materialmen or others. Should any such liens be filed or recorded against the Premises with respect to work done or for materials supplied to or on behalf of Sublessee or any action affecting the title thereto be commenced, Sublessee shall cause such liens to be removed of record within five (5) days after notice from Sublessor. If Sublessee desires to contest any such claim of lien, it shall furnish Sublessor with adequate security of at least 150 percent (150%) of the amount of the claim, plus estimated costs and interest, and if a final judgment establishing the validity or existence of any lien for any amount is entered, Sublessee shall pay and satisfy the same at once. If Sublessee shall be in default in paying any charge for which such a mechanic's lien or suit to foreclose such a lien has been recorded or filed and shall not have given Sublessor security as aforesaid, Sublessor may (but without being required to do so) pay such lien or claim and any costs, and the amount so paid, together with reasonable attorneys' fees incurred in connection therewith, shall be immediately due from Sublessee to Sublessor.

13. Damage to Property, Injury to Persons.

- (a) Sublessee, as a material part of the consideration to be rendered to Sublessor under this Sublease, hereby waives all claims of liability Sublessee or Sublessee's successors or assigns may have against Sublessor, and Sublessee hereby indemnifies and agrees to hold Sublessor harmless from and to defend Sublessor against any and all claims of liability for any injury or damage to any person or property whatsoever: (1) occurring in, on or about the Premises or any part thereof; and (2) occurring in, or about the Building Complex, when such injury or damage is caused in part or in whole by the act, neglect, fault or omission of any duty with respect to the same by Sublessee, its agents, contractors, employees or invitees. Sublessee further indemnifies and agrees to hold Sublessor harmless from and against any and all claims arising from any breach or default in the performance of any obligation on Sublessee's part to be performed under the terms of this Sublease, or arising from any act or negligence of Sublessee, or any of its agents, contractors, employees or invitees, from and against all costs, attorneys' fees, expenses and liabilities incurred in or about any such claim or any action or proceeding brought thereon.
 - (b) Sublessor and Landlord shall not be liable to Sublessee for any damage by or from any act or negligence of any co-tenant or other occupant of the Building, or by any owner or occupant of adjoining or contiguous property. To the extent not covered by normal fire and extended coverage insurance, Sublessee agrees to pay for all damage to the Building Complex, as well as all damage to tenants or occupants thereof, caused by Sublessee's misuse or neglect of the Premises or any portion of the Building Complex.
 - (c) Neither Sublessor, Landlord, nor their respective agents shall be liable for any damage to property entrusted to Sublessor, Landlord, or their respective agents or employees of the building manager, if any, nor for the loss or damage to any property by theft or otherwise, by any means whatsoever, nor for any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, sprinkler system leakage, water or rain which may leak from any part of the Building or from the pipes, appliances or plumbing works therein or from the roof, street or subsurface or from any other place or resulting from dampness or any other cause whatsoever; provided, however, nothing contained herein shall be construed
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to relieve Sublessor or Landlord from liability for any personal injury resulting from its negligence or that of its agents, servants or employees. Sublessor or its agents shall not be liable for interference with the lights, view or other incorporeal hereditaments. Sublessee shall give prompt notice to Sublessor and/or Landlord in case of fire or accidents in the Premises or in the Building or of defects therein or in the fixtures or equipment.

- (d) In case any action or proceeding is brought against Sublessor or Sublessee by reason of any obligation on their respective parts to be performed under the terms of this Sublease, or arising from any of their acts or negligence of them, respectively, or of their agents or employees, such party, upon notice from the other party shall defend the same at its expense by counsel reasonably satisfactory to the party giving such notice.
- (e) Notwithstanding anything contained herein to the contrary, Sublessee's indemnification (i) of Landlord and/or Sublessor shall not extend to the acts of Sublessee's invitees or contractors, and (ii) shall not apply to the extent of the acts, omissions or negligence of Landlord or Sublessor, their agents, employees, contractors or representatives. Landlord and Sublessor shall provide a mutual indemnification of Sublessee with respect to occurrences in the common areas and parking areas of the Building and the acts, omissions or negligence of Landlord or Sublessor, their agents, employees or representatives.

14. Insurance.

- (a) Sublessee shall procure and keep in effect public liability and property damage insurance, naming the Sublessor as an additional insured, with companies and in a form satisfactory to Sublessor, in the sum of Five Hundred Thousand and 00/100ths Dollars (\$500,000.00) for damages resulting to one person, and One Million and 00/100ths Dollars (\$1,000,000.00) for damages resulting from one casualty, and One Million and 00/100ths Dollars (\$1,000,000.00) for damage to property resulting from any one occurrence and shall deliver said policies or certificates to Sublessor prior to initial occupancy and continuously maintain such coverage thereafter. Sublessor shall have the right, upon not less than thirty (30) days' prior written notice, to raise the limits hereinabove set forth not more often than annually during the term of this Sublease. Sublessor may, at its option, procure the same for the account of Sublessee, and the cost thereof shall be paid to Sublessor upon receipt by Sublessee of bills therefor.
 - (b) Sublessee shall procure and maintain at its own cost during the term of this Sublease and any extension hereof fire and extended coverage insurance on property of Sublessee.
 - (c) Each party agrees to use its best efforts to include in each of its policies insuring against loss, damage or destruction by fire or other casualty (insuring the Building and Sublessor's Property therein and rental value thereof, in the case of Sublessor, and insuring Sublessee's Property and business interest in the Premises interruption insurance in the case of Sublessee), a waiver of the insurer's right of subrogation against the other party, or if such waiver should be unobtainable or unenforceable (i) an express agreement that such policy shall not be invalidated if the insured waives the right of recovery against any party responsible for a casualty covered by the policy before the casualty, or (ii) any other form of permission for the release of the other party. If such waiver, agreement or permission shall not be, or shall cease to be, obtainable without additional charge or at all, the insured party shall so notify the other party promptly after learning thereof. In such case, if the other party shall so elect and shall pay the insurer's additional charge therefor, such waiver, agreement or permission shall be included in the policy, or the other party shall be named as an additional insured in the policy. Each such policy which shall so name a party hereto as an additional insured shall contain, if obtainable, agreements by the insurer that the policy will not be cancelled without at least thirty (30) days prior notice to both insureds and that the act or omission of one insured will not invalidate the policy as to the other insured. The failure by Sublessee, if named as an additional insured, promptly to endorse to the order of Sublessor, without recourse, any instrument for the payment of money under or with respect to the policy of which Sublessor is the owner or primary insured, shall be deemed a default under this Sublease.
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- (d) Each party hereby releases the other party with respect to any claim (including a claim for negligence) which it might otherwise have against the other party for loss, damage or destruction with respect to its property (including the Building, Building Complex, the Premises and rental value or business interruption) occurring during the term of this Sublease to the extent to which it is insured under a policy or policies containing a waiver of subrogation or permission to release liability or naming the other party as an additional insured as provided above.
- (e) Any building employee to whom property shall be entrusted by or on behalf of Sublessee shall be deemed to be acting as Sublessee's agent with respect to such property and neither Sublessor nor its agents shall be liable for any damage to the property of Sublessee or others entrusted to employees of the Building, nor for the loss of or damage to any property of Sublessee by theft or otherwise.
- (f) Upon written approval from Sublessor, Sublessee may self-insure, or contract with Sublessee's parent corporation to insure, the risks set forth in subsection (a)(ii) above provided the insuring entity shall have a net worth of at least Fifty Million and 00/100ths Dollars (\$50,000,000.00), which amount may be lowered subject to Sublessor's sole discretion."

15. Damage or Destruction to Building.

- (a) In the event the Premises or the Building are damaged by fire or other insured casualty and the insurance proceeds have been made available therefor by the holder or holders of any mortgages or deeds of trust covering the Building, the damage shall be repaired by and at the expense of Sublessor to the extent of such insurance proceeds available therefor, provided such repairs and restoration can, in Sublessor's reasonable opinion, be made within two hundred seventy (270) days after the occurrence of such damage without the payment of overtime or other premiums, and until such repairs and restoration are completed the rent shall be abated in proportion to the part of the Premises which is unusable by Sublessee in the conduct of its business (but there shall be no abatement of rent by reason of any portion of the Premises being unusable for a period equal to three days or less). Sublessor agrees to notify Sublessee within thirty (30) days after such casualty if it estimates that it will be unable to repair and restore the Premises within said two hundred seventy (270) day period. Such notice shall set forth the approximate length of time Sublessor estimates will be required to complete such repairs and restoration. Notwithstanding anything to the contrary contained herein, if Sublessor cannot or estimates it cannot make such repairs and restoration within said two hundred seventy (270) day period, then Sublessee may, by written notice to Sublessor, cancel this Sublease as of the date of the occurrence of such damage, provided such notice is given to Sublessor within fifteen (15) days after Sublessor notifies Sublessee of the estimated time for completion of such repairs and restoration. Except as provided in this Paragraph 15, there shall be no abatement of rent and no liability of Sublessor by reason of any injury to or interference with Sublessee's business or property arising from the making of any such repairs, alterations or improvements in or to fixtures, appurtenances and equipment. Sublessee understands that Sublessor will not carry insurance of any kind on Sublessee's furniture and furnishings or on any fixtures or equipment removable by Sublessee under the provisions of this Sublease, and that Sublessor shall not be obligated to repair any damage thereto or replace the same. Sublessor shall not be required to repair any injury or damage by fire or other cause, or to make any repairs or replacements of improvements installed in the Premises by or for Sublessee.
 - (b) In case the Building throughout shall be so injured or damaged, whether by fire or otherwise (though the Premises may not be affected, or if affected, can be repaired within said two hundred seventy days) that Sublessor, within sixty (60) days after the happening of such injury, shall decide not to reconstruct or rebuild the Building, then notwithstanding anything contained herein to the contrary, upon notice in writing to that effect given by Sublessor to Sublessee within said sixty (60) days, Sublessee shall pay the rent, properly apportioned up to date of such occurrence, this Sublease shall terminate from the date of delivery of said written notice, and both parties hereto shall be freed and discharged from all further obligations hereunder.
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16. Condemnation.

- (a) If the whole of the Premises or so much thereof as to render the balance unusable by Sublessee for the proper conduct of its business shall be taken under power of eminent domain or transferred under threat thereof, then this Sublease, at the option of either Sublessor or Sublessee exercised by either party giving notice to the other of such termination within thirty (30) days after such conveyance or taking possession whichever is earlier, shall forthwith cease and terminate and the rent shall be duly apportioned as of the date of such taking or conveyance. No award for any partial or entire taking shall be apportioned, and Sublessee hereby assigns to Sublessor any award which may be made in such taking or condemnation, together with any and all rights of Sublessee now or hereafter arising in or to the same or any part thereof; provided, however, that nothing contained herein shall be deemed to give Sublessor any interest in or to require Sublessee to assign to Sublessor any award made to Sublessee for the taking of personal property and fixtures belonging to Sublessee and/or for expenses of moving to a new location or for Sublessee's interest in the leasehold estate. In the event of a partial taking which does not result in a termination of this Sublease, rent shall be reduced in proportion to the reduction in the size of the premises so taken and this Sublease shall be modified accordingly. Promptly after obtaining knowledge thereof, Sublessor or Sublessee, as the case may be, shall notify the other of any pending or threatened condemnation or taking affecting the Premises or the Building.
- (b) If all or any portion of the Premises shall be condemned or taken for governmental occupancy for a limited period, this Sublease shall not terminate and Sublessee shall be entitled to receive the entire award therefor (whether paid as damages, rent or otherwise) unless the period of governmental occupancy extends beyond the expiration of this Sublease, in which case Sublessor shall be entitled to such part of such award as shall be properly allocable to the cost of restoration of the Premises to the extent any such award is specifically made for such purpose, and the balance of such award shall be apportioned between Sublessor and Sublessee as of the date of such expiration. If the termination of such governmental occupancy is prior to the expiration of this Sublease, Sublessee shall, to the extent an award has been made for such purpose, restore the premises as nearly as possible to the condition in which they were prior to the condemnation or taking.

17. Assignment and Subletting.

Sublessee covenants not to assign or transfer this Sublease or hypothecate, or mortgage the same or sublet the Premises or any part thereof or use or permit them to be used for any purpose other than above-mentioned without the prior written consent of Sublessor, which shall be granted or withheld at Sublessor's sole discretion.

18. Estoppel Certificate.

Sublessee further agrees at any time and from time to time, on or before ten (10) days after written request by Landlord or Sublessor, to execute, acknowledge and deliver to Landlord or Sublessor an estoppel certificate certifying (to the extent it believes the same to be true) that this Sublease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified, and stating the modifications), that there have been no defaults thereunder by Landlord and Sublessor or Sublessee (or if there have been defaults, setting forth the nature thereof), and the date to which the rent and other charges have been paid, if any, it being intended that any such statement delivered pursuant to this Paragraph may be relied upon by any prospective purchaser of all or any portion of Landlord or Sublessor's interest herein, or a holder of any mortgage encumbering any portion of the Building Complex. Sublessee's failure to deliver such statement within such time shall be a default under this Sublease and shall be conclusive upon Sublessee that:

- (a) This Sublease is in full force and effect without modification except as may be represented by Sublessor;
- (b) There are no uncured defaults in and Sublessor's performance;
- (c) Not more than one (1) month's rent has been paid in advance; and
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(d) The amount of any security deposit paid to, and held by, Sublessor.

19. Default.

- (a) The following events (herein referred to as an “event of default”) shall constitute defaults of Sublessee hereunder:
- (1) Sublessee shall default in the due and punctual payment of rent, or any other amounts payable hereunder, and such default shall continue for ten (10) days after receipt of written notice from Sublessor;
 - (2) This Sublease or the estate of Sublessee hereunder shall be transferred to or shall pass to or devolve upon any other person or party in violation of this Sublease except as permitted herein;
 - (3) This Sublease or the Premises or any part thereof shall be taken upon execution or by other process of law directed against Sublessee, or shall be taken upon or subject to any attachment at the instance of any creditor or claimant against Sublessee, and said attachment shall not be discharged or disposed of within fifteen (15) days after the levy thereof;
 - (4) Sublessee shall file a petition in bankruptcy or insolvency or for reorganization or arrangement under the bankruptcy laws of the United States or under any insolvency act of any state, or shall voluntarily take advantage of any such law or act by answer or otherwise, or shall be dissolved or shall make an assignment for the benefit of creditors, unless such action will permit Sublessee to continue performance of this Sublease;
 - (5) Involuntary proceedings under any such bankruptcy law or insolvency act or for the dissolution of Sublessee shall be instituted against Sublessee, or a receiver or trustee shall be appointed of all or substantially all of the property of Sublessee, and such proceeding shall not be dismissed or such receivership or trusteeship vacated within sixty (60) days after such institution or appointment unless such action will permit Sublessee to continue performance of this Sublease;
 - (6) Sublessee shall fail to take possession of the Premises within ninety (90) days of the Commencement Date; and
 - (7) Sublessee shall fail to perform any of the other agreements, terms, covenants or conditions hereof on Sublessee’s part to be performed, and such non-performance shall continue for a period of thirty (30) days after notice thereof by Sublessor to Sublessee, or if such performance cannot be reasonably had within such thirty (30) day period, Sublessee shall not in good faith have commenced such performance with such thirty (30) day period and shall not diligently proceed therewith to completion.

Notwithstanding anything contained herein to the contrary, (i) any reentry by Sublessor shall be pursuant to legal process, (ii) Sublessor must use commercially reasonable efforts to mitigate damages, (iii) rent and charges shall not be accelerated, and (iv) Tenant shall not be deemed to have abandoned the Premises if Tenant is paying rent and charges to Landlord

- (b) Upon the occurrence of an event of default, Sublessor shall have the right, at its election, then or at any time thereafter and while any such event of default shall continue, either:
- (1) To give Sublessee written notice of Sublessor’s intention to terminate this Sublease on the date of such given notice or on any later date specified therein, whereupon on the date specified in such notice, Sublessee’s right to possession of the Premises shall cease and this Sublease shall thereupon be terminated, except as to Sublessee’s liability, as if the expiration of the term fixed in such notice were the end of the term herein originally demised; or
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- (2) To re-enter and take possession of the Premises or any part thereof, and repossess the same as Sublessor's former estate and expel Sublessee and those claiming through or under Sublessee, and remove the effects of both or either, using such force for such purposes as may be reasonably necessary, without being liable for prosecution thereof, without being deemed guilty of any manner of trespass, and without prejudice to any remedies for arrears of rent or preceding breach of covenants or conditions. Should Sublessor elect to re-enter as provided in this Paragraph 19(b)(2) or should Sublessor take possession pursuant to legal proceedings or pursuant to any notice provided for by law, Sublessor may, from time to time, without terminating this Sublease, relet the Premises or any part thereof in Sublessor's or Sublessee's name, but for the account of Sublessee, for such term or terms (which may be greater or less than the period which would otherwise have constituted the balance of the term of this Sublease) and on such conditions and upon such other terms (which may include concessions of free rent and alteration and repair of the Premises) as Sublessor, in its sole discretion, may determine, and Sublessor may collect and receive the rents therefor. Sublessor shall in no way be responsible or liable for any failure to relet the Premises, or any part thereof, or for any failure to collect any rent due upon such reletting. No such re-entry or taking possession of the Premises by Sublessor shall be construed as an election on Sublessor's part to terminate this Sublease unless a written notice of such intention be given to Sublessee. No notice from Sublessor hereunder or under a forcible entry and detainer statute or similar law shall constitute an election by Sublessor to terminate this Sublease unless such notice specifically so states. Sublessor reserves the right following any such re-entry and/or reletting to exercise its right to terminate this Sublease by giving Sublessee such written notice, in which event this Sublease will terminate as specified in said notice.
- (c) In the event that Sublessor does not elect to terminate this Sublease as permitted in Paragraph 19(b)(1) hereof, but on the contrary, elects to take possession as provided in Paragraph 19(b)(2), Sublessee shall pay to Sublessor: (i) the rent and other sums as herein provided, which would be payable hereunder if such repossession had not occurred, less (ii) the net proceeds, if any, of any reletting of the Premises after deducting all Sublessor's expenses in connection with such reletting, including, but without limitation, all repossession costs, brokerage commissions, legal expenses, attorneys' fees, expenses of employees, alteration and repair costs and expenses of preparation for such reletting. If, in connection with any reletting, the new lease term extends beyond the existing term, or the premises covered thereby include other premises not part of the Premises, a fair apportionment of the rent received from such reletting and the expenses incurred in connection therewith as provided aforesaid will be made in determining the net proceeds from such reletting.
- (d) In the event this Sublease is terminated, Sublessor shall be entitled to recover forthwith against Sublessee as damages for loss of the bargain and not as a penalty, an aggregate sum which, at the time of such termination of this Sublease, represents the excess, if any, of the aggregate of the rent and all other sums payable by Sublessee hereunder that would have accrued for the balance of the term over the aggregate rental value of the Premises (such rental value to be computed on the basis of a tenant paying not only a rent to Sublessor for the use and occupation of the Premises, but also such other charges as are required to be paid by Sublessee under the terms of this Sublease) for the balance of such term, both discounted to present worth at the rate of 10 percent (10%) per annum.
- (e) Suit or suits for the recovery of the amounts and damages set forth above may be brought by Sublessor, from time to time, at Sublessor's election and nothing herein shall be deemed to require Sublessor to await the date whereon this Sublease or the term hereof would have expired by limitation had there been no such default by Sublessee or no such termination, as the case may be. Each right and remedy provided for in this Sublease shall be cumulative and shall be in addition to every other right or remedy provided for in this Sublease or now or hereafter existing at law or in equity or by statute or otherwise, including, but not limited to, suits for injunctive relief and specific performance. The exercise or beginning of the exercise by Sublessor of any one or more of the rights or remedies provided for in this Sublease or now or hereafter existing at law or in equity or by statute or otherwise shall not preclude the simultaneous or
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later exercise by Sublessor of any and all other rights or remedies provided for in this Sublease or now or hereafter existing at law or in equity or by statute or otherwise. All costs incurred by Sublessor in connection with collecting any amounts and damages owing by Sublessee pursuant to the provisions of this Sublease or to enforce any provision of this Sublease, including reasonable attorneys' fees from the date any such matter is turned over to an attorney, shall also be recoverable by Sublessor from Sublessee.

- (f) No failure by Sublessor to insist upon the strict performance of any agreement, term, covenant or condition hereof or to exercise any right or remedy consequent upon a breach thereof, and no acceptance of full or partial rent during the continuance of any such breach, shall constitute a waiver of any such breach of such agreement, term, covenant or condition. No agreement, term, covenant or condition hereof to be performed or complied with by Sublessee, and no breach thereof, shall be waived, altered or modified except by written instrument executed by Sublessor. No waiver of any breach shall affect or alter this Sublease, but each and every agreement, term, covenant and condition hereof shall continue in full force and effect with respect to any other then existing or subsequent breach thereof. Notwithstanding any unilateral termination of this Sublease, this Sublease shall continue in force and effect as to any provisions hereof which require observance or performance of Sublessor or Sublessee subsequent to termination.
- (g) Any amounts paid by either party to cure any defaults of the other hereunder, shall, if not repaid by the other party within ten (10) days of demand by the party paying such amount, thereafter bear interest at the rate of two percent (2%) above the prime rate as established by the First of America Bank - Detroit, N.A., or the highest rate permitted by applicable law, whichever is higher, until paid.
- (h) Should Landlord or Sublessor fail to perform their maintenance, repair or replacement or obligations under this Sublease and should such failure materially interfere with Sublessor's use of the Premises, then following twenty (20) days' prior written notice to Landlord and Sublessor (except in the event of an emergency in which event no notice shall be required), Sublessee may perform such obligations on Landlord's or Sublessor's behalf and at Landlord's or Sublessor's sole cost and expense. Rent and charges shall equitably abate to the extent necessary to reimburse Tenant for incurring such costs and expenses.

20. Completion of Premises.

The parties acknowledge and agree that the Premises is ready for occupancy for Sublessee's business, provided that minor items for the renovation of Suite 165 may not be completed (including, but not limited to, touch-up plastering or repainting which does not unreasonably interfere with Sublessee's ability to carry on its business in the Premises) prior to the commencement date of this Lease. Sublessor or Landlord will cause such minor items to be completed in a reasonable period of time.

21. Removal of Sublessee's Property.

All movable furniture and personal effects of Sublessee not removed from the Premises within ten (10) days after the vacation or abandonment thereof or upon the termination of this Sublease for any cause whatsoever shall conclusively be deemed to have been abandoned and may be appropriated, sold, stored, destroyed or otherwise disposed of by Sublessor without notice to Sublessee and without obligation to account therefor, and Sublessee shall pay Sublessor for all expenses incurred in connection with the disposition of such property.

22. Holding Over.

Should Sublessee, with Sublessor's written consent, hold over after the termination of this Sublease, Sublessee shall become a tenant from month to month only upon each and all of the terms herein provided as may be applicable to such month to month tenancy and any such holding over shall not constitute an extension of this Sublease. During any such holding over without Sublessor's consent, Sublessee shall pay rent equal to 150 percent (150%) of the last monthly rental rate and the other monetary charges as provided herein. Such tenancy shall continue until terminated by Sublessor or Sublessee by a written notice of its intention to terminate such tenancy given at least ten (10) days

prior to the date of termination of such monthly tenancy. Notwithstanding anything to the contrary, in no event shall any holdover continue beyond the termination of the Original Lease.

23. Parking Areas.

Sublessee, its employees, agents and visitors agree to obey and abide by all rules and regulations established, modified and amended from time to time by Landlord and Sublessor for the safety, protection, cleanliness and preservation of order in connection with such parking ingress and egress and other automobile and pedestrian use of the Building Complex. and Sublessor reserves the right to specifically assign and reassign from time to time any and all of said parking spaces among the tenants of the Building in any manner in which Landlord or Sublessor deems reasonable, in Landlord or Sublessor's sole judgment and opinion or to allow the reservation of parking spaces for the specific use of designated tenants of the Building. Landlord and Sublessor shall not be responsible to Sublessee, its employees, agents or visitors for violations by any other tenant, visitor or user of said parking facilities of said rules and regulations or assignment of spaces, nor shall Landlord or Sublessor have any obligation to police the unauthorized use of any such parking spaces. Subject to the foregoing, Sublessee shall have the non-exclusive right to use a pro rata share of Sublessor's non-reserved parking spaces granted under the Original Lease, provided any reserved parking spaces provided to Sublessee shall be at Sublessor's sole discretion.

24. Surrender and Notice.

Upon the expiration or earlier termination of this Sublease, Sublessee shall promptly quit and surrender to Sublessor the Premises broom clean, in good order and condition, ordinary wear and tear excepted, and Sublessee shall remove all of its movable furniture and other effects and such alterations, additions and improvements as Sublessor shall require Sublessee to remove pursuant to Paragraph 10. In the event Sublessee fails to vacate the Premises on a timely basis as required, Sublessee shall be responsible to Sublessor for all costs incurred by Sublessor as a result of such failure, including, but not limited to, any amounts required to be paid to third parties who were to have occupied the Premises or damages claimed by Landlord.

25. Acceptance of Premises by Sublessee.

Taking possession of the Premises by Sublessee shall be conclusive evidence as against Sublessee that the Premises were in the condition agreed upon between Sublessor and Sublessee, and acknowledgment of satisfactory completion of the fix-up work which Sublessor has agreed in writing to perform, except as otherwise set forth herein. Further, Sublessee acknowledges prior to and continuing after the commencement date of this Lease, that Landlord is engaging in major renovations of the Building, and such renovations may reasonably impact Sublessee's use of the Premises.

26. Subordination and Attornment.

- (a) This Sublease, and all rights of Sublessee hereunder, are and shall be subject and subordinate in all respect to the Original Lease, all present and future ground leases, overriding leases and underlying leases and/or grants of term of the land and/or the Building or the Building Complex now or hereafter existing and to all mortgages, deeds of trust and building loan agreements, including leasehold mortgages, deeds of trust and building loan agreements, which may now or hereafter affect the Building or the Building Complex or any of such leases, whether or not such mortgages or deeds of trust shall also cover other lands or buildings, to each and every advance made or hereafter to be made under such mortgages or deeds of trust, and to all renewals, modifications, replacements and extensions of such leases and such mortgages or deeds of trust. This Paragraph shall be self-operative and no further instrument of subordination shall be required. In confirmation of such subordination, Sublessee shall promptly execute and deliver at its own cost and expense any instrument, in recordable form if required, that Sublessor, the lessor of any such lease or the holder of any such mortgage or deed of trust, or any of their respective successors in interest may request to evidence such subordination. The leases to which this Sublease is, at the time referred to, subject and subordinate pursuant to this Paragraph are hereinafter sometimes called "superior lease" and the mortgages or deeds of trust to which this Sublease is, at the time referred to, subject and subordinate
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are hereinafter sometimes called "superior mortgages". The lessor of a superior lease or the beneficiary of a superior mortgage or their successors in interest are hereinafter sometimes collectively referred to as a "superior party".

- (b) Sublessee shall take no steps to terminate this Sublease, without giving written notice to such superior party, and a reasonable opportunity to cure (without such superior party being obligated to cure), any default on the part of Sublessor under this Sublease.
- (c) In the event any proceedings are brought for the foreclosure of, or in the event of the conveyance by deed in lieu of foreclosure of, or in the event of the exercise of the power of sale under, any superior mortgage, Sublessee hereby attorns to, and covenants and agrees to execute an instrument in writing reasonably satisfactory to the new owner whereby Sublessee attorns to, such successor in interest and recognizes such successor as the Sublessor under this Sublease.
- (d) If holder of any superior mortgage on a ground lease, or anyone claiming by, through or under such holder, shall become the lessee under the ground lease as a result of foreclosure of the superior mortgage, or by reason of an assignment of the lessee's interest under the ground lease and the giving of a deed to the Building or the Building Complex in lieu of foreclosure, there shall be no obligation on the part of such person succeeding to the interest of the lessee under the ground lease to comply with, observe or perform any obligations as sublessor, tenant or landlord under any superior lease, nor shall Sublessee look to such person for any security deposit delivered to Sublessor pursuant to the provision of Paragraph 29 hereof unless said security deposit has actually been received by such parties as security for the performance by Sublessee under this Sublease.
- (e) If, in connection with the procurement, continuation or renewal of any financing for which the Building or the Building Complex, or of which the interest of the lessee therein under a superior lease, represents collateral in whole or in part, an institutional lender shall request reasonable modifications of this Sublease as a condition of such financing, Sublessee will not unreasonably withhold its consent thereto provided that such modifications do not increase the obligations of Sublessee under this Sublease or adversely affect any rights of Sublessee or decrease the obligations of Sublessor under this Sublease.
- (f) So long as Sublessee is not in default under this Sublease, Sublessor agree to use its reasonable efforts to obtain a non-disturbance agreement from any superior party, provided such superior party's failure or refusal to execute a non-disturbance agreement following Sublessor's request shall not be deemed to be a breach or default of this Sublease by Sublessor.
- (g) Notwithstanding anything contained herein to the contrary, Sublessee's subordination and attornment as set forth above is conditioned upon the party being subordinated to granting customary nondisturbance to Sublessee and providing that if Sublessee is not in default beyond any applicable grace or cure period, then upon foreclosure or termination (as the case may be), Sublessee's possession and use of the Leased Premises shall not be disturbed, Sublessee's rights and interest under this Sublease shall be recognized and this Sublease shall become a direct Lease between Sublessee, as tenant, and the party succeeding to Sublessor's or Landlord's interest, as the landlord or sublandlord, as applicable.

27. Payments after Termination.

No payments of money by Sublessee to Sublessor after the termination of this Sublease, in any manner, or after giving of any notice (other than a demand for payment of money) by Sublessor to Sublessee, shall reinstate, continue or extend the term of this Sublease or affect any notice given to Sublessee prior to the payment of such money, it being agreed that after the service of notice of the commencement of a suit or other final judgment granting Sublessor possession of the Premises, Sublessor may receive and collect any sums of rent due, or any other sums of money due under the terms of this Sublease or otherwise exercise its rights and remedies hereunder. The payment of such sums

of money, whether as rent or otherwise, shall not waive said notice or in any manner affect any pending suit or judgment theretofore obtained.

28. Authorities for Action and Notice.

- (a) Except as herein otherwise provided, Landlord and Sublessor may act in any matter provided for herein by Landlord's building manager or any other person who shall from time to time be designated in writing.
- (b) All notices or demands required or permitted to be given to Sublessor hereunder shall be in writing, and shall be deemed duly served when received, if hand delivered, or five (5) days after deposited in the United States mail, with proper postage prepaid, certified or registered, return receipt requested, addressed to Sublessor at its principal office in the Building, or at the most recent address of which Sublessor has notified Sublessee in writing. All notices or demands required to be given to Sublessee hereunder shall be in writing, and shall be deemed duly served when received if hand delivered or within five (5) days after deposited in the United States mail, with proper postage prepaid, certified or registered, return receipt requested, addressed to Sublessee at its principal office in the Building. Either party shall have the right to designate a different address to which notice is to be mailed by serving on the other party a written notice in the manner hereinabove provided.

29. Security Deposit.

Intentionally Omitted.

30. Liability of Sublessor.

Sublessee shall look only to Sublessor's estate and interest in the Original Premises (or to the proceeds thereof) for the satisfaction of Sublessee's remedies for the collection of any judgment (or other judicial process) requiring the payment of money by Sublessor in the event of any default by Sublessor under this Sublease, and no other property or other assets of Sublessor shall be subject to levy, execution or other enforcement, procedure for the satisfaction of Sublessee's remedies under or with respect to this Sublease and neither Sublessor nor any of the partners comprising the partnership which is the Sublessor herein, shall be liable for any deficiency. Nothing contained in this Paragraph shall be construed to permit Sublessee to offset against rents due a successor sublessor or landlord, a judgment (or other judicial process) requiring the payment of money by reason of any default of a prior sublessor or landlord, except as otherwise specifically set forth herein.

31. Brokerage.

Each party represents and warrants that it has not dealt with any broker in the negotiation of this Sublease. Sublessor and Sublessee each hereby agree to indemnify and hold the other harmless of and from any and all loss, cost, damage or expense (including, without limitation, all counsel fees and disbursements) by reason of any claim of or liability to any other broker claiming through it and arising out of or in connection with the execution and delivery of this Sublease. In the event any claim shall be made by any other broker who shall claim to have negotiated this Sublease on behalf of Sublessee or to have introduced Sublessee to the Original Premises or to Sublessor, Sublessee shall have the right to defend any such action by counsel to be selected by Sublessee and approved by Sublessor, which approval shall not be unreasonably withheld, and in the event such broker shall be successful in any such action, Sublessee shall, in addition to making payment of the claim of such broker, be responsible for all counsel fees incurred in such action.

32. Signage.

No sign, advertisement or notice shall be inscribed, painted or affixed on any part of the inside or outside of the Building unless of such color, size and style and in such place upon or in the Building, as shall be first designated by Sublessor, but there shall be no obligation or duty on Sublessor to allow any sign, advertisement or notice to be inscribed, painted or affixed on any part of the inside or outside of the Building. Sublessor will use reasonable efforts

to work with Landlord to have Sublessee's name and location in the Building placed on a directory in a conspicuous place, which shall be provided by Landlord within a reasonable time after the renovation of the Building's lobby is completed. Any necessary revision to such directory shall be made by Landlord or Sublessor at Sublessee's expense, within a reasonable time after notice from Sublessee of the change making the revision necessary. Sublessor or Landlord shall have the right to remove all non-permitted signs without notice to Sublessee, and at the expense of Sublessee.

33. Name of Building Project.

Sublessee acknowledges that Sublessor is subject to Landlord's name for the development in which the Building is located, and Landlord may at any time and from time to time, without notice to Sublessor or Sublessee change the name of the development or any Building located therein at Landlord's sole discretion.

34. Measurement of Premises.

The rentable square footage of the Premises, as stated in Paragraph 1 hereof, shall be determined by the Building architect and is subject to final construction documents and actual measurement of the Premises by the Building architect. The Base Rent and other charges due hereunder shall be adjusted based upon such measurement by the Building architect.

35. Miscellaneous.

- (a) The rules and regulations attached hereto and marked Exhibit "B", as well as such rules and regulations as may hereafter be adopted by Landlord for the safety, care and cleanliness of the Premises and the Building and the preservation of good order thereon, are hereby expressly made a part hereof, and Sublessee agrees to obey all such rules and regulations. The violation of any of such rules and regulations by Sublessee shall be deemed a breach of this Sublease by Sublessee, subject to notice and a reasonable opportunity to cure, affording Sublessor all the remedies set forth herein. Sublessor shall not be responsible to Sublessee for the nonperformance by any other tenant or occupant of the Building of any of said rules and regulations. Notwithstanding the provisions of this Paragraph 35, Sublessor agrees that it will use reasonable efforts to work with Landlord to not change or modify the rules and regulations or adopt new rules and regulations as to: (i) diminish or otherwise reduce the specific obligations of Sublessor to perform under the terms and conditions of this Sublease or (ii) interfere with Sublessee's use and enjoyment of the Premises, or (iii) interfere with the conduct of Sublessee's normal business.
 - (b) The term "Sublessor", as used in this Sublease, so far as covenants or obligations on the part of Sublessor are concerned, shall be limited to mean and include only the tenant of the Original Lease at the time in question, and in the event of any transfer or transfers of the title thereto, Sublessor herein named (and in the case of any subsequent transfers or conveyances, the then grantor) shall be automatically released from and after the date of such transfer or conveyance of all liability in respect to the performance of any covenants or obligations on the part of Sublessor contained in this Sublease thereafter to be performed and relating to events occurring thereafter; provided that any funds in the hands of Sublessor or the then grantor at the time of such transfer in which Sublessee has an interest shall be turned over to the grantee, and any amount then due and payable to Sublessee by Sublessor or the then grantor under any provisions of this Sublease shall be paid to Sublessee.
 - (c) This Sublease shall be construed as though the covenants herein between Sublessor and Sublessee are independent and not dependent and Sublessee shall not be entitled to any set off of the rent or other amounts owing hereunder against Sublessor, if Sublessor fails to perform its obligations set forth herein. The foregoing shall in no way impair the right of Sublessee to commence a separate action against Sublessor for any violation by Sublessor of the provisions hereof so long as notice is first given to Sublessor and any holder of a mortgage or deed of trust covering the Building Complex or any portion thereof of whose address Sublessee has been notified in writing and an opportunity granted to Sublessor and such holder to correct such violation. Any capitalized term not defined in this Sublease shall be given the same meaning as in the Original Lease.
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- (d) If any clause or provision of this Sublease is illegal, invalid or unenforceable under present or future laws effective during the term of this Sublease, then and in that event, it is the intention of the parties hereto that the remainder of this Sublease shall not be affected thereby, and it is also the intention of the parties to this Sublease that in lieu of each clause or provision of this Sublease that is illegal, invalid or unenforceable, there shall be added as a part of this Sublease a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable, provided such addition does not increase or decrease the obligations of or derogate from the rights or powers of either Sublessor or Sublessee.
- (e) The captions of each paragraph are added as a matter of convenience only and shall be considered of no effect in the construction of any provision or provisions of this Sublease.
- (f) Except as herein specifically set forth, all terms, conditions and covenants to be observed and performed by the parties hereto shall be applicable to and binding upon their respective heirs, administrators, executors and assigns. The terms, conditions and covenants hereof shall also be considered to be covenants running with the land.
- (g) If there is more than one entity or person which or who are the Tenants under this Sublease, the obligations imposed upon Sublessee under this Sublease shall be joint and several.
- (h) No act or thing done by Sublessor or Sublessor's agent during the term hereof, including, but not limited to, any agreement to accept surrender of the Premises or to amend or modify this Sublease, shall be deemed to be binding upon Sublessor unless such act or things shall be by an officer of Sublessor or a party designated in writing by Sublessor as so authorized to act. The delivery of keys to Sublessor, or Sublessor's agent, employees or officers shall not operate as a termination of this Sublease or a surrender of the premises. No payment by Sublessee, or receipt by Sublessor, of a lesser amount than the monthly rent herein stipulated, shall be deemed to be other than on account of the earliest stipulated rent, nor shall any endorsement or statement on any check or any letter accompanying any such, or payment as rent, be deemed an accord and satisfaction, and Sublessor may accept such check or payment without prejudice to Sublessor's right to recover the balance of such rent or pursue any other remedy available to Sublessor.
- (i) Landlord shall have the right to construct other buildings or improvements in any plaza, or other area designated by Landlord for use by tenants or to change the location, character, or make alterations of, or additions to, any of said plazas, or other areas.
- (j) Sublessee acknowledges and agrees that it has not relied upon any statements, representations, agreements or warranties except such as are expressed in this Sublease.
- (k) Time is of the essence hereof.
- (l) Sublessee represents to Sublessor that the party executing this Sublease is authorized to do so by requisite action of the Board of Directors, or partners, as the case may be, and agree upon request to deliver to each other a resolution or similar document to that effect.
- (m) This Sublease shall be governed by and construed in accordance with the laws of the State of Michigan.
- (n) This Sublease, together with the Addendum and Exhibits attached hereto, contains the entire agreement of the parties and may not be amended or modified in any manner except by an instrument in writing signed by both parties.

[SIGNATURES LOCATED ON FOLLOWING PAGES]

ACKNOWLEDGMENT OF TENANT

STATE OF MICHIGAN)
) ss.
COUNTY OF OAKLAND)

On this 18th day of December, 2017, before me personally appeared Brian McCullough and Jeffrey Davidson to me personally known, who, being by me duly sworn, did each for himself say that he is, respectively, the Vice President and President of *, the corporation named in and which executed the within instrument, and that said instrument was signed on behalf of said corporation by authority of its board of directors; and said Brian McCullough and Jeffrey Davidson acknowledged before me said instrument to be the free act and deed of said corporation.

/s/ Carmelle A. Rozanski
Notary Public, Oakland County, Michigan
My Commission expires: 19 Oct. 2023

CARMELLE A. ROZANSKI
Notary Public, State of Michigan
County of Macomb
My Commission Expires 10-19-2023
Acting in the County of Oakland

Acknowledgment and Approval of Landlord

For good and valuable consideration, the undersigned does hereby acknowledge and approve of this Sublease and agrees to be bound by its obligations to the extent set forth herein.

TAUBMAN OFFICE CENTER LLC,
a Delaware limited liability company

By: /s/ Chris Heaphy
Its: Authorized Signatory

Date: December 18, 2017

RULES AND REGULATIONS

ATTACHED TO AND MADE A PART OF THIS SUBLEASE ARE THE RULES AND REGULATIONS FOR THE BUILDING. SUBTENANT AGREES TO ITSELF, ITS EMPLOYEES AND AGENTS TO COMPLY FULLY WITH THE FOLLOWING RULES AND REGULATIONS AND WITH SUCH REASONABLE MODIFICATIONS THEREOF AND ADDITIONS THERETO AS LANDLORD OR SUBLESSOR MAY MAKE FOR THE BUILDING:

1. No sign, picture, lettering, notice or advertisement of any kind shall be painted or displayed on or from the windows, doors, roof, or outside walls of the Building. All of Sublessee's interior signs, sign painting or lettering shall be done in a manner approved by Sublessor or Landlord, and the cost thereof shall be paid by Sublessee. In the event of the violation of the foregoing by Sublessee, Sublessor or Landlord may remove same without any liability and may charge the expense incurred for such removal to Sublessee.
 2. Sublessee shall not use the name of the Building for any purpose other than that of the business address of Sublessee. Sublessee agrees that Landlord may assign a name to the Building and/or change the name of the Building at Landlord's option.
 3. The sidewalks, entrances, passages, courts, elevators, vestibules, stairways, corridors, or halls shall not be obstructed or encumbered by any tenant or used for any purpose other than ingress and egress to and from the Leased Premises.
 4. No curtains, blinds, shades, screens, awnings, or other projections shall be attached to or hung in, or used in connection with, any window or door of the Leased Premises or outside wall of the Building without the prior written consent of the Sublessor or Landlord, nor shall Sublessee place objects against glass partitions, doors or windows which would be unsightly from the Building's corridors, or from the exterior of the Building.
 5. Any carpeting cemented down shall be installed with a releasable adhesive.
 6. No animals or pets or bicycles or other vehicles shall be brought or permitted to be in the Building or the Leased Premises.
 7. The water and wash closets and other plumbing fixtures shall not be used for any purpose other than those for which they were constructed, and no sweepings, rubbish, rags, or other substances shall be thrown therein. All damage resulting from any misuse of the fixtures shall be borne by the Sublessee who, or whose servants, employees, agents, visitors or licensees, shall have caused the same. Sublessee shall not waste electricity, water or air conditioning, and shall cooperate fully with Sublessor and Landlord to assure the most effective operation of the Building's heating and air conditioning. Sublessee shall not adjust any controls other than room thermostats installed for Sublessee's use. Sublessee shall not tie, wedge or otherwise fasten open any water faucet or outlet. Sublessee shall keep all corridor doors closed.
 8. No tenant shall mark, paint, drill into, or in any way deface any part of the Leased Premises or the Building of which they form a part. No boring, cutting or stringing of wires shall be permitted, except with the prior written consent of the Sublessor, and as the Sublessor or Landlord may direct.
 9. Sublessee shall not cause or permit unusual or objectionable odor to be produced upon or permeate from the Premises, including duplicating or printing equipment emitting noxious fumes. Sublessee shall not allow any cooking on the Leased Premises. Sublessee shall not disturb any occupants of this or neighboring buildings or premises by the use of any musical instruments, radio, television, loudspeakers, or by any unseemingly or disturbing noise.
 10. No tenant shall throw anything out of the door, windows, or down any passageways or elevator shafts.
 11. Vending machines will not be permitted to be installed by anyone but the Landlord.
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12. Canvassing, soliciting, and peddling in the Building is prohibited and each tenant shall cooperate to prevent the same.
 13. No additional locks or bolts of any kind shall be placed upon any of the doors and windows by any tenant, nor shall any change be made in existing locks or the mechanism thereof. Each tenant must, upon the termination of his tenancy, return to the Sublessor or Landlord all keys of stores, offices, and toilet rooms, either furnished to or otherwise procured by Sublessee and in the event of the loss of any keys, so furnished, such tenant shall pay to the Sublessor or Landlord the cost thereof.
 14. Sublessee assumes full responsibility for protecting the Leased Premises from theft, robbery and pilferage. Except during Sublessee's normal business hours, Sublessee shall keep all doors to the Leased Premises locked and other means of entry of the Leased Premises closed and secured.
 15. Sublessee is not permitted to use any part of the Building or the common areas for any manufacturing, storage, or sale of merchandise, or property of any kind; or for lodging or sleeping, or for any immoral or illegal purpose. Sublessee shall not install or operate any machinery or mechanical devices of a nature not directly related to Sublessee's ordinary use of the Leased Premises for general office purposes.
 16. All loading, unloading, receiving or delivery of goods, supplies or disposal of garbage or refuse shall be made only through entryways provided for such purposes by Sublessor or Landlord.
 17. All safes, freight, furniture, or other bulky matter of any description shall be carried in or out of the Leased Premises only at such times and in such manner as shall be prescribed in writing by Sublessor, and Sublessor shall in all cases have the right to specify the proper position of any such safe, furniture, or other bulky article, which shall only be used by Sublessee in a manner which will not interfere with or cause damage to the Leased Premises or the Building in which they are located, or to the other tenants or occupants of the Building. Sublessee shall be responsible for any damage to the Building or the property of its tenants or others and injuries sustained by any person whomsoever resulting from the use or moving of such articles in or out of the Leased Premises, and shall make all repairs and improvements required by Landlord, Sublessor, or governmental authorities in connection with the use or moving of such articles.
 18. Sublessee shall not bring in or allow to be kept upon the Leased Premises any inflammable, combustible or explosive fluid, chemical or substance or any article deemed extra hazardous on account of fire or other dangerous properties.
 19. Sublessee shall not employ any person to perform any cleaning, repairing, janitorial, decorating, painting, or other services or work in or about the Leased Premises, except with the approval of Sublessor or Landlord.
 20. Sublessee shall not overload any floor and shall not install any heavy objects, safes, business machines, files or other equipment without having received Sublessor's or Landlord prior written consent as to size, maximum weight, routing and location thereof. Safes, furniture, equipment, machines and other large or bulky articles shall be brought through the Building and in and out of the Leased Premises at such times and in such manner as the Sublessor or Landlord shall direct (including the designation of elevator) and at Sublessee's sole risk and responsibility. Prior to Sublessee's removal of any such articles from the Leased Premises, Sublessee shall obtain written authorization therefor at the Office of the Building and shall present such writing to a designated employee of Sublessor or Landlord.
 21. Sublessor and Landlord shall not be responsible for any lost or stolen property, equipment, money or jewelry from the Leased Premises or the public area of the Building regardless of whether such loss occurs when the Leased Premises are locked or not.
 22. The Landlord reserves the right to exclude from the Building between the hours of 6:00 o'clock p.m. and 8:00 o'clock a.m. and at all hours on Sundays and legal holidays all persons who do not present a pass to the Building signed by the Landlord. The Landlord will furnish passes to persons for whom any tenant requests same in
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writing. Each tenant shall be responsible for all persons for whom he requests such pass and shall be liable to the Sublessor or Landlord for all acts of such persons.

23. The work of the janitor or cleaning personnel shall not be hindered by Sublessee after 5:30 o'clock p.m., and the windows may be cleaned at any time. Sublessee shall provide adequate waste and rubbish receptacles to prevent unreasonable hardship to Sublessor or Landlord in discharging its obligation regarding cleaning services.

24. Sublessee will refer to the Building Manager all contractors and installation technicians rendering any service for Sublessee for supervision and approval before performance of any contractual services. Sublessee will not permit any mechanic's liens to be placed against the Leased Premises.

25. Sublessor and/or Landlord shall have the right to prohibit any advertising by any tenant which, in Sublessor's or Landlord's opinion, tends to impair the reputation of the Building or its desirability for offices, and upon written notice from Sublessor and/or Landlord, Sublessee shall refrain from or discontinue such advertising.

26. Sublessee may request heating and/or air conditioning for non-business hours by submitting a written request therefor to the Building Manager's Office no later than 2:00 o'clock p.m. the preceding workday (Monday through Friday). The request must clearly state the start and stop of the non-business hour service. Each Sublessee representative designated in the Sublease will submit to the Building Manager a list of personnel who are authorized to make such requests.

Charges, to be determined when the Building is in operation, will be fair and reasonable and reflect the additional operating costs involved and the necessity of having maintenance personnel on duty for a full shift, regardless of the actual time the equipment is in use. If two or more tenants originate similar requests, charges shall be prorated by hours of operation.

27. Tenants may park only in strict compliance with all signs posted and regulations issued by Sublessor and/or Landlord, within spaces designated for parking, and not in such a manner as to block other parking spaces, drives, loading areas or fire lanes. All subtenants hereby authorize Sublessor and/or Landlord to remove from the parking lot any improperly parked vehicle, at the Sublessee's sole risk and expense. Tenants understand that they are fully responsible for assuring that their employees, agents, licensees and visitors comply with these parking rules, will reimburse Sublessor and/or Landlord for all costs and expenses incurred in enforcing the rules and will indemnify and hold harmless Sublessor and/or Landlord from any liability to such employees and other third parties for measures taken by Sublessor and/or Landlord to enforce the rules. To facilitate security arrangements and parking controls, a list of the names of each tenant's employees working in the Building and of their vehicle license numbers will be furnished to Sublessor and/or Landlord upon request.

28. Wherever the word "Sublessee" occurs, it is understood and agreed that it shall mean Sublessee's associates, agents, clerks, servants and visitors. Wherever the word "Landlord" occurs, it is understood and agreed that it shall mean Landlord's assigns, agents, clerks, servants and visitors. Wherever the word "Sublessor" occurs, it is understood and agreed that it shall mean Sublessor's assigns, agents, clerks, servants and visitors.

**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: October 30, 2019

/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: October 30, 2019

/s/ Simon J. Leopold

Simon J. Leopold

Executive Vice President, Chief Financial Officer, and Treasurer (Principal Financial Officer and Principal Accounting 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 September 30, 2019 (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: October 30, 2019
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 September 30, 2019 (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: October 30, 2019

Simon J. Leopold

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