HFF, Inc.
Form 10-K
March 13, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**Form 10-K**

(Mark One)

| | |
|---|---|
| þ | **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**<br>**For the fiscal year ended December 31, 2008** |
| | **OR** |
| o | **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**<br>**For the transition period from to** |

**Commission file number: 001-33280**

**HFF, INC.**
*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Delaware**<br>*(State of incorporation)* | **51-0610340**<br>*(I.R.S. Employer Identification No.)* |
| **One Oxford Centre**<br><br>**301 Grant Street, Suite 600**<br>**Pittsburgh, Pennsylvania 15219**<br>*(Address of principal executive offices, including zip code)* | **(412) 281-8714**<br>*(Registrant s telephone number, including zip code)* |

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

| **Title of Each Class to be Registered** | **Name of Exchange on Which Class is to be Registered** |
|---|---|
| Class A Common Stock, par value $.01 per share | New York Stock Exchange |

**Securities registered pursuant to Section 12 (g) of the Act:**
**NONE**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by checkmark if the Registrant is not required to file report pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

**Large accelerated filer o** **Accelerated filer þ** **Non-accelerated filer o** **Smaller reporting company o**
**(Do not check if a smaller reporting company)**

Indicate by checkmark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes o No þ

As of March 6, 2009, there were 16,505,705 shares of Class A common stock, par value $0.01 per share, of the Registrant outstanding.

The aggregate market value of the Registrant s voting stock held by non-affiliates at June 30, 2008 was approximately $92.8 million, based on the closing price per share of Class A common stock on that date of $5.69 as reported on the New York Stock Exchange. Shares of common stock known by the Registrant to be beneficially owned by directors and officers of the Registrant subject to the reporting and other requirements of Section 16 of the Securities Exchange Act of 1934, are not included in the computation. The Registrant, however, has made no determination that such persons are affiliates within the meaning of Rule 12b-2 under the Securities Exchange Act of 1934.

**DOCUMENTS INCORPORATED BY REFERENCE**

Selected portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 28, 2009, are incorporated by reference into Part III of this Report.

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## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements, which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believes, expects, potential, continues, may, will, should, seeks, predicts, intends, plans, estimates, anticipates or the negative version of these words or other comparable words. forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include, but are not limited to, those described under the caption Risk Factors in this Annual Report on Form 10-K. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in Annual Report on Form 10-K. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

## SPECIAL NOTE REGARDING THE REGISTRANT

In connection with our initial public offering of our Class A common stock in February 2007, we effected a reorganization of our business, which had previously been conducted through HFF Holdings LLC ( HFF Holdings ) and certain of its wholly owned subsidiaries, including Holliday Fenoglio Fowler, L.P. and HFF Securities L.P. (together, the Operating Partnerships ) and Holliday GP Corp. ( Holliday GP ). In the reorganization, HFF, Inc., a newly-formed Delaware corporation, purchased from HFF Holdings all of the shares of Holliday GP, which is the sole general partner of each of the Operating Partnerships, and approximately 45% of the partnership units in each of the Operating Partnerships (including partnership units in the Operating Partnerships held by Holliday GP) in exchange for the net proceeds from the initial public offering and one share of Class B common stock of HFF, Inc. Following this reorganization and as of the closing of the initial public offering on February 5, 2007, HFF, Inc. is a holding company holding partnership units in the Operating Partnerships and all of the outstanding shares of Holliday GP. HFF Holdings and HFF, Inc., through their wholly-owned subsidiaries, are the only limited partners of the Operating Partnerships. We refer to these transactions collectively in this Annual Report on Form 10-K as the Reorganization Transactions. Unless we state otherwise, the information in this Annual Report on Form 10-K gives effect to these Reorganization Transactions.

Unless the context otherwise requires, references to (1) HFF Holdings refer solely to HFF Holdings LLC, a Delaware limited liability company that was previously the holding company for our consolidated subsidiaries, and not to any of its subsidiaries, (2) HFF LP refer to Holliday Fenoglio Fowler, L.P., a Texas limited partnership, (3) HFF Securities refer to HFF Securities L.P., a Delaware limited partnership and registered broker-dealer, (4) Holliday GP refer to Holliday GP Corp., a Delaware corporation and the general partner of HFF LP and HFF Securities, (5) HoldCo LLC refer to HFF Partnership Holdings LLC, a Delaware limited liability company and a wholly-owned subsidiary of HFF, Inc. and (6) Holdings Sub refer to HFF LP Acquisition LLC, a Delaware limited liability company and wholly-owned subsidiary of HFF Holdings. Our business operations are conducted by HFF LP and HFF Securities which are sometimes referred to in this Annual Report on Form 10-K as the Operating Partnerships. Also, except where specifically noted, references in this Annual Report on Form 10-K to the Company, we or us mean HFF, Inc., a Delaware corporation and its consolidated subsidiaries after giving effect to the Reorganization Transactions.

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# PART I

## Item 1. *Business*

### Overview

We are one of the leading providers of commercial real estate and capital markets services to the U.S. commercial real estate industry based on transaction volume and are one of the largest full-service commercial real estate financial intermediaries in the country. We operate out of 18 offices nationwide with approximately 163 transaction professionals and 270 support associates. In 2008, we advised on approximately $19.2 billion of completed commercial real estate transactions, a 56.0% decrease compared to the approximately $43.5 billion of completed transactions we advised on in 2007.

Our fully-integrated national capital markets platform, coupled with our knowledge of the commercial real estate markets, allows us to effectively act as a one-stop shop for our clients, providing a broad array of capital markets services including:

- Debt placement;
- Investment sales;
- Structured finance;
- Private equity, investment banking and advisory services;
- Loan sales; and
- Commercial loan servicing.

Substantially all of our revenues are in the form of capital markets services fees collected from our clients, usually negotiated on a transaction-by-transaction basis. We believe that our multiple product offerings, diverse client mix, expertise in a wide range of property types and our national platform have the potential to create a diversified revenue stream. Our revenues and net income available to common stock holders were $131.7 million and $0.2 million, respectively, for the year ended December 31, 2008, compared to $255.7 million and $12.5 million, respectively, for the year ended December 31, 2007.

We have established strong relationships with our clients. Our clients are both users of capital, such as property owners, and providers of capital, such as lenders and equity investors. Many of our clients act as both users and providers of capital in different transactions, which enables us to leverage our existing relationships and execute multiple transactions across multiple services with the same clients.

We believe we have a reputation for high ethical standards, dedicated teamwork and a strong focus on serving the interests of our clients. We take a long-term view of our business and client relationships, and our culture and philosophy are firmly centered on putting the clients interests first. Furthermore, through their ownership of HFF Holdings, approximately 40 of our senior transaction professionals in the aggregate own a majority interest in the Operating Partnerships. We believe this further aligns their individual interests with those of the Company, our clients and our stockholders.

The current situation in the global credit markets whereby many world governments (including but not limited to the U.S., where the Company transacts virtually all of its business) have had to take unprecedented and uncharted steps to support the financial institutions in their respective countries from collapse is unprecedented in the Company s history. Restrictions on the availability of capital, both debt and/or equity, have created significant reductions and could further reduce the liquidity in and flow of capital to the commercial real estate markets and could also cause commercial real estate prices to continue to decrease. In particular, global and domestic credit and liquidity issues reduced in 2008 and may continue to reduce the number of acquisitions, dispositions and loan originations, as well as the respective number of transactions and transaction volumes. This has had and may continue to have a significant adverse effect on our capital markets services revenues. Further detail regarding the effect of the current situation in the credit markets and the commercial real estate markets can be found under the

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headings Risk Factors and Management s Discussion and Analysis of Financial Conditions and Results of Operations in this Annual Report on Form 10-K.

HFF, Inc. is a Delaware corporation with its principal executive offices located at 301 Grant Street, One Oxford Centre, Suite 600, Pittsburgh, Pennsylvania, 15219, telephone number (412) 281-8714.

**Reportable Segments**

We operate in one reportable segment, the commercial real estate financial intermediary segment and offer debt placement, investment sales, loan sales, distressed debt and real estate owned advisory services, structured finance, equity placement, investment banking service and commercial loan servicing.

**Our Competitive Strengths**

We attribute our success and distinctiveness to our ability to leverage a number of key competitive strengths, including:

**People, Expertise and Culture**

We and our predecessor companies have been in the commercial real estate business for over 25 years, and our transaction professionals have significant experience and long-standing relationships with our clients. We employ approximately 163 transaction professionals with an average of nearly 17 years of commercial real estate transaction experience. The transaction history accumulated among our transaction professionals ensures a high degree of market knowledge on a macro level, intimate knowledge of local commercial real estate markets, long term relationships with the most active investors, and a comprehensive understanding of commercial real estate capital markets products. Our employees come from a wide range of real estate related backgrounds, including investment advisors and managers, investment bankers, attorneys, brokers and mortgage bankers.

Our culture is governed by our commitment to high ethical standards, putting the clients interests first and treating clients and our own associates fairly and with respect. These distinctive characteristics of our culture are highly evident in our ability to retain and attract employees. The average tenure for our senior transaction professionals is 13 years, and the average production tenure for the top 25 senior transaction professionals compiled by initial leads during the last five years was 15 years (including tenure with predecessor companies). Furthermore, many of our senior transaction professionals have a significant economic interest in our firm, which aligns their individual interests with those of the company as a whole and our clients. Through their ownership of HFF Holdings, approximately 40 senior transaction professionals own a majority interest in the Operating Partnerships which we believe continues to align their interests with the company.

**Integrated Capital Markets Services Platform**

In the competitive commercial real estate and capital markets industry, which is also now facing unprecedented capital market credit and liquidity constraints, we believe our key differentiator is our ability to analyze all commercial real estate product types and markets as well as our ability to provide clients with comprehensive analysis, advice and execution expertise on all types of debt and equity capital markets solutions. Because of our broad range of execution capabilities, our clients rely on us not only to provide capital markets alternatives but, more importantly, to advise them on how to optimize value by uncovering inefficiencies in the non-public capital markets to maximize their commercial real estate investments. Our capabilities provide our clients with the flexibility to pursue multiple capital markets options simultaneously so that, upon conclusion of our efforts, they can choose the best risk-adjusted based solution.

***Independent Objective Advice***

Unlike many of our competitors, we do not currently offer services that compete with services provided by our clients such as leasing or property management, nor do we currently engage in principal capital investing activities.

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We believe this allows us to offer independent objective advice to our clients. We believe our independence distinguishes us from our competitors, enhances our reputation in the market and allows us to retain and expand our client base.

***Extensive Cross-Selling Opportunities***

As some participants in the commercial real estate market are frequently buyers, sellers, lenders and borrowers at various times, our relationships with these participants across all aspects of their businesses provide us with multiple revenue opportunities throughout the life cycle of their commercial real estate investments. In addition, we often provide more than one service in a particular transaction, such as in an investment sale where we not only represent the seller of a commercial real estate investment but also represent the buyer in arranging acquisition financing. In 2006, 2007 and 2008, we executed multiple transactions across multiple platform services with each, 17 and 16, respectively, of our top 25 clients.

***Broad and Deep Network of Relationships***

We have developed broad and deep-standing relationships with the users and providers of capital in the industry and have completed multiple transactions for many of the top institutional commercial real estate investors in the U.S. as well as several global investors who invest in the U.S. Importantly, our transaction professionals, analysts and closing specialists foster relationships with their respective counterparts within each client s organization. This provides, in our opinion, a deeper relationship with our firm relative to our competitors. In 2007 and 2008, no one borrower or no one seller client, respectively, represented more than 5% of our total capital markets services revenues. The combined fees from our top 25 seller clients for the years 2007 and 2008, respectively, were less than 20% of our capital markets services revenues for each year, and the combined fees from our top 25 borrower clients were less than 20% of our capital markets services revenues for each year.

***Proprietary Transaction Database***

We believe that the extensive volume of commercial real estate transactions that we advise on throughout the U.S. and across multiple property types and capital markets service lines provides our transaction professionals with valuable, real-time market information. We maintain a proprietary database on numerous clients and potential clients as well as databases that track key terms and provisions of all closed and pending transactions for which we are involved as well as historic and current flows and the pricing of debt, structured finance, investment sales, loan sales and equity transactions. Included in the databases are real-time quotes and bids on pipeline transactions, status reports on all current transactions as well as historic information on clients, lenders and buyers. Furthermore, our internal databases maintain current and historical information on our loan servicing portfolio, which enables us to track real-time property level performance and market trends. These internal databases are updated regularly and are available to our transaction professionals, analysts and other internal support groups to share client contact information and real-time market information. We believe this information strengthens our competitive position by enhancing the advice we provide to clients and improving the probability of successfully closing a transaction. Our associates also understand the confidential nature of this information, and if it is misused, depending on the circumstances, it can be cause for immediate dismissal from the Company.

## Our Strategic Growth Plan

We seek to improve our market position by focusing on the following strategic growth initiatives:

***Expand Our Geographic Footprint***

We believe that opportunities exist to establish and increase our presence in several key domestic, and potentially international, markets, although until the current credit and liquidity constraints facing the commercial real estate sector abate, expansion will not be a priority. While our transactional professionals, located in 18 offices throughout the U.S., advised clients on transactions in 41 states (and the District of Columbia and Puerto Rico) and in more than 300 cities in 2008, there are a number of major metropolitan areas where we do not maintain an office, and we have no overseas offices. By comparison, a number of our large public competitors have over 100 offices worldwide. We constantly review key demand drivers of commercial real estate by market, including growth in population, households, employment, commercial real estate inventory by product type, and new construction. By doing so, we can determine not only where future strategic growth should occur, but more importantly, we can also ensure our transaction professionals are constantly calling on the most attractive markets where we do not have offices. Since 1998, we have opened offices in Washington, D.C., Los Angeles, San Francisco and Chicago. In addition, during this same period, we have significantly added to the platform services in our Boston, Miami, New York City, Washington, D.C., Los Angeles and Chicago offices.

We expect to achieve future strategic geographic expansion through a combination of recruitment of key transaction professionals, organic growth and possible acquisitions of smaller local and regional firms across all services in both new and existing markets. However, in all cases, our strategic growth will be focused on serving our clients interests and predicated on finding the most experienced professionals in the market who have the highest integrity, work ethic and reputation, while fitting into our culture and sharing our philosophy and business practices.

***Increase Market Share Across Each of our Capital Markets Services***

We believe that we have the opportunity to increase our market share in each of the various capital markets services we provide to our clients by penetrating deeper into our national, regional and local client relationships. We also intend to increase our market share by selectively hiring transaction professionals in our existing offices and in new locations, predicated on finding the most experienced professionals in the market who have the highest integrity, work ethic and reputation, while fitting into our culture and sharing our philosophy and business practices. For example, since 1998, in addition to opening offices in Washington, D.C., Los Angeles, San Francisco and Chicago, we have significantly added to the platform services in our Boston, Miami, New York City, Washington, D.C., Los Angeles and Chicago offices.

*Debt Placement.* Our transaction volume in debt placements was approximately $11.8 billion and $23.5 billion in 2008 and 2007, respectively. According to the Mortgage Bankers Association s Commercial Real Estate/Multifamily Finance: Annual Origination Volume Summation report, debt issuances in 2007 and 2006 were $508 billion and $406 billion, respectively.

*Investment Sales.* In 2008, we completed investment sales of approximately $5.5 billion, a decrease of approximately 68.1% from the approximately $17.1 billion completed in 2007. According to Real Capital Analytics, commercial real estate sales volume for office, industrial, multifamily and retail properties in the U.S. in 2008 and 2007 were $141 billion and $502 billion, respectively.

*Structured Finance and Advisory Services.* In 2008 and 2007, we completed approximately $850 million and $2.3 billion, respectively, of structured finance and advisory services transactions (which includes amounts that we internally allocate to the structured finance reporting category, even though the transaction may have been funded through a single mortgage note) for our clients.

*Private Equity and Investment Banking Services.* Our broker-dealer subsidiary, HFF Securities, undertakes both discretionary and non-discretionary private equity raises, select property specific joint ventures, and select investment banking activities for our clients. At December 31, 2008 and 2007, we had $1.5 billion and $2.0 billion of active private equity discretionary fund transactions on which HFF Securities was engaged and may recognize additional future revenue.

*Loan Sales.* Since formalizing our loan sales platform in 2004, we have consummated approximately $2.4 billion in loan sales transactions, with $1.1 billion consummated in 2008 alone. We see growth in this market due to the desire of lenders seeking to diversify concentration risk (geographic, borrower or product type), manage potential problems in their loan portfolios or sell loans rejected from Commercial Mortgage Backed Securities ( CMBS ) securitization pools.

*Loan servicing.* The principal balance of HFF s loan servicing portfolio increased approximately 5.6% from approximately $23.2 billion at December 31, 2007, to over $24.5 billion at December 31, 2008. We have approximately 38 formal correspondent lender relationships with life insurers.

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***Continue to Capitalize on Cross-Selling Opportunities***

Participants in the commercial real estate market increasingly are buyers, sellers, lenders and borrowers at various times. We believe our relationships with these participants across all aspects of their businesses provide us with multiple revenue opportunities throughout the lifecycle of their commercial real estate investments. Many of our clients are both users and providers of capital. Our clients typically execute transactions throughout the U.S. utilizing the wide spectrum of our services. By maintaining close relationships with these clients, we intend to continue to generate significant repeat business across all of our business lines.

Our debt transaction professionals originated approximately $2.1 billion and $0.8 billion of debt for clients that purchased properties sold by our investment sales professionals for their clients in 2008 and 2007, respectively. Our investment sales professionals also referred clients to our debt transaction professionals who arranged debt financings totaling approximately $0.6 billion and $1.8 billion in 2008 and 2007, respectively. Our debt transaction professionals also referred clients to our investment sales transaction professionals who sold approximately $0.9 billion and $9.2 billion of properties in 2008 and 2007, respectively. Also, from its inception in 2004 through December 31, 2008, our subsidiary HFF Securities originated debt volumes of approximately $658 million, in addition to its other equity placement activities.

## Our Services

***Debt Placement Services***

We offer our clients a complete range of debt instruments, including but not limited to construction and construction/mini-permanent loans, adjustable and fixed rate mortgages, entity level debt, mezzanine debt, forward delivery loans, tax exempt financing and sale/leaseback financing.

Our clients are owners of various types of property, including, but not limited to, office, retail, industrial, hotel, multi-family, self-storage, assisted living, nursing homes, condominium conversions, mixed-use properties and land. Our clients range in size from individual entrepreneurs who own a single property to the largest real estate funds and institutional property owners throughout the world who invest in the United States. Debt is or has been placed with major capital funding sources, both domestic and foreign, including but not limited to life insurance companies, conduits, investment banks, commercial banks, thrifts, agency lenders, pension funds, pension fund advisors, REITs, credit companies, opportunity funds and individual investors.

***Investment Sales Services***

We provide investment sales services to commercial real estate owners who are seeking to sell one or more properties or property interests. We seek to maximize proceeds and certainty of closure for our clients through our knowledge of the commercial real estate and capital markets, our extensive database of potential buyers, with whom we have deep and long-standing relationships, and our experienced transaction professionals. Real time data on comparable transactions, recent financings of similar assets and market trends, enable our transaction professionals to better advise our clients on valuation and certainty of execution based on a prospective buyer s proposed capital structure.

***Structured Finance Services***

We offer a wide array of structured finance alternatives and solutions at both the property and ownership entity level. This allows us to provide financing alternatives at every level of the capital structure, including but not limited to mezzanine and equity, thereby providing potential buyers and existing owners with the highest appropriate leverage at the lowest blended cost of capital to purchase properties or recapitalize existing ones versus an out-right sale alternative. By focusing on the inefficiencies in the structured finance capital markets, such as mezzanine, preferred equity, participating and/or convertible debt structures, pay and accrual debt structures, pre-sales, stand-by commitments and bridge loans, we are able to access capital for properties in transition, predevelopment and development loans and/or joint ventures and/or structured transactions, which provide maximum flexibility for our clients.

***Private Equity, Investment Banking and Advisory Services***

Through HFF Securities, our licensed broker-dealer subsidiary, we offer our clients the ability to access the private equity markets for an identified commercial real estate asset and discretionary private equity funds, joint ventures, entity-level private placements, and advisory services. HFF Securities services to its clients can include:

*Joint Ventures.* Equity capital for our commercial real estate clients to establish joint ventures relating to either identified properties or properties to be acquired by a fund sponsor. These joint ventures typically involve the acquisition, development, recapitalization or restructuring of multi-asset commercial real estate portfolios, and include a variety of property types and geographic areas.

*Private Placements.* Private placements of common, perpetual preferred and convertible preferred securities. Issuances can involve primary or secondary shares that may be publicly registered, listed and traded.

*Advisory Services.* Entity-level advisory services for various types of transactions including mergers and acquisition, sales and divestitures, management buyouts, and recapitalizations and restructurings.

*Marketing and Fund-Raising.* Institutional marketing and fund-raising for public and private commercial real estate companies, with a focus on opportunity and value-added commercial real estate funds. In this capacity, we undertake private equity raises, both discretionary and non-discretionary, and offer advisory services.

***Loan Sales***

We assist our clients in their efforts to sell all or portions of their commercial real estate debt note portfolios which can include performing, non-performing and distressed debt and/or real estate owned properties. We are actively marketing our loan sales to our clients.

***Commercial Loan Servicing***

We provide commercial loan servicing (primary and sub-servicing) for life insurance companies, Federal Home Loan Mortgage Corporation ( Freddie Mac ), commercial mortgage backed securities ( CMBS ) originators, groups that purchase performing and/or non-performing loans as well as owners who sell commercial real estate subject to a purchase money mortgage. Our servicing platform, experienced personnel and hands-on service allow us to maintain close contact with both borrowers and lenders. As a result, we are often the first point of contact in connection with refinancing, restructuring or sale of commercial real estate assets. Revenue is earned primarily from servicing fees charged to the lender, as well as from investment income earned on escrow balances.

To avoid potential conflicts, our transaction professionals do not directly share in servicing revenue, eliminating conflicts which can occur with serviced versus non-serviced lenders. However, throughout the servicing life of a loan, the transaction professional who originated the loan usually remains the main contact for both the borrower and lender, or the master and/or special servicer, as the case may be, to assist our servicing group with annual inspections, operating statement reviews and other major servicing issues affecting a property or properties.

**Competition**

The commercial real estate services industry, and all of the services that we provide, are highly competitive, and we expect them to remain so. We compete on a national, regional and local basis as well as on a number of other critical factors, including but not limited to the quality of our people and client service, historical track record and expertise and range of services and execution skills, absence of conflicts and business reputation. Depending on the product or service, we face competition from other commercial real estate service providers, institutional lenders, insurance companies, investment banking firms, investment managers and accounting firms, some of which may have greater financial resources than we do. Consistently, the top competitors we face on national, regional and local levels include, but are not limited to, CBRE Capital Markets, Cushman & Wakefield, Eastdil Secured, Jones Lang LaSalle, Northmarq Capital (Marquette) and CapMark. There are numerous other local and regional competitors in each of the local markets where we are located as well as the markets in which we do business.

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Competition to attract and retain qualified employees is also intense in each of the capital markets services we provide our clients. We compete by offering a competitive compensation package to our transaction professionals and our other associates as well as equity-based incentives for key associates who lead our efforts in terms of running our offices or leading our efforts in each of our capital markets services. Our ability to continue to compete effectively will depend upon our ability to retain and motivate our existing transaction professionals and other key associates as well as our ability to attract new ones, all predicated on finding the most experienced professionals in the market who have the highest integrity, work ethic and reputation, while fitting into our culture and sharing our philosophy and business practices.

**Regulation**

Our U.S. broker-dealer subsidiary, HFF Securities, is subject to regulation. HFF Securities is currently registered as a broker-dealer with the Securities and Exchange Commission ( SEC ) and the Financial Industry Regulatory Authority (FINRA). HFF Securities is registered as a broker dealer in 19 states. HFF Securities is subject to regulations governing effectively every aspect of the securities business, including the effecting of securities transactions, minimum capital requirements, record-keeping and reporting procedures, relationships with customers, experience and training requirements for certain employees and business procedures with firms that are not subject to regulatory controls. Violation of applicable regulations can result in the revocation of broker-dealer licenses, the imposition of censures or fines and the suspension, expulsion or other disciplining of a firm, its officers or employees.

Our broker-dealer subsidiary is also subject to the SEC s uniform net capital rule, Rule 15c3-1, and the net capital rules of the NYSE and the FINRA, which may limit our ability to make withdrawals of capital from our broker-dealer subsidiary. The uniform net capital rule sets the minimum level of net capital a broker-dealer must maintain and also requires that a portion of its assets be relatively liquid. The NYSE and the FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below its requirements. In addition, our broker-dealer subsidiary is subject to certain notification requirements related to withdrawals of excess net capital. The USA Patriot Act of 2001 has also imposed new obligations regarding the prevention and detection of money-laundering activities, including the establishment of customer due diligence and other compliance policies and procedures. Additional obligations under the USA Patriot Act regarding procedures for customer verification became effective on October 1, 2003. Failure to comply with these requirements may result in monetary, regulatory and, in the case of the USA Patriot Act, criminal penalties.

HFF LP is licensed (in some cases, through our employees or its general partner) as a mortgage broker and a real estate broker in multiple jurisdictions. Generally we are licensed in each state where we have an office as well as where we frequently do business.

**Seasonality**

Our capital markets services revenue is seasonal. Historically, this seasonality has caused our revenue, operating income, net income and cash flows from operating activities to be lower in the first six months of the year and higher in the second half of the year. The concentration of earnings and cash flows in the last six months of the year was due to an industry-wide focus of clients to complete transactions towards the end of the calendar year. Given the recent and current disruptions facing all global capital markets, and in particular the U.S. commercial real estate markets, this historical pattern of seasonality may or may not continue. For example, the seasonality described above did not occur in 2007 or 2008.

**Employees**

Our total employment was 433 employees as of December 31, 2008, which represents a 7.9% decrease from the December 31, 2007 total employment of 470 employees.

**History**

We have grown through the combination of several prominent commercial real estate brokerage firms. Our namesake dates back to Holliday Fenoglio & Company, which was founded in Houston in 1982. Although our predecessor companies date back to the 1970s, our recent history began in 1994 when Holliday Fenoglio Dockerty & Gibson, Inc. was purchased by AMRESCO, Inc. to create Holliday Fenoglio Inc. In 1998, Holliday Fenoglio acquired Fowler Goedecke Ellis & O Connor, to create Holliday Fenoglio Fowler, L.P. Later that year Holliday Fenoglio Fowler, L.P. acquired PNS Realty Partners, LP and Vanguard Mortgage.

In March 2000, AMRESCO sold selected assets including portions of its commercial mortgage banking businesses, Holliday Fenoglio Fowler, L.P., to Lend Lease (US) Inc., the U.S. subsidiary of the Australian real estate services company. In June 2003, HFF Holdings completed an agreement for a management buyout from Lend Lease. In April 2004, we established our broker-dealer subsidiary, HFF Securities L.P.

As previously discussed, in connection with our initial public offering of our Class A common stock in February 2007, we effected a reorganization of our business. As a result of this reorganization and as of the closing of the initial public offering on February 5, 2007, HFF, Inc. is a holding company holding partnership units in the Operating Partnerships and all of the outstanding shares of Holliday GP. HFF Holdings and HFF, Inc., through their wholly-owned subsidiaries, are the only limited partners of the Operating Partnerships.

**Available Information**

Our internet website address is www.hfflp.com. The information on our internet website is not incorporated by reference in this Annual Report on Form 10-K. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, ownership reports for insiders and any amendments to these reports filed or furnished with the SEC pursuant to Section 13(a) and 15(a) of the Securities Exchange Act of 1934, as amended, are available free of charge through our internet website as soon as reasonably practicable after filing with the SEC. Additionally, we make available free of charge on our internet website:

our Code of Conduct and Ethics;

the charter of the Nominating and Corporate Governing Committee of our Board of Directors;

the charter of the Compensation Committee of our Board of Directors;

the charter of the Audit Committee of our Board of Directors; and

our Corporate Governance Guidelines.

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

Investing in our securities involves a high degree of risk. You should consider carefully the following risk factors and the other information in this Annual Report on Form 10-K, including our consolidated financial statements and related notes, before making any investment decisions regarding our securities. If any of the following risks actually occur, our business, financial condition and operating results could be adversely affected. As a result, the trading price of our securities could decline and you may lose part or all of your investment.

**Risks Related to Our Business**

***General economic conditions and commercial real estate market conditions, both globally and domestically, have had and may in the future have a negative impact on our business.***

We have experienced, in 2008 and previous years, are currently experiencing and expect in the future to be negatively impacted by, periods of economic slowdowns, recessions and disruptions in the capital markets, credit and liquidity issues in the global and domestic capital markets, including international, national, regional and local markets, and corresponding declines in the demand for commercial real estate and related services, within one or more of the markets in which we operate. Historically, commercial real estate markets, and in particular the U.S. commercial real estate market, have tended to be cyclical and related to the condition of the economy as a whole and to the perceptions of the market participants as to the relevant economic outlook. Negative economic conditions, changes in interest rates, credit and liquidity issues in the global and domestic capital markets, disruptions in capital markets, such as the conditions we are currently operating in and/or declines in the demand for commercial real estate and related services in international or domestic markets or in significant markets in which we do business are having and could have in the future a material adverse effect on our business, results of operations and/or financial condition, including as a result of the following factors.

For example:

Slowdowns in economic activity could cause tenant demand for space to decline, which would adversely affect the operation and income of commercial real estate properties and thereby affect investor demand and the supply of capital for debt and equity investments in commercial real estate.

Declines in the regional or local demand for commercial real estate, or significant disruptions in other segments of the real estate market, could adversely affect our results of operations. During 2008, approximately 24.7%, 7.1% and 9.9% of our capital markets services revenues was derived from transactions involving commercial real estate located in Texas, California and the region consisting of the District of Columbia, Maryland and Virginia, respectively. As a result, a significant portion of our business is dependent on the economic conditions in general and the markets for commercial real estate in these areas, which, like other commercial real estate markets, have experienced price volatility or economic downturns in the past.

Global and domestic credit and liquidity issues, significant fluctuations in interest rates as well as steady and protracted increases or decreases of interest rates could adversely affect the operation and income of commercial real estate properties as well as the demand from investors for commercial real estate investments. Both of these events could adversely affect investor demand and the supply of capital for debt and equity investments in commercial real estate. In particular, the lack of debt and/or equity for commercial real estate transactions and the resulting global re-pricing of debt and equity risk, and/or increased interest rates may reduce the number of acquisitions, dispositions and loan originations, as well as the respective transaction volumes, which could also adversely affect our servicing revenue. All of the above could cause prices to decrease due to the reduced amount of financing available as well as the increased cost of obtaining financing and could lead to a decrease in purchase and sale activity.

Significant disruptions or changes in capital market flows, as well as credit and liquidity issues in the global and domestic capital markets, regardless of their duration, could adversely affect the supply and/or demand for capital from investors for commercial real estate investments. For example, beginning in the second half of 2007 and continuing to the present time, the well-publicized disruptions and dislocations in the global credit markets have created significant restrictions in the availability of credit. In turn, the volume and pace of commercial real estate transactions have been significantly reduced during this period and commercial real estate prices have declined in many countries, including the U.S. Changes in the perception that commercial real estate is an accepted asset class for portfolio diversification could result in a significant reduction in the amount of debt and equity capital available in the commercial real estate sector.

As is currently the case, these and other types of events could lead to a further decline in transaction activity as well as a decrease in values, which would likely lead to a reduction in fees and commissions relating to such transactions, as well as a significant reduction in our loan servicing activities as a result of increased delinquencies and the lack of additional loans that we would have otherwise added to our servicing portfolio. These effects would likely cause us to realize lower revenues from our transaction service fees, including debt placement fees and investment sales commissions, which fees usually are tied to the transaction value and are payable upon the successful completion of a particular transaction, and from our loan servicing revenues due to reduced financing and refinancing transactions as well as higher delinquencies and defaults on the loans that we service. For example, the revenues we generated from capital markets services in 2008 declined approximately 49.7% from 2007, largely due to disruptions in the U.S. credit markets and commercial real estate markets.

In addition, cyclicality in the commercial real estate markets may result in cyclicality in our results of operation as well as significant volatility in the market price of our Class A common stock. Similar to other providers of commercial real estate and capital markets services, together with the substantial drop in our transaction volumes the stock price of our Class A common stock declined significantly in 2008 and may continue to decline in the future.

***Our business has been, is currently being, and may continue to be, adversely affected by recent restrictions in the availability of debt and/or equity capital as well as the lack of adequate credit and the risk of continued deterioration of the debt and/or credit markets and commercial real estate markets.***

Restrictions on the availability of capital, both debt and/or equity, can create significant reductions in the liquidity and flow of capital to the commercial real estate markets. Recent well-documented and publicized and severe restrictions in debt and/or equity liquidity as well as the lack of the availability of credit in the markets we service have significantly reduced the volume and pace of commercial real estate transactions compared with past periods. These restrictions also have had a general negative effect upon commercial real estate prices themselves. Our business of providing commercial real estate and capital markets services to our clients, who are both users and providers of capital, is particularly sensitive to the volume of activity and pricing in the commercial real estate market. In particular, global and domestic credit and liquidity issues reduced the number of acquisitions, dispositions and loan originations in 2008 which may continue into the future, as well as the respective number of transactions and transaction volumes. This has had and may continue to have a significant adverse effect on our capital markets services revenues.

Although we now expect this situation to continue and possibly deteriorate for some time before it begins to improve we cannot predict with any degree of certainty the magnitude or duration of the current developments in the credit markets and/or commercial real estate markets as it is inherently difficult to make accurate predictions with respect to such macroeconomic movements that are beyond our control. This uncertainty limits our ability to plan for future developments. In addition, the uncertainty regarding the magnitude and duration of current market conditions may limit the ability of other participants in the credit markets and/or commercial real estate markets to plan for the future. As a result, market participants may act more conservatively than in recent history, which may perpetuate and amplify the adverse developments in the markets we service. While business opportunities may emerge from assisting clients with transactions relating to distressed commercial real estate assets, there can be no assurance that the volume of such transactions will be sufficient to meaningfully offset the substantial decline in transaction volumes within the overall commercial real estate market.

***If we are unable to retain and attract qualified and experienced transaction professionals and associates, our growth may be limited and our business and operating results could suffer.***

Our most important asset is our people, and our continued success is highly dependent upon the efforts of our transaction professionals and other associates, including our analysts and production coordinators as well as our key servicing and company overhead support associates. Our transaction professionals generate a significant majority of our revenues. If any of these key transaction professionals or other important associates leave, or if we lose a significant number of transaction professionals, or if we are unable to attract other qualified transaction professionals, our business, financial condition and results of operations may suffer. We have experienced in the past, and expect to experience in the future, the negative impact of the inability to retain and attract associates, analysts and experienced transaction professionals. Additionally, such events may have a disproportionate adverse effect on our operations if the senior most experienced transaction professionals do not remain with us or if these events occur in geographic areas where substantial amounts of our capital markets services revenues are generated. Moreover, because a significant portion of the compensation paid to our transaction professionals consists of commissions, in general our transaction professionals receive significantly less compensation at times when we have substantial declines in our capital markets services revenues, as is currently the case, and may therefore have less incentive to remain with the Company during such challenging periods.

We may also face additional retention pressures as a result of reductions, as compared to prior to our initial public offering, in distributions from HFF Holdings to approximately 40 of our most valuable transaction professionals who are the members of HFF Holdings. Even if we are able to retain them, we may not be able to retain them at compensation levels that will allow us to achieve our target ratio of compensation expense-to-operating revenue. We intend to use a combination of cash compensation, equity, equity-based incentives and other employee benefits rather than solely cash compensation to motivate and retain our transaction professionals. Our compensation mechanisms as a public company may not be effective, especially if the market price of our Class A common stock continues to decline as it has during 2008.

In addition, our competitors may attempt to recruit our transaction professionals. The employment arrangements, non-competition agreements and retention agreements we have entered into with respect to the members of HFF Holdings or may enter into with our key associates may not prevent our transaction professionals and other key associates from resigning or competing against us. Any such arrangements and agreements will expire after a certain period of time, at which point each such person would be free to compete against us and solicit our clients and employees. We currently do not have employments agreements with certain key associates and there is no assurance that we will be able to retain their services. Moreover, because a significant portion of the compensation paid to our transaction professionals consists of commissions, in general our transaction professionals receive significantly less compensation at times when we have substantial declines in our capital markets services revenues, as is currently the case, and may therefore have less incentive to remain with the Company during such challenging periods.

A significant component of our growth has also occurred through the recruiting, hiring and retention of key experienced transaction professionals. Any future growth through recruiting these type of professionals will be partially dependent upon the continued availability of attractive candidates fitting the culture of our firm at advantageous employment terms and conditions. However, individuals whom we would like to hire may not be available upon advantageous employment terms and conditions. In addition, the hiring of new personnel involves risks that the persons acquired will not perform in accordance with expectations and that business judgments concerning the value, strengths and weaknesses of persons acquired will prove incorrect.

***The deteriorating business of certain of our clients could adversely affect our results of operation and financial condition.***

We could be adversely affected by the actions and deteriorating financial condition and results of operations of certain of our clients. Our clients are both users of capital, such as property owners, and providers of capital, such as lenders and equity investors. Defaults or non-performance by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity crises and could lead to losses or defaults by one or more of our clients, which, in turn, could have a material adverse effect on our results of operations and financial condition. In addition, a client may fail to make payments when due, become insolvent or declare bankruptcy. Any client bankruptcy or insolvency or the failure of any client to make payments when due could result in material losses to our company. In particular, if any of our significant clients becomes insolvent or suffers a downturn in its business, it may seriously harm our business. While in 2007 and 2008 no one borrower or no one seller client, respectively, represented more than 5% of our total capital markets services revenues, bankruptcy filings by or relating to one of our clients could delay or bar us from collecting pre-bankruptcy debts from that client.

***Additional indebtedness or an inability to draw on our existing revolving credit facility or otherwise obtain indebtedness may make us more vulnerable to economic downturns and limit our ability to withstand competitive pressures.***

We may be required to draw on our existing line of credit or obtain additional financing to fund our on-going capital needs as well as to fund our working capital needs. Any additional indebtedness that we are able to incur will make us more vulnerable to economic downturns and limit our ability to withstand competitive pressures. In addition, an inability to maintain and comply with the terms of our existing line of credit or to obtain additional indebtedness will also make us more vulnerable to economic downturns and limit our ability to withstand competitive pressures.

Our current $40 million revolving credit facility imposes certain operating and financial conditions on us that, in certain instances, could result in a reduction of availability under our line of credit or an event of default. In the case of an event of default, Bank of America may terminate the credit facility and, if any borrowings are outstanding, declare such borrowings due and payable. As discussed further under the caption Management s Discussion and Analysis of

Financial Condition and Results of Operations in this Annual Report on Form 10-K, Availability, which determines the total amount of the line of credit available to us at a specific time, is defined under the Amended Credit Agreement as three times the difference between Consolidated EBITDA, as defined therein, and Consolidated Fixed Charges, as defined therein. As of December 31, 2008, based on our Availability,

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we have $25.1 million of the $40.0 million undrawn line of credit available to us under our revolving credit facility. In addition, the financial covenants under the Amended Credit Agreement currently require us to maintain a maximum leverage ratio of Consolidated Funded Indebtedness to Consolidated EBITDA, each as defined therein, and a minimum fixed charge coverage ratio of Consolidated EBITDA to Consolidated Fixed Charges, each as defined therein. Our ability to meet these requirements and financial ratios can be affected by events beyond our control, and we can make no assurances that we will be able to continue to satisfy such requirements or ratios when required in the future. In particular, if current conditions in the credit market and commercial real estate market continue or worsen, we may no longer have any availability under our credit facility and/or be in compliance with the financial covenants under our credit facility. As a result, we may no longer be able to borrow any funds under this facility s line of credit. In addition, we cannot make any assurances that we would be able to negotiate a waiver or amendment to our current facility or enter into a replacement line of credit on acceptable terms or at all.

The level of our indebtedness or inability to obtain the same level could have important consequences, including:

- a substantial portion of our cash flow from operations may be dedicated to debt service and may not be available for other purposes;

- our cash flow from operations may be insufficient to fund our business operations and our inability to obtain financing will make it more difficult to fund our operations;

&nbsponcontrolliing
interests
(14,030
)

(11,585
)
Comprehensive income attributable to Taubman Centers, Inc.
$
30,274

$
23,622

Basic earnings per common share (Note 11)
$
0.44

$
0.30

Diluted earnings per common share (Note 11)
$
0.43

$
0.30

Cash dividends declared per common share
$
0.5000

$
0.4625

Weighted average number of common shares outstanding – basic
63,415,922

58,247,148

See notes to consolidated financial statements.

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TAUBMAN CENTERS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
THREE MONTHS ENDED MARCH 31, 2013 AND 2012
(in thousands, except share data)

| | Taubman Centers, Inc. Shareowners' Equity | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Preferred Stock | | Common Stock | | | | | | |
| | Shares | Amount | Shares | Amount | Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Dividends in Excess of Net Income | Non-Redeemable Noncontrolling Interests | Total Equity |
| Balance, January 1, 2012 | 33,941,958 | $ 26 | 58,022,475 | $ 580 | $ 673,923 | $ (27,613 ) | $ (863,040 ) | $ (124,324 ) | $ (340,448 ) |
| Share-based compensation under employee and director benefit plans (Note 9) | | | 705,452 | 7 | (7,725 ) | | | | (7,718 ) |
| Tax impact of share-based compensation (Note 3) | | | | | 190 | | | | 190 |
| Adjustments of noncontrolling interests (Note 7) | (1,900 ) | | | | (381 ) | 8 | | 294 | (79 ) |
| Dividend equivalents (Note 9) | | | | | | | (33 ) | | (33 ) |
| Dividends and distributions (excludes $611 of distributions attributable to redeemable noncontrolling interests) (Note 7) | | | | | | | (31,206 ) | (15,518 ) | (46,724 ) |
| Net income (excludes $924 of net loss attributable to redeemable noncontrolling interests) (Note 7) | | | | | | | 21,592 | 11,509 | 33,101 |
| Other comprehensive income (Note 8): | | | | | | | | | |
| Unrealized gain on interest rate | | | | | | 1,861 | | 879 | 2,740 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| instruments and other (excludes $45 of other comprehensive loss attributable to redeemable noncontrolling interests) (Note 7) | | | | | | | | | |
| Reclassification adjustment for amounts recognized in net income | | | | | | 169 | | 76 | 245 |
| Balance, March 31, 2012 | 33,940,058 | $26 | 58,727,927 | $587 | $666,007 | $(25,575) | $(872,687) | $(127,084) | $(358,726) |
| Balance, January 1, 2013 | 33,027,699 | $25 | 63,310,148 | $633 | $657,071 | $(22,064) | $(891,283) | $(89,308) | $(344,926) |
| Issuance of stock pursuant to Continuing Offer (Notes 9 and 10) | (10,801) | | 10,801 | | | | | | |
| Issuance of Series K Preferred Stock, net of offering costs (Note 6) | 6,800,000 | | | | 164,389 | | | | 164,389 |
| Share-based compensation under employee and director benefit plans (Note 9) | | | 357,022 | 4 | 603 | | | | 607 |
| Tax impact of share-based compensation (Note 3) | | | | | 80 | | | | 80 |
| Adjustments of noncontrolling interests (Note 7) | | | | | (55) | 4 | | 51 | — |
| Contributions from noncontrolling interests | | | | | | | | 1,049 | 1,049 |
| Dividend equivalents (Note 9) | | | | | | | (41) | | (41) |
| Dividends and distributions | | | | | | | (35,908) | (14,000) | (49,908) |
| Net income | | | | | | | 31,786 | 14,570 | 46,356 |
| Other comprehensive | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| income (Note 13): | | | | | | | | | |
| Unrealized gain on interest rate instruments and other | | | | | | 289 | | 143 | 432 |
| Cumulative translation adjustment | | | | | | (2,043 ) | | (816 ) | (2,859 ) |
| Reclassification adjustment for amounts recognized in net income | | | | | | 242 | | 133 | 375 |
| Balance, March 31, 2013 | 39,816,898 | $ 25 | 63,677,971 | $ 637 | $ 822,088 | $ (23,572 ) | $ (895,446 ) | $ (88,178 ) | $ (184,446 ) |

See notes to consolidated financial statements.

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

| | Three Months Ended March 31 | |
|---|---|---|
| | 2013 | 2012 |
| Cash Flows From Operating Activities: | | |
| Net income | $46,356 | $32,177 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 37,022 | 36,434 |
| Provision for bad debts | 1,051 | 130 |
| Gain on sale of peripheral land | (863) | |
| Gain on sale of marketable securities (Note 12) | (1,323) | |
| Other | 3,616 | 3,788 |
| Increase (decrease) in cash attributable to changes in assets and liabilities: | | |
| Receivables, restricted cash, deferred charges, and other assets | 8,036 | 1,194 |
| Accounts payable and other liabilities | (3,710) | (13,031) |
| Net Cash Provided By Operating Activities | $90,185 | $60,692 |
| | | |
| Cash Flows From Investing Activities: | | |
| Additions to properties | $(59,378) | $(93,681) |
| Proceeds from sale of peripheral land | 6,916 | |
| Proceeds from sale of marketable securities (Note 12) | 2,493 | |
| Repayments of notes receivable | 166 | 523 |
| Collection and release of TCBL related proceeds (Note 2) | 12,903 | |
| Release of restricted cash | | 289,389 |
| Contributions to Unconsolidated Joint Ventures | (29) | (225) |
| Investments in Asia Unconsolidated Joint Ventures (Note 2) | (2,835) | |
| Distributions from Unconsolidated Joint Ventures in excess of income | 2,865 | 3,554 |
| Net Cash Provided By (Used In) Investing Activities | $(36,899) | $199,560 |
| | | |
| Cash Flows From Financing Activities: | | |
| Debt proceeds | $98,571 | $85,955 |
| Debt payments | (216,543) | (3,592) |
| Repayment of installment notes | | (281,467) |
| Debt issuance costs | (6,408) | |
| Issuance of common stock and/or partnership units in connection with incentive plans | (3,357) | (10,885) |
| Issuance of Series K Preferred Stock, net of offering costs | 164,389 | |
| Distributions to noncontrolling interests | (14,000) | (16,129) |
| Distributions to participating securities of TRG | (442) | (403) |
| Contributions from noncontrolling interests | 1,049 | 230 |
| Cash dividends to preferred shareowners | (3,128) | (3,658) |
| Cash dividends to common shareowners | (31,744) | (27,145) |
| Other | | (90) |
| Net Cash Used In Financing Activities | $(11,613) | $(257,184) |
| | | |
| Net Increase In Cash and Cash Equivalents | $41,673 | $3,068 |
| | | |
| Cash and Cash Equivalents at Beginning of Period | 32,057 | 24,033 |

| | | |
|---|---|---|
| Cash and Cash Equivalents at End of Period | $73,730 | $27,101 |

See notes to consolidated financial statements.

Note 1 - Interim Financial Statements

General

Taubman Centers, Inc. (the Company or TCO) is a Michigan corporation that operates as a self-administered and self-managed real estate investment trust (REIT). The Taubman Realty Group Limited Partnership (the Operating Partnership or TRG) is a majority-owned partnership subsidiary of TCO that owns direct or indirect interests in all of the Company's real estate properties. In this report, the term "Company" refers to TCO, the Operating Partnership, and/or the Operating Partnership's subsidiaries as the context may require. The Company engages in the ownership, management, leasing, acquisition, disposition, development, and expansion of regional and super-regional retail shopping centers and interests therein. The Company's owned portfolio as of March 31, 2013 included 24 urban and suburban shopping centers in 12 states.

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

The unaudited interim financial statements should be read in conjunction with the audited financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial statements for the interim periods have been made. The results of interim periods are not necessarily indicative of the results for a full year.

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

Consolidation

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

Investments in entities not controlled but over which the Company may exercise significant influence (Unconsolidated Joint Ventures or UJVs) are accounted for under the equity method. The Company has evaluated its investments in the Unconsolidated Joint Ventures under guidance for determining whether an entity is a variable interest entity and has concluded that the ventures are not variable interest entities. Accordingly, the Company accounts for its interests in these entities under general accounting standards for investments in real estate ventures (including guidance for determining effective control of a limited partnership or similar entity). The Company's partners or other owners in these Unconsolidated Joint Ventures have substantive participating rights including approval rights over annual operating budgets, capital spending, financing, admission of new partners/members, or sale of the properties and the Company has concluded that the equity method of accounting is appropriate for these interests. Specifically, the Company's 79% investment in Westfarms is through a general partnership in which the other general partners have approval rights over annual operating budgets, capital spending, refinancing, or sale of the property.

Ownership

In addition to the Company’s common stock, there are three classes of preferred stock outstanding (Series B, J and K) as of March 31, 2013. 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 day of each calendar quarter. The Company owns corresponding Series J and Series K Preferred Equity interests in the Operating Partnership that entitle the Company to income and distributions (in the form of guaranteed payments) in amounts equal to the dividends payable on the Company’s Series J and Series K Preferred Stock. See "Note 6 - Equity Transactions" for further details on the issuance of Series K Preferred Stock.

TAUBMAN CENTERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Outstanding voting securities of the Company at March 31, 2013 consisted of 25,316,898 shares of Series B Preferred Stock and 63,677,971 shares of common stock.

The Operating Partnership

At March 31, 2013, the Operating Partnership's equity included two classes of preferred equity (Series J and K) and the net equity of the partnership unitholders. Net income and distributions of the Operating Partnership are allocable first to the preferred equity interests, and the remaining amounts to the general and limited partners in the Operating Partnership in accordance with their percentage ownership. The Series J and Series K Preferred Equity are owned by the Company and are eliminated in consolidation.

The Company's ownership in the Operating Partnership at March 31, 2013 consisted of a 72% managing general partnership interest, as well as the Series J and Series K Preferred Equity interests. The Company's average ownership percentage in the Operating Partnership for the three months ended March 31, 2013 and 2012 was 71% and 69%, respectively. At March 31, 2013, the Operating Partnership had 89,013,319 partnership units outstanding, of which the Company owned 63,677,971 units.

Note 2 - Acquisitions, Dispositions, and Development

Acquisitions

International Plaza

In December 2012, the Company acquired an additional 49.9% interest in International Plaza from CSAT, LP, which increased its ownership in the center to 100%.

Waterside Shops

In December 2012, the Company acquired an additional 25% interest in Waterside Shops, which brought the Company's ownership interest in the center to 50%. After the acquisition, the Company continues to recognize its investment in Waterside Shops in Investment in Unconsolidated Joint Ventures on the Consolidated Balance Sheet. The Company's share of the difference between the purchase price and the net book value of the additional interest in the Unconsolidated Joint Venture was estimated to be $52.7 million, which has been preliminarily allocated to land, buildings, improvements, and equipment. In addition, beneficial interest in debt was increased by a $3.9 million purchase accounting premium to record the debt at fair value. The premium is being amortized as a reduction to interest expense over the remaining term of the debt and had a balance of $3.7 million as of March 31, 2013.

Development

The Mall at University Town Center

The Mall at University Town Center, a 0.9 million square foot center, is under construction in Sarasota, Florida. The Company is funding its 50% share of the project. The center will be anchored by Saks Fifth Avenue, Macy's, and Dillard's and is expected to open in October 2014. As of March 31, 2013, the Company has invested $14.1 million in the project.

The Mall of San Juan

The Mall of San Juan, a 0.7 million square foot center, is under construction in San Juan, Puerto Rico. In 2012, the Company closed on the purchase of the land and owns 80% of the project. The center will be anchored by Nordstrom and Saks Fifth Avenue and is expected to open in March 2015. As of March 31, 2013, the Company has capitalized costs of $58.8 million ($46.7 million at TRG's share).

Taubman Prestige Outlets Chesterfield

Taubman Prestige Outlets Chesterfield, an outlet project in Chesterfield, Missouri, is under construction. The Company has a 90% ownership interest in the project and expects to open the 0.3 million square foot first phase of this project in August 2013. As of March 31, 2013, the Company has capitalized costs of $69.9 million ($63.1 million at TRG's share).

Asia

Hanam Union Square

The Company has partnered with Shinsegae Group, South Korea's largest retailer, to build an approximately 1.7 million square foot shopping mall in Hanam, Gyeonggi Province, South Korea. In 2012, upon completion of due diligence, the Company confirmed its 30% interest in the development, which is scheduled to open in 2016. As of March 31, 2013, the Company has invested $76.7 million in the project, including cumulative currency translation adjustments. This investment is classified within Investment in Unconsolidated Joint Ventures on the Consolidated Balance Sheet.

Retail component of Xi'an Saigao City Plaza

In 2012, the Company entered into a joint venture with Beijing Wangfujing Department Store (Group) Co., Ltd, one of China's largest department store chains. The joint venture will own a 60% controlling interest in and manage an approximately 1.0 million square foot shopping center to be located at Xi'an Saigao City Plaza, a large-scale mixed-use development in Xi'an, China. Through this joint venture, the Company will beneficially own a 30% interest in the shopping center, which is scheduled to open in 2015. As of March 31, 2013, the Company has invested $50.9 million in the project, including cumulative currency translation adjustments. This investment is classified within Investment in Unconsolidated Joint Ventures on the Consolidated Balance Sheet.

Zhengzhou Vancouver Times Square

In 2013, the Company entered into a joint venture with Beijing Wangfujing Department Store (Group) Co., Ltd. The joint venture will own a majority interest in and manage an approximately 1.0 million square foot multi-level shopping center to be located in Zhengzhou, China. Through this joint venture, the Company will beneficially own a 32% interest in the shopping center, which is scheduled to open in 2015. As of March 31, 2013, the Company has invested $0.7 million in the project, which is classified within Investment in Unconsolidated Joint Ventures on the Consolidated Balance Sheet.

Dispositions

TCBL

In 2012, the Company sold assets of the Taubman TCBL business. In connection with the sale, the Company received cash of approximately $4.4 million, while the remaining consideration consisted of approximately $3.6 million held in an escrow account that was pending receipt of consideration in an equivalent amount of Chinese Renminbi, a note receivable of approximately $8.5 million, and other receivables of approximately $0.8 million. In 2013, the Company collected this remaining consideration from the sale. As of December 31, 2012, the cash held in escrow was included within Deferred Charges and Other Assets on the Consolidated Balance Sheet and the note receivable and other receivables were included within Accounts and Notes Receivable on the Consolidated Balance Sheet.

Peripheral Land Sale - Non-Cash Investing Activity

In 2013, the Company recognized a $0.9 million gain on the sale of peripheral land. In connection with this sale, the Company received a $7.4 million note as part of the purchase price consideration. The note, which bears interest at 1% during the first year and 7% in the second year, is due in February 2015 and is collateralized by the land.

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Note 3 - Income Taxes

Income Tax Expense

The Company’s income tax expense for the three months ended March 31, 2013 and 2012 is as follows:

| | 2013 | 2012 |
|---|---|---|
| State current | $156 | $43 |
| State deferred | — | (4) |
| Federal current | 152 | 203 |
| Federal deferred | 366 | (34) |
| Foreign current | 400 | 6 |
| Foreign deferred | (46) | — |
| Total income tax expense | $1,028 | $214 |

Deferred Taxes

Deferred tax assets and liabilities as of March 31, 2013 and December 31, 2012 are as follows:

| | 2013 | 2012 |
|---|---|---|
| Deferred tax assets: | | |
| Federal | $3,018 | $3,378 |
| Foreign | 1,332 | 1,090 |
| State | 209 | 182 |
| Total deferred tax assets | $4,559 | $4,650 |
| Valuation allowances | (1,206) | (991) |
| Net deferred tax assets | $3,353 | $3,659 |
| Deferred tax liabilities: | | |
| Federal | $608 | $609 |
| Foreign | 403 | 401 |
| State | 119 | 107 |
| Total deferred tax liabilities | $1,130 | $1,117 |

The Company believes that it is more likely than not 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.

The Company realized a tax benefit as additional paid-in capital relating to the redemption of certain share-based compensation awards of $0.1 million and $0.2 million during the three months ended March 31, 2013 and 2012, respectively.  This benefit represents the amount of reduced Federal income tax attributed to the tax deduction that exceeds the recognized deferred tax asset relating to the awards, which was based on their cumulative book compensation cost. This excess tax deduction is due to changes in the fair value of the Company's shares between the grant date (the measurement date for book purposes) and the exercise date (the measurement date for tax purposes) of the awards.

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Note 4 - Investments in Unconsolidated Joint Ventures

General Information

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

| Shopping Center | Ownership as of March 31, 2013 and December 31, 2012 |
|---|---|
| Arizona Mills | 50% |
| Fair Oaks | 50 |
| Hanam Union Square (under development) | Note 2 |
| The Mall at Millenia | 50 |
| Stamford Town Center | 50 |
| Sunvalley | 50 |
| Waterside Shops | 50 |
| Westfarms | 79 |
| Retail component of Xi'an Saigao City Plaza (under development) | Note 2 |
| Zhengzhou Vancouver Times Square (under development) | Note 2 |

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

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

The estimated fair value of the Unconsolidated Joint Ventures' notes payable was $1.5 billion at March 31, 2013 and December 31, 2012. The methodology for determining this fair value is consistent with that used for determining the fair value of consolidated mortgage notes payable (Note 12).

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Combined Financial Information

Combined balance sheet and results of operations information is presented in the following table for the Unconsolidated Joint Ventures, followed by the Operating Partnership's beneficial interest in the combined operations information. The combined information of the Unconsolidated Joint Ventures as of March 31, 2013 excludes the balances of Hanam Union Square, the retail component of Xi'an Saigao City Plaza, and Zhengzhou Vancouver Times Square, which are currently under development (Note 2). Beneficial interest is calculated based on the Operating Partnership's ownership interest in each of the Unconsolidated Joint Ventures.

| | March 31 2013 | December 31 2012 |
|---|---|---|
| Assets: | | |
| Properties | $1,126,845 | $1,129,647 |
| Accumulated depreciation and amortization | (475,936) | (473,101) |
| | $650,909 | $656,546 |
| Cash and cash equivalents | 20,597 | 30,070 |
| Accounts and notes receivable, less allowance for doubtful accounts of $1,276 and $1,072 in 2013 and 2012 | 24,702 | 26,032 |
| Deferred charges and other assets | 32,715 | 31,282 |
| | $728,923 | $743,930 |
| | | |
| Liabilities and accumulated deficiency in assets: | | |
| Mortgage notes payable | $1,488,062 | $1,490,857 |
| Accounts payable and other liabilities | 58,227 | 68,282 |
| TRG's accumulated deficiency in assets | (471,220) | (470,411) |
| Unconsolidated Joint Venture Partners' accumulated deficiency in assets | (346,146) | (344,798) |
| | $728,923 | $743,930 |
| | | |
| TRG's accumulated deficiency in assets (above) | $(471,220) | $(470,411) |
| TRG's investment in property under development (Note 2) | 128,255 | 128,279 |
| TRG basis adjustments, including elimination of intercompany profit | 113,249 | 114,136 |
| TCO's additional basis | 58,368 | 58,855 |
| Net investment in Unconsolidated Joint Ventures | $(171,348) | $(169,141) |
| Distributions in excess of investments in and net income of Unconsolidated Joint Ventures | 384,223 | 383,293 |
| Investment in Unconsolidated Joint Ventures | $212,875 | $214,152 |

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| | Three Months Ended March 31 | |
|---|---|---|
| | 2013 | 2012 |
| Revenues | $67,551 | $65,310 |
| Maintenance, taxes, utilities, promotion, and other operating expenses | $21,491 | $20,222 |
| Interest expense | 17,197 | 15,667 |
| Depreciation and amortization | 9,319 | 8,274 |
| Total operating costs | $48,007 | $44,163 |
| Nonoperating income | 8 | 8 |
| Net income | $19,552 | $21,155 |
| | | |
| Net income attributable to TRG | $10,946 | $12,004 |
| Realized intercompany profit, net of depreciation on TRG’s basis adjustments | (113) | 384 |
| Depreciation of TCO's additional basis | (487) | (487) |
| Equity in income of Unconsolidated Joint Ventures | $10,346 | $11,901 |
| | | |
| Beneficial interest in Unconsolidated Joint Ventures’ operations: | | |
| Revenues less maintenance, taxes, utilities, promotion, and other operating expenses | $26,031 | $25,106 |
| Interest expense | (9,376) | (8,094) |
| Depreciation and amortization | (6,309) | (5,111) |
| Equity in income of Unconsolidated Joint Ventures | $10,346 | $11,901 |

Note 5 - Beneficial Interest in Debt and Interest Expense

The Operating Partnership's beneficial interest in the debt, capitalized interest, and interest expense of its consolidated subsidiaries and its Unconsolidated Joint Ventures is summarized in the following table. The Operating Partnership's beneficial interest in the consolidated subsidiaries excludes debt and interest related to the noncontrolling interests in Cherry Creek Shopping Center (50%), International Plaza (49.9%) in 2012 (Note 2), The Mall at Wellington Green (10%), and MacArthur Center (5%).

| | At 100% | | At Beneficial Interest | |
|---|---|---|---|---|
| | Consolidated Subsidiaries | Unconsolidated Joint Ventures | Consolidated Subsidiaries | Unconsolidated Joint Ventures |
| Debt as of: | | | | |
| March 31, 2013 | $2,832,385 | $1,488,062 | $2,665,873 | $839,329 |
| December 31, 2012 | 2,952,030 | 1,490,857 | 2,785,501 | 841,363 |
| | | | | |
| Capitalized interest: | | | | |
| Three Months Ended March 31, 2013 | $3,027 (1) | $6 | $2,929 | $3 |
| Three Months Ended March 31, 2012 | 8 | | 8 | |
| | | | | |
| Interest expense: | | | | |
| Three Months Ended March 31, 2013 | $34,452 | $17,197 | $32,289 | $9,376 |
| Three Months Ended March 31, 2012 | 37,527 | 15,667 | 33,321 | 8,094 |

(1)

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

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2013 Financings

In February 2013, the Company refinanced its primary revolving line of credit. The new facility increased the borrowing capacity from a $650 million secured facility to a $1.1 billion unsecured line, which includes an accordion feature that would increase the borrowing capacity to as much as $1.5 billion, if fully exercised. The new line matures in March 2017 with a one-year extension option. The new facility bears interest at a range based on the Company's total leverage ratio. As of March 31, 2013, the leverage ratio results in a rate of LIBOR plus 1.45%, down from LIBOR plus 1.75% on the previous facility. TRG is the direct borrower with the entities that own Dolphin Mall, Fairlane Town Center, Twelve Oaks Mall, and The Shops at Willow Bend as guarantors under the line. Unamortized deferred financing costs of $1 million were written off in connection with the refinancing and recognized within interest expense.

In January 2013, a 10-year, $225 million non-recourse refinancing was completed on Great Lakes Crossing Outlets. The payments on the loan, which bears interest at an all-in rate of 3.63%, are based on amortizing principal over 30 years. The existing $126 million, 5.25% fixed rate loan, which was scheduled to mature in March 2013, was paid off and the approximately $100 million of excess proceeds were used to pay down the revolving lines of credit.

Debt Covenants

Certain loan agreements contain various restrictive covenants, including the following corporate covenants on the Company's primary revolving line of credit: a minimum net worth requirement, a maximum total leverage ratio, a maximum secured leverage ratio, a minimum fixed charge coverage ratio, a maximum recourse secured debt ratio, and a maximum payout ratio. In addition, the Company's primary revolving line of credit has unencumbered pool covenants, which currently apply to Dolphin Mall, Fairlane Town Center, Twelve Oaks Mall and The Shops at Willow Bend 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. The corporate maximum secured leverage ratio is the most restrictive covenant for the Company's primary revolving line of credit. The Company is in compliance with all of its covenants and loan obligations as of March 31, 2013. The maximum payout ratio covenant limits the payment of distributions generally to 95% of funds from operations, as defined in the loan agreements, except as required to maintain the Company's tax status, pay preferred distributions, and for distributions related to the sale of certain assets.

The Company is required to escrow cash balances for specific uses stipulated by certain of its lenders. As of March 31, 2013 and December 31, 2012, the Company’s cash balances restricted for these uses were $5.2 million and $6.1 million, respectively.

Note 6 - Equity Transactions

In March 2013, the Company issued 6,800,000 shares of 6.25% Series K Preferred Stock. Net proceeds from the offering were$164.4 million, net of offering costs of $5.6 million. The Series K Preferred Stock has no stated maturity, sinking fund, or mandatory redemption requirements and generally is not convertible into any other security of the Company. The Series K Preferred Stock has a liquidation preference of $170.0 million ($25 per share). Dividends are cumulative and are paid in arrears on the last day of each calendar quarter, beginning June 28, 2013 for the period from and including March 15, 2013 to June 30, 2013. The Series K Preferred Stock will be redeemable by the Company at par, $25 per share, plus accrued dividends, generally beginning in March 2018. The Company owns corresponding Series K Preferred Equity interests in the Operating Partnership that entitle the Company to income and distributions (in the form of guaranteed payments) in amounts equal to the dividends payable on the Company's Series K Preferred Stock. The Series K Preferred Stock is generally non-voting. The Company's Series K Preferred Stock will rank on parity with its Series J Preferred Stock with respect to the payment of dividends and distributions of assets upon liquidation, dissolution or winding up of its affairs.

Note 7 - Noncontrolling Interests

Redeemable Noncontrolling Interests

The Company's president of Taubman Asia (the Asia President) has an ownership interest in Taubman Asia, a consolidated subsidiary. The Asia President is entitled to 10% of Taubman Asia's dividends, with 85% of his dividends being withheld as contributions to capital. These withholdings will continue until he contributes and maintains his capital consistent with a 10% ownership interest, including all capital funded by the Operating Partnership for Taubman Asia's operating and investment activities subsequent to the Asia President obtaining his ownership interest. The Operating Partnership will have a preferred investment in Taubman Asia to the extent the Asia President has not yet contributed capital commensurate with his ownership interest. This preferred investment will accrue an annual preferential return equal to the Operating Partnership's average borrowing rate (with the preferred investment and accrued return together being referred to herein as the preferred interest). Taubman Asia has the ability to call, and the Asia President has the ability to put, the Asia President’s ownership interest upon specified terminations of the Asia President’s employment, although such put or call right may not be exercised for specified time periods after certain termination events. The redemption price for the ownership interest is generally a nominal amount through 2013 and subsequently 50% (increasing to 100% as early as May 2015) of the fair value of the ownership interest less the amount required to return the Operating Partnership's preferred interest. The Company has determined that the Asia President's ownership interest in Taubman Asia qualifies as an equity award, considering its specific redemption provisions, and accounts for it as a contingently redeemable noncontrolling interest, with a carrying value of zero at March 31, 2013 and December 31, 2012. Any adjustments to the redemption value are recorded through equity.

The Company owns a 90% controlling interest in a joint venture that is focusing on developing and owning outlet shopping centers. The amount of capital that the 10% joint venture partner is required to contribute is capped. The Company will have a preferred investment to the extent it contributes capital in excess of the amount commensurate with its ownership interest. The Company has the right to purchase the joint venture partner's entire interest and the joint venture partner has the right to require the Company to purchase the joint venture partner's entire interest. Additionally, the parties each have a one-time put and/or call on the joint venture partner’s interest in any stabilized centers, while still maintaining the ongoing joint venture relationship. The purchase price of the joint venture partner's interest will be based on fair value. Considering the redemption provisions, the Company accounts for the joint venture partner’s interest as a contingently redeemable noncontrolling interest with a carrying value of zero at March 31, 2013 and December 31, 2012. Any adjustments to the redemption value are recorded through equity.

Equity Balances of Nonredeemable Noncontrolling Interests

The net equity balance of the noncontrolling interests as of March 31, 2013 and December 31, 2012 includes the following:

| | 2013 | 2012 |
|---|---|---|
| Non-redeemable noncontrolling interests: | | |
| Noncontrolling interests in consolidated joint ventures | $(42,308) | $(45,066) |
| Noncontrolling interests in partnership equity of TRG | (45,870) | (44,242) |
| | $(88,178) | $(89,308) |

Income Allocable to Noncontrolling Interests

Net income attributable to the noncontrolling interests for the three months ended March 31, 2013 and March 31, 2012 includes the following:

| | 2013 | 2012 |
|---|---|---|
| Net income attributable to noncontrolling interests: | | |
| Non-redeemable noncontrolling interests: | | |
| Noncontrolling share of income of consolidated joint ventures | $2,782 | $3,194 |
| Noncontrolling share of income of TRG | 11,788 | 8,315 |
| | $14,570 | $11,509 |
| Redeemable noncontrolling interests | | (924) |
| | $14,570 | $10,585 |

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Equity Transactions

The following schedule presents the effects of changes in Taubman Centers, Inc.'s ownership interest in consolidated subsidiaries on Taubman Centers, Inc.'s equity for the three months ended March 31, 2013 and March 31, 2012:

| | 2013 | 2012 |
|---|---|---|
| Net income attributable to Taubman Centers, Inc. common shareowners | $27,744 | $17,531 |
| Transfers (to) from the noncontrolling interest – | | |
| Decrease in Taubman Centers, Inc.'s paid-in capital for the adjustments of noncontrolling interest (1) | (55) | (381) |
| Net transfers (to) from noncontrolling interests | (55) | (381) |
| Change from net income attributable to Taubman Centers, Inc. and transfers (to) from noncontrolling interests | $27,689 | $17,150 |

(1) In 2013 and 2012, adjustments of the noncontrolling interest were made as a result of changes in the Company's ownership of the Operating Partnership in connection with the Company's share-based compensation under employee and director benefit plans (Note 9), issuances of stock pursuant to the Continuing Offer (Note 10), and redemptions of certain redeemable Operating Partnership Units.

Finite Life Entities

Accounting Standards Codification 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 March 31, 2013, the Company held a controlling interest in a consolidated entity with a specified termination date in 2083. The noncontrolling owner's 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 $361 million at March 31, 2013, compared to a book value of $(44.0) million that is classified in Noncontrolling Interests in the Company's Consolidated Balance Sheet. The fair value of the noncontrolling interest was calculated as the noncontrolling interest's ownership share of the underlying property's fair value. The property's fair value was estimated by considering its in-place net operating income, current market capitalization rate, and mortgage debt outstanding.

Note 8 - Derivative and Hedging Activities

Risk Management Objective and Strategies for Using Derivatives

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

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

As of March 31, 2013, the Company had the following outstanding interest rate derivatives that were designated and are expected to be effective as cash flow hedges of the interest payments on the associated debt.

| Instrument Type | Ownership | | Notional Amount | Swap Rate | | Credit Spread on Loan | | Total Swapped Rate on Loan | | Maturity Date |
|---|---|---|---|---|---|---|---|---|---|---|
| Consolidated Subsidiary: | | | | | | | | | | |
| Receive variable (LIBOR) /pay-fixed swap (1) | 95.0 | % | $130,235 | 2.64 | % | 2.35 | % | 4.99 | % | September 2020 |
| Unconsolidated Joint Ventures: | | | | | | | | | | |
| Receive variable (LIBOR) /pay-fixed swap (2) | 50.0 | % | 137,500 | 2.40 | % | 1.70 | % | 4.10 | % | April 2018 |
| Receive variable (LIBOR) /pay-fixed swap (2) | 50.0 | % | 137,500 | 2.40 | % | 1.70 | % | 4.10 | % | April 2018 |

(1) The notional amount of the swap is equal to the outstanding principal balance on the loan.
(2) The notional amount on each of these swaps is equal to 50% of the outstanding principal balance on the loan, which begins amortizing in August 2014.

Cash Flow Hedges of Interest Rate Risk

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

Amounts reported in AOCI related to currently outstanding derivatives are recognized as an adjustment to income as interest payments are made on the Company's variable-rate debt. Realized gains or losses on settled derivative instruments included in AOCI are recognized as an adjustment to income over the term of the hedged debt transaction.

The Company expects that approximately $6.6 million of the AOCI of Taubman Centers, Inc. and the noncontrolling interests will be reclassified from AOCI and recognized as a reduction of income in the following 12 months.

As of March 31, 2013, the Company had $0.5 million of net realized losses included in AOCI resulting from settled derivative instruments, which were designated as cash flow hedges that are being recognized as a reduction of income over the term of the hedged debt.

The following tables present the effect of derivative instruments on the Company's Consolidated Statement of Operations and Comprehensive Income for the three months ended March 31, 2013 and March 31, 2012. The tables include the location and amount of unrealized gains and losses on outstanding derivative instruments in cash flow hedging relationships and the location and amount of realized losses reclassified from AOCI into income resulting from settled derivative instruments associated with hedged debt.

During the three months ended March 31, 2013 and March 31, 2012, the Company did not have any hedge ineffectiveness or amounts that were excluded from the assessment of hedge effectiveness recorded in earnings.

| | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) Three Months Ended March 31 | | Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) Three Months Ended March 31 | |
|---|---|---|---|---|---|
| | 2013 | 2012 | | 2013 | 2012 |
| Derivatives in cash flow hedging relationships: | | | | | |
| Interest rate contract – consolidated subsidiary | $1,281 | $1,732 | Interest Expense | $(793) | $(784) |
| Interest rate contracts – UJVs | 652 | 848 | Equity in Income of UJVs | (754) | (910) |
| Total derivatives in cash flow hedging relationships | $1,933 | $2,580 | | $(1,547) | $(1,694) |
| Realized losses on settled cash flow hedges: | | | | | |
| Interest rate contract – consolidated subsidiary | | | Interest Expense | $(151) | $(151) |
| Interest rate contract – UJVs | | | Equity in Income of UJVs | — | (94) |
| Total realized losses on settled cash flow hedges | | | | $(151) | $(245) |

The Company records all derivative instruments at fair value in the Consolidated Balance Sheet. The following table presents the location and fair value of the Company's derivative financial instruments as reported in the Consolidated Balance Sheet as of March 31, 2013 and December 31, 2012.

| | Consolidated Balance Sheet Location | Fair Value March 31 2013 | December 31 2012 |
|---|---|---|---|
| Derivatives designated as hedging instruments: | | | |
| Liability derivatives: | | | |
| Interest rate contract – consolidated subsidiaries | Accounts Payable and Accrued Liabilities | $(10,584) | $(11,865) |
| Interest rate contracts – UJVs | Investment in UJVs | (10,369) | (11,021) |
| | | $(20,953) | $(22,886) |

Total liabilities designated as hedging instruments

Contingent Features

All of the Company's outstanding derivatives contain provisions that state if the hedged entity defaults on any of its indebtedness in excess of $1 million, then the derivative obligation could also be declared in default. As of March 31, 2013, the Company is not in default on any debt obligations that would trigger a credit risk related default on its current outstanding derivatives.

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As of March 31, 2013 and December 31, 2012, the fair value of derivative instruments with credit-risk-related contingent features that are in a liability position was $21.0 million and $22.9 million, respectively. As of March 31, 2013 and December 31, 2012, the Company was not required to post any collateral related to these agreements. If the Company breached any of these provisions it would be required to settle its obligations under the agreements at their fair value. See Note 12 for fair value information on derivatives.

Note 9 - Share-Based Compensation

The Taubman Company 2008 Omnibus Long-Term Incentive Plan (2008 Omnibus Plan), as amended, which is shareowner approved, provides for the award to directors, officers, employees, and other service providers of the Company of restricted shares, restricted units of limited partnership in the Operating Partnership, options to purchase shares or Operating Partnership units, unrestricted shares or Operating Partnership units, and other awards to acquire up to an aggregate of 8.5 million Company common shares or Operating Partnership units. In addition, non-employee directors have the option to defer their compensation, other than their meeting fees, under a deferred compensation plan.

Non-option awards granted after an amendment of the 2008 Omnibus Plan in 2010 are deducted at a ratio of 1.85 Company common shares or Operating Partnership units, while non-option awards granted prior to the amendment are deducted at a ratio of 2.85. Options are deducted on a one-for-one basis. The amount available for future grants is adjusted when the number of contingently issuable shares or units are settled, for grants that are forfeited, and for options that expire without being exercised.

Prior to the adoption of the 2008 Omnibus Plan, the Company provided share-based compensation through an incentive option plan and non-employee directors' stock grant and deferred compensation plans.

The compensation cost charged to income for the Company’s share-based compensation plans was $3.5 million and $2.9 million for the three months ended March 31, 2013 and 2012, respectively. Compensation cost capitalized as part of properties and deferred leasing costs was $0.4 million and $0.3 million for the three months ended March 31, 2013 and 2012, respectively.

The Company estimated the grant-date fair values of options, performance share units, and restricted share units using the methods discussed in the separate sections below for each type of grant. Expected volatility and dividend yields are based on historical volatility and yields of the Company’s common stock, respectively, as well as other factors. The risk-free interest rates used are based on the U.S. Treasury yield curves in effect at the times of grants. The Company assumes no forfeitures of options or performance share units due to the small number of participants and low turnover rate.

Options

A summary of option activity for the three months ended March 31, 2013 is presented below:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Range of Exercise Prices | | |
|---|---|---|---|---|---|---|
| Outstanding at January 1, 2013 | 689,802 | $42.50 | 3.8 | $13.83 | - | $55.90 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Exercised | (84,225 | ) | 33.92 | | | |
| Outstanding at March 31, 2013 | 605,577 | | $43.70 | 3.4 | $29.38 | - $55.90 |
| Fully vested options at March 31, 2013 | 605,577 | | $43.70 | 3.4 | | |

The aggregate intrinsic value (the difference between the period end stock price and the option exercise price) of in-the-money options outstanding and in-the-money fully vested options was $20.6 million as of March 31, 2013.

The total intrinsic value of options exercised during the three months ended March 31, 2013 and 2012 was $3.6 million and $2.3 million, respectively. Cash received from option exercises for the three months ended March 31, 2013 and 2012 was $2.9 million and $2.1 million, respectively.

As of March 31, 2013, all options outstanding were fully vested, and there was no unrecognized compensation cost related to options.

Under both the prior option plan and the 2008 Omnibus Plan, vested unit options can be exercised by tendering mature units with a market value equal to the exercise price of the unit options. In 2002, Robert S. Taubman, the Company’s chief executive officer, exercised options for 3.0 million units by tendering 2.1 million mature units and deferring receipt of 0.9 million units under the unit option deferral election. As the Operating Partnership pays distributions, the deferred option units receive their proportionate share of the distributions in the form of cash payments. Under an amendment executed in January 2011, beginning in December 2017 (unless Mr. Taubman retires earlier), the deferred partnership units will be issued in ten annual installments. The deferred units are accounted for as participating securities of the Operating Partnership.

Performance Share Units

In March 2013, the Company granted Performance Share Units (PSU) under the 2008 Omnibus Plan. Each PSU represents the right to receive, upon vesting, shares of the Company’s common stock ranging from 0-300% of the PSU based on the Company’s market performance relative to that of a peer group. The units vest in March 2016 if continuous service has been provided, or upon retirement or certain other events (such as death or disability) if earlier. No dividends accumulate during the vesting period.

The Company estimated the value of the PSU granted using a Monte Carlo simulation, considering the Company’s common stock price at the grant date less the present value of the expected dividends during the vesting period, historical returns of the Company and the peer group of companies, a risk-free interest rate of 0.40% and a measurement period of three years. The resulting weighted average grant-date fair value was $102.29 per PSU.

In March 2013, the Company also granted a limited number of additional PSU that represents the right to receive, upon vesting, shares of the Company’s common stock ranging from 0-400% of the PSU based on the Company’s market performance relative to that of a peer group. The units vest in March 2017, if continuous service has been provided, or upon certain other events (such as death or disability) if earlier. No dividends accumulate during the vesting period. The Company estimated the value of these PSU considering the valuation of other similar PSU. The resulting weighted average grant-date fair value was $218.61 per PSU.

A summary of PSU activity for the three months ended March 31, 2013 is presented below:

| | Number of Performance Share Units | | Weighted Average Grant Date Fair Value |
|---|---|---|---|
| Outstanding at January 1, 2013 | 262,740 | | $122.52 |
| Vested | (73,259 | ) (1) | 65.29 |
| Granted (three-year vesting) | 37,630 | | 102.29 |
| Granted (four-year vesting) | 5,050 | | 218.61 |
| Outstanding at March 31, 2013 | 232,161 | | $139.38 |

(1) Based on the Company's market performance relative to that of a peer group, the actual number of shares of common stock issued upon vesting during the three months ended March 31, 2013 equaled 300% of the number of PSU awards vested in the table above.

None of the PSU outstanding at March 31, 2013 were vested. As of March 31, 2013, there was $24.2 million of total unrecognized compensation cost related to nonvested PSU outstanding. This cost is expected to be recognized over an average period of 3.3 years.

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Restricted Share Units

In March 2013, Restricted Share Units (RSU) were issued under the 2008 Omnibus Plan and represent the right to receive upon vesting one share of the Company’s common stock. The units vest in March 2016, if continuous service has been provided through that period, or upon retirement or certain other events if earlier. No dividends accumulate during the vesting period.

The Company estimated the values of the RSU granted in March 2013 using the Company’s common stock at the grant dates deducting the present value of expected dividends during the vesting period using a risk-free rate of 0.40%. The result of the Company’s valuation was a weighted average grant-date fair value of $71.27 per RSU.

A summary of RSU activity for the three months ended March 31, 2013 is presented below:

| | Number of Restricted Share Units | Weighted Average Grant Date Fair Value |
|---|---|---|
| Outstanding at January 1, 2013 | 322,305 | $48.19 |
| Vested | (136,221) | 37.03 |
| Granted | 86,620 | 71.27 |
| Outstanding at March 31, 2013 | 272,704 | $61.09 |

None of the RSU outstanding at March 31, 2013 were vested. As of March 31, 2013, there was $10.6 million of total unrecognized compensation cost related to nonvested RSU outstanding. This cost is expected to be recognized over an average period of 2.3 years.

Note 10 - Commitments and Contingencies

Cash Tender

At the time of the Company's initial public offering and acquisition of its partnership interest in the Operating Partnership in 1992, the Company entered into an agreement (the Cash Tender Agreement) with A. Alfred Taubman, who owns an interest in the Operating Partnership, whereby he has the annual right to tender to the Company partnership units in the Operating Partnership (provided that the aggregate value is at least $50 million) and cause the Company to purchase the tendered interests at a purchase price based on a market valuation of the Company on the trading date immediately preceding the date of the tender. At A. Alfred Taubman's election, his family may participate in tenders. The Company will have the option to pay for these interests from available cash, borrowed funds, or from the proceeds of an offering of the Company's common stock. Generally, the Company expects to finance these purchases through the sale of new shares of its stock. The tendering partner will bear all market risk if the market price at closing is less than the purchase price and will bear the costs of sale. Any proceeds of the offering in excess of the purchase price will be for the sole benefit of the Company. The Company accounts for the Cash Tender Agreement between the Company and Mr. Taubman as a freestanding written put option. As the option put price is defined by the current market price of the Company's 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 March 31, 2013 of $77.66 per common share, the aggregate value of interests in the Operating Partnership that may be tendered under the Cash Tender Agreement was $1.9 billion. The purchase of these interests at March 31, 2013 would have resulted in the Company owning an additional 27% interest in the Operating Partnership.

Continuing Offer

The Company has made a continuing, irrevocable offer to all present holders (other than certain excluded holders, including A. Alfred Taubman), permitted assignees of all present holders, those future holders of partnership interests in the Operating Partnership as the Company may, in its sole discretion, agree to include in the continuing offer, all existing optionees under the previous option plan, and all existing and future optionees under the 2008 Omnibus Plan to exchange shares of common stock for partnership interests in the Operating Partnership (the Continuing Offer). Under the Continuing Offer agreement, one unit of the Operating Partnership interest is exchangeable for one share of the Company's common stock. Upon a tender of Operating Partnership units, the corresponding shares of Series B Preferred Stock, if any, will automatically be converted into the Company’s common stock at a ratio of 14,000 shares of Series B Preferred Stock for one share of common stock.

Litigation

In April 2009, two restaurant owners, their two restaurants, and their principal filed a lawsuit in United States District Court for the Eastern District of Pennsylvania (Case No. April 2009) against Atlantic Pier Associates LLC ("APA", the then owner of the leasehold interest in The Pier Shops), the Operating Partnership, Taubman Centers, Inc., the owners of APA and certain affiliates of such owners, three individuals affiliated with, or at one time employed by an affiliate of one of the owners, and, subsequently added the Manager as a defendant. The plaintiffs are alleging the defendants misrepresented and concealed the status of certain tenant leases at The Pier Shops and that such status was relied upon by the plaintiffs in making decisions about their own leases. The plaintiffs are seeking damages exceeding $20 million, rescission of their leases, exemplary or punitive damages, costs and expenses, attorney's fees, return of certain rent, and other relief as the court may determine. The claims against the Operating Partnership, Taubman Centers, Inc., the Manager, other Taubman defendants, and one of the owners were dismissed in July 2011, but, in August 2011, the restaurant owners reinstated the same claims in a state court action that was then removed to the United States District Court for the Eastern District of Pennsylvania (Case No. 11-CV-05676). The defendants are vigorously defending the action. The outcome of this lawsuit cannot be predicted with any certainty and management is currently unable to estimate a range of potential loss that could result if an unfavorable outcome occurs. While management does not believe that an adverse outcome in this lawsuit would have a material adverse effect on the Company's financial condition, there can be no assurance that an adverse outcome would not have a material effect on the Company's results of operations for any particular period.

Other

See Note 7 for contingent features relating to certain joint venture agreements, Note 8 for contingent features relating to derivative instruments, and Note 9 for obligations under existing share-based compensation plans.

Note 11 - Earnings Per Share

Basic earnings per share amounts are based on the weighted average of common shares outstanding for the respective periods. Diluted earnings per 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 partnership units exchangeable for common shares under the Continuing Offer (Note 10), outstanding options for partnership units, PSU, RSU, deferred shares under the Non-Employee Directors' Deferred Compensation Plan, and unissued partnership units under a unit option deferral election (Note 9). In computing the potentially dilutive effect of potential common stock, partnership 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 partnership 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 EPS based on the number of shares, if any, that would be issuable if the end of the reporting period were the end of the contingency period.

| | Three Months Ended March 31 | |
|---|---|---|
| | 2013 | 2012 |
| Net income attributable to Taubman Centers, Inc. common shareowners (Numerator): | | |
| Basic | $27,744 | $17,531 |
| Impact of additional ownership of TRG | 152 | 168 |
| Diluted | $27,896 | $17,699 |

| | | |
|---|---|---|
| Shares (Denominator) – basic | 63,415,922 | 58,247,148 |
| Effect of dilutive securities | 1,154,890 | 1,660,712 |
| Shares (Denominator) – diluted | 64,570,812 | 59,907,860 |
| | | |
| Earnings per common share - basic | $0.44 | $0.30 |
| Earnings per common share – diluted | $0.43 | $0.30 |

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

| | Three Months Ended March 31 | |
|---|---|---|
| | 2013 | 2012 |
| Weighted average noncontrolling partnership units outstanding | 4,658,409 | 7,449,132 |
| Unissued partnership units under unit option deferral elections | 871,262 | 871,262 |

Note 12 - Fair Value Disclosures

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

Recurring Valuations

Derivative Instruments

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

Marketable Securities

The Company's valuations of marketable securities, which were considered to be available-for-sale, and an insurance deposit utilize unadjusted quoted prices determined by active markets for the specific securities the Company has invested in, and therefore fall into Level 1 of the fair value hierarchy.

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

| | Fair Value Measurements as of March 31, 2013 Using | | Fair Value Measurements as of December 31, 2012 Using | |
|---|---|---|---|---|
| Description | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs (Level 2) | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs (Level 2) |

| | | | | |
|---|---|---|---|---|
| | (Level 1) | | (Level 1) | |
| Available-for-sale securities | | | $2,452 | |
| Insurance deposit | $11,303 | | 11,291 | |
| Total assets | $11,303 | | $13,743 | |
| Derivative interest rate contracts | | $(10,584) | | $(11,865) |
| Total liabilities | | $(10,584) | | $(11,865) |

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

The available-for-sale securities shown above consisted of marketable securities that represented shares in a Vanguard REIT fund that were purchased to facilitate a tax efficient structure for the 2005 disposition of Woodland mall and were classified within Deferred Charges and Other Assets on the Consolidated Balance Sheet as of December 31, 2012. In January 2013, these securities were sold for $2.5 million, resulting in a $1.3 million realized gain.

Financial Instruments Carried at Other Than Fair Values

Community Development District Obligation

The owner of one shopping center pays annual special assessment levies of a Community Development District (CDD), which provided certain infrastructure assets and improvements. As the amount and period of the special assessments were determinable, the Company capitalized the infrastructure assets and improvements and recognized an obligation for the future special assessments to be levied. At March 31, 2013 and December 31, 2012, the book value of the infrastructure assets and improvements, net of depreciation, was $39.2 million and $39.8 million, respectively. The related obligation is classified within Accounts Payable and Accrued Liabilities on the Consolidated Balance Sheet and had a balance of $60.8 million at both March 31, 2013 and December 31, 2012. The fair value of this obligation, derived from quoted market prices and therefore falling into Level 1 of the fair value hierarchy, was $62.1 million at March 31, 2013 and $60.9 million at December 31, 2012.

Notes Payable

The fair value of notes payable is estimated using cash flows discounted at current market rates and therefore fall into Level 2 of the fair value hierarchy. When selecting discount rates for purposes of estimating the fair value of notes payable at March 31, 2013 and December 31, 2012, the Company employed the credit spreads at which the debt was originally issued. Excluding 2010 through 2013 refinancings and debt assumed as part of the 2011 acquisitions, an additional 1.25% and 1.50% credit spread was added to the discount rate at March 31, 2013 and December 31, 2012, respectively, to attempt to account for current market conditions. This additional spread is an estimate and is not necessarily indicative of what the Company could obtain in the market at the reporting date. The Company does not believe that the use of different interest rate assumptions would have resulted in a materially different fair value of notes payable as of March 31, 2013 or December 31, 2012. To further assist financial statement users, the Company has included with its fair value disclosures an analysis of interest rate sensitivity.

The estimated fair values of notes payable at March 31, 2013 and December 31, 2012 are as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Notes payable | $2,832,385 | $2,960,057 | $2,952,030 | $3,082,265 |

The fair values of the notes payable are dependent on the interest rates used in estimating the values. An overall 1% increase in rates employed in making these estimates would have decreased the fair values of the debt shown above at March 31, 2013 by $84.9 million or 2.9%.

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 are estimated using cash flows discounted at current market rates and therefore fall into Level 2 of the fair value hierarchy.

See Note 4 regarding the fair value of the Unconsolidated Joint Ventures' notes payable, and Note 8 regarding additional information on derivatives.

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TAUBMAN CENTERS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 – Accumulated Other Comprehensive Income

Changes in the balance of each component of Accumulated Other Comprehensive Income (AOCI) for the quarter ended March 31, 2013 are as follows:

| | Taubman Centers, Inc. AOCI | | | Noncontrolling Interests AOCI | | |
|---|---|---|---|---|---|---|
| | Cumulative translation adjustment | Unrealized gains (losses) on interest rate instruments and other | Total | Cumulative translation adjustment | Unrealized gains (losses) on interest rate instruments and other | Total |
| January 1, 2013 | $1,888 | $(23,952) | $(22,064) | $756 | $1,739 | $2,495 |
| Other comprehensive income/(loss) before reclassifications | (2,043) | 289 | (1,754) | (816) | 143 | (673) |
| Amounts reclassified from AOCI | | 242 | 242 | | 133 | 133 |
| Net current period other comprehensive income/(loss) | (2,043) | 531 | (1,512) | (816) | 276 | (540) |
| Adjustments due to changes in ownership | 1 | 3 | 4 | (1) | (3) | $(4) |
| March 31, 2013 | $(154) | $(23,418) | $(23,572) | $(61) | $2,012 | $1,951 |

Changes in the balance of each component of AOCI for the quarter ended March 31, 2012 are as follows:

| | Taubman Centers, Inc. AOCI | | | Noncontrolling Interests AOCI | | |
|---|---|---|---|---|---|---|
| | Cumulative translation adjustment | Unrealized gains (losses) on interest rate instruments and other | Total | Cumulative translation adjustment | Unrealized gains (losses) on interest rate instruments and other | Total |
| January 1, 2012 | | $(27,613) | $(27,613) | | $9,113 | $9,113 |
| Current period other comprehensive income | | 2,030 | 2,030 | | 1,000 | 1,000 |
| Adjustments due to changes in ownership | | 8 | 8 | | (8) | (8) |
| March 31, 2012 | | $(25,575) | $(25,575) | | $10,105 | $10,105 |

The following table presents reclassifications out of AOCI for the quarter ended March 31, 2013:

| Details about AOCI Components | Amounts reclassified from AOCI | Affected line item in Consolidated Statement of Operations |
|---|---|---|
| (Gains)/losses on interest rate instruments and other: | | |
| Realized loss on interest rate contracts - consolidated subsidiary | $944 | Interest Expense |
| | 754 | Equity in Income of UJVs |

| | | | |
|---|---|---|---|
| Realized loss on interest rate contracts - UJVs | | | |
| Realized gain on sale of securities (Note 12) | (1,323 | ) | Nonoperating Income |
| Total reclassifications for the period | $375 | | |

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains various “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent our expectations or beliefs concerning future events and performance. Actual results may differ materially from those expected because of various risks and uncertainties. The forward-looking statements included in this report are made as of the date hereof. Except as required by law, we assume no obligation to update these forward looking statements, even if new information becomes available in the future. Other risks and uncertainties are detailed from time to time in reports filed with the SEC, and in particular those set forth under "Risk Factors" in our most recent Annual Report on Form 10-K. The following discussion should be read in conjunction with the accompanying consolidated financial statements of Taubman Centers, Inc. and the notes thereto.

General Background and Performance Measurement

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

References in this discussion to “beneficial interest” refer to our ownership or pro-rata share of the item being discussed. Also, the operations of the shopping centers are often best understood by measuring their performance as a whole, without regard to our ownership interest. Consequently, in addition to the discussion of the operations of the Consolidated Businesses, the operations of the Unconsolidated Joint Ventures are presented and discussed as a whole. The comparability of information used in measuring performance is affected by the opening of City Creek Center in March 2012. Additional "comparable center" statistics that exclude City Creek Center are provided to present the performance of comparable centers in our continuing operations. Comparable centers are generally defined as centers that were owned and open for the entire current and preceding period. Comparable center statistics for 2012, other than sales per square foot growth, growth in Net Operating Income, and statistics for the trailing 12 months ended March 31, 2012 have been restated to include comparable centers to 2013.

Use of Non-GAAP Measures

We use Net Operating Income (NOI) as an alternative measure to evaluate the operating performance of centers, both on individual and stabilized portfolio bases. We define NOI as property-level operating revenues (includes rental income excluding straight-line adjustments of minimum rent) less maintenance, taxes, utilities, promotion, ground rent (including straight-line adjustments), and other property operating expenses. Since NOI excludes general and administrative expenses, pre-development charges, interest income and expense, depreciation and amortization, impairment charges, restructuring charges, and gains from peripheral 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 tenant sales, occupancy and rental rates, and operating costs. We also use NOI excluding lease cancellation income as an alternative measure because this income may vary significantly from period to period, which can affect comparability and trend analysis. We generally provide separate projections for expected NOI growth and our lease cancellation income.

The operating results in "Results of Operations" include the supplemental earnings measures of Beneficial Interest in EBITDA and Funds from Operations (FFO). Beneficial Interest in EBITDA represents our share of the earnings before interest, income taxes, and depreciation and amortization of our consolidated and unconsolidated businesses. We believe Beneficial Interest in EBITDA provides a useful indicator of operating performance, as it is customary in the real estate and shopping center business to evaluate the performance of properties on a basis unaffected by capital structure.

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

We may also present adjusted versions of NOI, Beneficial Interest in EBITDA, 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.

Our presentations of NOI, Beneficial Interest in EBITDA, FFO, and adjusted versions of these measures, if any, are not necessarily comparable to the similarly titled measures of other REITs due to the fact that not all REITs use the same definitions. These measures should not be considered alternatives to net income or as an indicator of our operating performance. Additionally, these measures do not represent cash flows from operating, investing or financing activities as defined by GAAP. Reconciliations of Net Income Attributable to Taubman Centers, Inc. Common Shareowners to Funds from Operations, Net Income to Beneficial Interest in EBITDA, and Net Income to Net Operating Income are presented following the Comparison of the Three Months Ended March 31, 2013 to the Three Months Ended March 31, 2012.

Current Operating Trends

Our mall tenants reported a 5.6% increase in sales per square foot in the first quarter of 2013 from the same period in 2012. Our sales per square foot growth moderated during 2012 and has now reached a more normalized level. For the trailing twelve month period ended March 31, 2013, mall tenant sales were $698 per square foot, a 5.9% increase over $659 per square foot for the trailing twelve month period ended March 31, 2012.

Tenant sales and sales per square foot information are operating statistics used in measuring the productivity of the portfolio and are based on reports of sales furnished by mall tenants. Sales are the most important measure of a portfolio’s overall strength and the best predictor of the leasing environment ahead. Over the long term, the level of mall tenant sales is the single most important determinant of revenues of the shopping centers because mall tenants provide approximately 90% of these revenues and mall tenant sales determine the amount of rent, percentage rent, and recoverable expenses (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.

Tenant sales directly impact the amount of percentage rents certain tenants and anchors pay. The effects of increases or declines in tenant sales on our operations are moderated by the relatively minor share of total rents that percentage rents represent.

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

Ending occupancy increased to 90.3% at March 31, 2013 compared to 89.5% at March 31, 2012 for all centers and increased to 90.2% at March 31, 2013 compared to 89.7% at March 31, 2012 for our comparable centers. We expect ending occupancy in comparable centers to end the year up about 0.5% over 2012. Temporary tenants, defined as those with lease terms less than or equal to a year, are not included in occupancy or leased space statistics. As of March 31, 2013, 3.5% of mall tenant space for all centers was occupied by temporary tenants compared to 4.0% as of March 31, 2012. See “Seasonality” for occupancy and leased space statistics.

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Leased space was 92.4% at March 31, 2013, compared to 91.9% at March 31, 2012. For our comparable centers, leased space was 92.3% at March 31, 2013, compared to 92.2% at March 31, 2012. 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. Neither statistic includes temporary tenants. We view occupancy as more relevant to operating results as it represents those spaces upon which we are currently collecting rent from permanent tenants. Finally, the spread between leased space and occupied space, at 2.1% this quarter, is consistent with our history of 1% to 3% in the first quarter.

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

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

| | Three Months Ended March 31 | |
|---|---|---|
| | 2013 | 2012 |
| Average rent per square foot: | | |
| Consolidated Businesses | $48.13 | $46.56 |
| Unconsolidated Joint Ventures | 47.11 | 44.41 |
| Combined | 47.83 | 45.90 |

| | Trailing 12 Months Ended March 31 | |
|---|---|---|
| | 2013 [(1)] | 2012 [(1)] [(2)] |
| Opening base rent per square foot: | | |
| Consolidated Businesses | $54.64 | $55.49 |
| Unconsolidated Joint Ventures | 63.85 | 42.06 |
| Combined | 56.91 | 52.53 |
| Square feet of GLA opened: | | |
| Consolidated Businesses | 855,898 | 983,347 |
| Unconsolidated Joint Ventures | 279,003 | 277,772 |
| Combined | 1,134,901 | 1,261,119 |
| Closing base rent per square foot: | | |
| Consolidated Businesses | $43.30 | $46.29 |
| Unconsolidated Joint Ventures | 53.57 | 40.56 |
| Combined | 46.12 | 44.81 |
| Square feet of GLA closed: | | |
| Consolidated Businesses | 843,648 | 926,607 |
| Unconsolidated Joint Ventures | 319,295 | 324,277 |
| Combined | 1,162,943 | 1,250,884 |
| Releasing spread per square foot: | | |
| Consolidated Businesses | $11.34 | $9.20 |
| Unconsolidated Joint Ventures | 10.28 | 1.50 |
| Combined | 10.79 | 7.72 |

(1) Opening and closing statistics exclude spaces greater than or equal to 10,000 square feet.
(2) 2012 statistics were not restated for 2013 comparable centers as the non-comparable centers were not owned and open for the trailing 12 months ended March 31, 2012.

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Average rent per square foot across our portfolio, including comparable centers for both consolidated and unconsolidated properties, was up 4.2% for this quarter. We continue to expect average rent per square foot for the year to be up at least 4% over 2012. The spread between opening and closing rents may not be indicative of future periods, as this statistic is not computed on comparable tenant spaces, and can vary significantly from period to period depending on the total amount, location, and average size of tenant space opening and closing in the period.

Seasonality

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

| | 2013 | 2012 | | | | |
|---|---|---|---|---|---|---|
| | 1st Quarter | Total | 4th Quarter | 3rd Quarter | 2nd Quarter | 1st Quarter |
| | (in thousands, except occupancy and leased space data) | | | | | |
| Mall tenant sales (1) | $1,454,788 | $6,008,265 | $1,879,341 | $1,378,384 | $1,396,440 | $1,354,100 |
| Revenues and gains on peripheral land sales and other nonoperating income from continuing operations: | | | | | | |
| Consolidated Businesses | 185,494 | 748,251 | 209,732 | 189,595 | 179,536 | 169,388 |
| Unconsolidated Joint Ventures | 67,559 | 282,154 | 79,619 | 70,453 | 66,764 | 65,318 |
| Occupancy: | | | | | | |
| Ending - comparable | 90.2 % | 91.8 % | 91.8 % | 90.5 % | 90.3 % | 89.7 % |
| Average - comparable | 90.4 | 90.4 | 91.4 | 90.3 | 90.1 | 89.8 |
| Ending - all centers | 90.3 | 91.8 | 91.8 | 90.4 | 90.1 | 89.5 |
| Average - all centers | 90.4 | 90.3 | 91.4 | 90.1 | 89.9 | 89.7 |
| Leased space: | | | | | | |
| Comparable | 92.3 % | 93.3 % | 93.3 % | 92.5 % | 92.3 % | 92.2 % |
| All centers | 92.4 | 93.4 | 93.4 | 92.6 | 92.3 | 91.9 |

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

Because the seasonality of sales contrasts with the generally fixed nature of minimum rents and recoveries, mall tenant occupancy costs (the sum of minimum rents, percentage rents, and expense recoveries, excluding utilities) as a percentage of sales are considerably higher in the first three quarters than they are in the fourth quarter.

| | 2013 1st Quarter | | 2012 Total | | 4th Quarter | | 3rd Quarter | | 2nd Quarter | | 1st Quarter | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Consolidated Businesses: | | | | | | | | | | | | |
| Minimum rents | 8.8 | % | 8.1 | % | 6.8 | % | 8.8 | % | 8.6 | % | 8.7 | % |
| Percentage rents | 0.5 | | 0.6 | | 0.9 | | 0.5 | | 0.2 | | 0.5 | |
| Expense recoveries | 4.4 | | 4.1 | | 3.9 | | 4.7 | | 4.3 | | 4.0 | |
| Mall tenant occupancy costs | 13.7 | % | 12.8 | % | 11.6 | % | 14.0 | % | 13.1 | % | 13.2 | % |
| Unconsolidated Joint Ventures: | | | | | | | | | | | | |
| Minimum rents | 7.7 | % | 7.7 | % | 6.3 | % | 8.5 | % | 8.5 | % | 7.8 | % |
| Percentage rents | 0.5 | | 0.5 | | 0.7 | | 0.5 | | 0.3 | | 0.5 | |
| Expense recoveries | 3.8 | | 4.0 | | 4.0 | | 4.5 | | 4.0 | | 3.7 | |
| Mall tenant occupancy costs | 12.0 | % | 12.2 | % | 11.0 | % | 13.5 | % | 12.8 | % | 12.0 | % |
| Combined: | | | | | | | | | | | | |
| Minimum rents | 8.5 | % | 8.0 | % | 6.7 | % | 8.7 | % | 8.6 | % | 8.4 | % |
| Percentage rents | 0.5 | | 0.5 | | 0.9 | | 0.5 | | 0.2 | | 0.5 | |
| Expense recoveries | 4.2 | | 4.2 | | 3.7 | | 4.7 | | 4.2 | | 4.0 | |
| Mall tenant occupancy costs | 13.2 | % | 12.7 | % | 11.3 | % | 13.9 | % | 13.0 | % | 12.9 | % |

Results of Operations

In addition to the results and trends in our operations disclosed in the preceding sections, the following sections discuss certain transactions that affected operations in the three month periods ended March 31, 2013 and March 31, 2012, or are expected to impact operations in the future.

U.S. Development

Our United States development currently includes three projects that are under construction: Taubman Prestige Outlets Chesterfield, which is scheduled to open in August 2013, The Mall at University Town Center, and The Mall of San Juan (see "Liquidity and Capital Resources - Capital Spending - New Developments"). In addition, we have projects under development in Asia (see Taubman Asia below).

U.S. Acquisitions

In December 2012, we acquired an additional 49.9% interest in International Plaza, located in Tampa, Florida, bringing our ownership in the shopping center to 100%. The $437 million purchase price for the outside partner's interest in the consolidated joint venture that owns the center consisted of $275 million of cash and approximately $162 million of beneficial interest in debt. The excess of the purchase price over the net book value of the interest acquired was accounted for as a reduction of additional paid-in-capital and equity of the noncontrolling partners in TRG.

Also in December 2012, we acquired an additional 25% interest in Waterside Shops, which brought our ownership interest in the center to 50%. The acquisition of the additional interest was accomplished by purchasing an affiliate of Oregon PERS' 50% interest in the center on a pari passu basis with an affiliate of the Forbes Company. The $155 million purchase price for Oregon PERS' interest in the center consisted of $72.5 million of cash and $82.5 million of beneficial interest in debt. Our share of the consideration for the additional interest was $77.5 million, which consisted of cash and beneficial interest in debt of $36.3 million and $41.3 million, respectively. Our share of the difference between the purchase price and the net book value of the additional interest in the Unconsolidated Joint Venture was $52.7 million, which has been preliminarily allocated to land, buildings, improvements, and equipment. In addition, beneficial interest in debt was increased by a $3.9 million purchase accounting premium to record the debt at fair value. The premium is being amortized as a reduction of interest expense over the remaining term of the debt and had a $3.7 million balance at March 31, 2013.

Taubman Asia

In August 2012, IFC Mall opened in Yeouido, South Korea. We provide management and leasing services for the 0.4 million square foot mall. In 2012, we recognized the second installment of the leasing success fee. We expect to recognize the final installment in the fourth quarter of 2013.

In addition, in August 2012, we invested in a shopping mall project in Hanam, Gyeonggi Province, South Korea (Hanam Union Square) in which we have partnered with Shinsegae Group (Shinsegae), South Korea's largest retailer. As of March 31, 2013, we have invested $76.7 million, including cumulative currency translation adjustments (see "Liquidity and Capital Resources - Capital Spending - New Developments").

Also in August 2012, we announced a joint-venture with Beijing Wangfujing Department Store (Group) Co., Ltd (Wangfujing), one of China's largest department store chains, for a shopping center to be located at Xi'an Saigao City Plaza (retail component of Xi'an Saigao City Plaza). As of March 31, 2013, we have invested $50.9 million in the project, including cumulative currency translation adjustments (see "Liquidity and Capital Resources - Capital Spending - New Developments").

In February 2013, we announced a second joint venture with Wangfujing to build a shopping mall, Zhengzhou Vancouver Times Square, in Zhengzhou, China (see "Liquidity and Capital Resources - Capital Spending - New Developments").

In November 2012, we sold assets of Taubman TCBL, which eliminated our ownership of the third party business. The consideration for the assets was $15.5 million, an amount approximately equal to our investment in Taubman TCBL. In 2013, we began classifying certain Asia expenses in general and administrative expense, as opposed to pre-development expense, because we have moved from mainly a pursuit and third party business to one that is primarily executing investments in new projects. This is consistent with the presentation of our U.S. business.

Debt and Equity Transactions

In March 2013, we issued 6,800,000 shares or $170 million of 6.25% Series K Cumulative Redeemable Preferred Stock (Series K Preferred Stock). Offering costs of $5.6 million were incurred in connection with this issuance. Net proceeds after offering costs of $164.4 million were used to reduce outstanding borrowings under our revolving lines of credit.

In February 2013, we refinanced our primary revolving line of credit (See "Liquidity and Capital Resources").

In January 2013, a 10-year, $225 million non-recourse refinancing was completed on Great Lakes Crossing Outlets (See "Liquidity and Capital Resources").

Center Operations

The NOI of our comparable centers excluding lease cancellation income in the first quarter of 2013 was up 5.0% over the same period in 2012 primarily due to increased rents and net recoveries. We continue to expect that NOI of our comparable centers, excluding lease cancellation income, will be up at least 3% in 2013. For the three months ended March 31, 2013, we recognized our $1.8 million share of lease cancellation income. We continue to expect our share of lease cancellation income to be in the range of $3 million to $4 million for 2013. See “General Background and Performance Measurement – Use of Non-GAAP Measures” for the definition and discussion of NOI and see “Reconciliation of Net Income to Net Operating Income.”

Interest Expense

Interest expense is impacted by the capitalization of interest on the costs of our U.S. and Asia development projects. Interest is capitalized based on our average consolidated borrowing rate, which may not reflect the specific source of funds for the costs and will generally be greater than our incremental borrowing rate.

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Comparison of the Three Months Ended March 31, 2013 to the Three Months Ended March 31, 2012

The following table sets forth operating results for the three months ended March 31, 2013 and March 31, 2012, showing the results of the Consolidated Businesses and Unconsolidated Joint Ventures:

| | Three Months Ended March 31, 2013 | | Three Months Ended March 31, 2012 | |
|---|---|---|---|---|
| | CONSOLIDATED BUSINESSES | UNCONSOLIDATED JOINT VENTURES AT 100%(1) | CONSOLIDATED BUSINESSES | UNCONSOLIDATED JOINT VENTURES AT 100%(1) |
| | (in millions) | | | |
| REVENUES: | | | | |
| Minimum rents | $102.3 | $ 40.1 | $93.7 | $ 38.6 |
| Percentage rents | 5.6 | 2.2 | 4.4 | 2.2 |
| Expense recoveries | 64.0 | 23.6 | 56.5 | 22.8 |
| Management, leasing, and development services | 3.4 | | 8.6 | |
| Other | 7.9 | 1.7 | 6.0 | 1.7 |
| Total revenues | $183.3 | $ 67.6 | $169.3 | $ 65.3 |
| EXPENSES: | | | | |
| Maintenance, taxes, utilities, and promotion | $46.6 | $ 17.2 | $41.7 | $ 16.1 |
| Other operating | 16.2 | 4.1 | 16.3 | 3.6 |
| Management, leasing, and development services | 2.0 | | 8.5 | |
| General and administrative | 12.2 | | 8.4 | |
| Interest expense | 34.5 | 16.9 | 37.5 | 15.7 |
| Depreciation and amortization (2) | 37.0 | 10.1 | 36.4 | 8.6 |
| Total expenses | $148.5 | $ 48.3 | $148.9 | $ 44.0 |
| Nonoperating income | 2.2 | — | 0.1 | — |
| Income before income tax expense and equity in income of Unconsolidated Joint Ventures | $37.0 | $ 19.2 | $20.5 | $ 21.3 |
| Income tax expense | (1.0) | | (0.2) | |
| Equity in income of Unconsolidated Joint Ventures (2) | 10.3 | | 11.9 | |
| Net income | $46.4 | | $32.2 | |
| Net income attributable to noncontrolling interests: | | | | |
| Noncontrolling share of income of consolidated joint ventures | (2.8) | | (1.8) | |
| Noncontrolling share of income of TRG | (11.8) | | (8.8) | |
| Distributions to participating securities of TRG | (0.4) | | (0.4) | |
| Preferred stock dividends | (3.6) | | (3.7) | |
| Net income attributable to Taubman Centers, Inc. common shareowners | $27.7 | | $17.5 | |
| | | | | |
| SUPPLEMENTAL INFORMATION (3): | | | | |
| EBITDA – 100% | $108.5 | $ 46.2 | $94.5 | $ 45.6 |
| EBITDA – outside partners' share | (6.1) | (20.2) | (8.5) | (20.5) |

| | | | | |
|---|---|---|---|---|
| Beneficial interest in EBITDA | $102.5 | $ 26.0 | $86.0 | $ 25.1 |
| Beneficial interest expense | (32.3) | (9.4) | (33.3) | (8.1) |
| Beneficial income tax expense - TRG and TCO | (1.0) | | (0.2) | |
| Beneficial income tax expense - TCO | — | | | |
| Non-real estate depreciation | (0.7) | | (0.7) | |
| Preferred dividends and distributions | (3.6) | | (3.7) | |
| Funds from Operations contribution | $64.9 | $ 16.7 | $48.1 | $ 17.0 |

(1) With the exception of the Supplemental Information, amounts include 100% of the Unconsolidated Joint Ventures. Amounts are net of intercompany transactions. The Unconsolidated Joint Ventures are presented at 100% in order to allow for measurement of their performance as a whole, without regard to our ownership interest. In our consolidated financial statements, we account for investments in the Unconsolidated Joint Ventures under the equity method.

(2) Amortization of our additional basis in the Operating Partnership included in depreciation and amortization was $1.2 million in both 2013 and 2012. Also, amortization of our additional basis included in equity in income of Unconsolidated Joint Ventures was $0.5 million in both 2013 and 2012.

(3) See “General Background and Performance Measurement – Use of Non-GAAP Measures” for the definition and discussion of EBITDA and FFO.

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

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Consolidated Businesses

Total revenues for the three months ended March 31, 2013 were $183.3 million, a $14.0 million or 8.3% increase from the comparable period in 2012. Minimum rents increased by $8.6 million primarily due to increases in average rent per square foot and average occupancy, as well as City Creek Center, which opened in March 2012. Percentage rents increased primarily due to higher tenant sales. Expense recoveries increased due to an increase in fixed CAM revenue, City Creek Center, and an increase in recoverable property taxes. Management, leasing, and development income decreased primarily due to decreased reimbursable third party costs, the elimination of the third party business of Taubman TCBL, and the loss of the Woodfield Mall contract. We now expect net management, leasing, and development income to be $8 million to $10 million in 2013, including the final leasing success fee relating to IFC Mall in 2013 and net of the impact of the loss of the Woodfield Mall contract.

Total expenses for the three months ended March 31, 2013 were $148.5 million, a $0.4 million or 0.3% decrease from the comparable period in 2012. Maintenance, taxes, utilities, and promotion expense increased primarily due to City Creek Center as well as increased property taxes and maintenance costs at certain centers. Other operating expense decreased as a result of the reclassification of certain Asia costs to general and administrative expense (see "Results of Operations - Taubman Asia"). This was partially offset by increased expense due to City Creek Center. In 2013, we now expect our share of pre-development expenses, including both U.S. and Asia, to be about $12 million to $13 million. Management, leasing, and development costs decreased primarily due to decreased reimbursable third party costs and the elimination of the third party business of Taubman TCBL. General and administrative expense increased primarily due to the reclassification of certain Asia costs, as well as increased compensation expense. We continue to expect our quarterly general and administrative expense, including U.S. and Asia, to average about $13 million. Interest expense decreased due to capitalization of U.S. and Asia development projects, lower borrowings due to the 2012 common share issuance, and repayment of installment notes, partially offset by interest on borrowings for our acquisition of additional interest in International Plaza and the write-off of original deferred financing costs upon the refinancing of our primary revolving line of credit.

Nonoperating income increased by $2.1 million in 2013 due to the gain on the sale of marketable securities as well as the gain on the sale of peripheral land. We are not expecting any further peripheral land sales in 2013.

Unconsolidated Joint Ventures

Total revenues for the three months ended March 31, 2013 were $67.6 million, up $2.3 million or 3.5% over the comparable period in 2012. Minimum rents increased primarily due to an increase in average rent per square foot, partially offset by a decrease in average occupancy. Expense recoveries increased due to increased fixed CAM revenue.

Total expenses increased by $4.3 million or 9.8%, to $48.3 million for the three months ended March 31, 2013. Maintenance, taxes, utilities and promotion expense increased primarily due to increased maintenance costs, promotion costs, and property taxes at certain centers. Interest expense increased due to excess proceeds received from the refinancings at The Mall at Millenia, Westfarms, and Sunvalley, partially offset by the favorable rates received on the refinancings. Depreciation expense increased due to the depreciation of abandoned fixed assets at certain centers and the acquisition of additional interest in Waterside Shops.

As a result of the foregoing, income of the Unconsolidated Joint Ventures decreased by $2.1 million or 9.9% to $19.2 million for the three months ended March 31, 2013. Our equity in income of the Unconsolidated Joint Ventures was $10.3 million, a $1.6 million or 13.4% decrease from the comparable period in 2012.

Net Income

Net income was $46.4 million for the three months ended March 31, 2013 compared to $32.2 million for the three months ended March 31, 2012. After allocation of income to noncontrolling, preferred, and participating interests, the net income attributable to Taubman Centers, Inc. common shareowners for the three months ended March 31, 2013 was $27.7 million compared to $17.5 million in the comparable period in 2012.

FFO and FFO per Share

Our FFO was $81.5 million for the three months ended March 31, 2013 compared to $65.2 million for the three months ended March 31, 2012. FFO per diluted share was $0.90 in 2013 compared to $0.75 in the comparable period in 2012. See "General Background and Performance Measurement – Use of Non-GAAP Measures" for the definition of FFO and "Reconciliation of Net Income Attributable to Taubman Centers, Inc. Common Shareowners to Funds from Operations."

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

| | Three Months Ended March 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | Dollars in millions | Diluted Shares/ Units | Per Share/ Unit | Dollars in millions | Diluted Shares/ Units | Per Share/ Unit |
| Net income attributable to TCO common shareowners – basic | $27.7 | 63,415,922 | $0.44 | $17.5 | 58,247,148 | $0.30 |
| Add impact of share-based compensation | 0.2 | 1,154,890 | | 0.2 | 1,660,712 | |
| Net income attributable to TCO common shareowners – diluted | $27.9 | 64,570,812 | $0.43 | $17.7 | 59,907,860 | $0.30 |
| Add depreciation of TCO’s additional basis | 1.7 | | 0.03 | 1.7 | | 0.03 |
| Add TCO's additional income tax expense | — | | — | | | |
| Net income attributable to TCO common shareowners, excluding step-up depreciation and additional income tax expense | $29.6 | 64,570,812 | $0.46 | $19.4 | 59,907,860 | $0.32 |
| Add: | | | | | | |
| Noncontrolling share of income of TRG | 11.8 | 25,344,949 | | 8.8 | 26,479,740 | |
| Distributions to participating securities of TRG | 0.4 | 871,262 | | 0.4 | 871,262 | |
| Net income attributable to partnership unitholders and participating securities | $41.9 | 90,787,023 | $0.46 | $28.6 | 87,258,862 | $0.33 |
| Add (less) depreciation and amortization [(1)]: | | | | | | |
| Consolidated businesses at 100% | 37.0 | | 0.41 | 36.4 | | 0.42 |
| Depreciation of TCO’s additional basis | (1.7) | | (0.02) | (1.7) | | (0.02) |
| Noncontrolling partners in consolidated joint ventures | (1.1) | | (0.01) | (2.4) | | (0.03) |
| Share of Unconsolidated Joint Ventures | 6.3 | | 0.07 | 5.1 | | 0.06 |
| Non-real estate depreciation | (0.7) | | (0.01) | (0.7) | | (0.01) |
| Less impact of share-based compensation | (0.2) | | — | (0.2) | | — |
| Funds from Operations | $81.5 | 90,787,023 | $0.90 | $65.2 | 87,258,862 | $0.75 |
| TCO's average ownership percentage of TRG | 71.4 % | | | 68.7 % | | |
| Funds from Operations attributable to TCO, excluding additional income tax expense | 58.2 | | 0.90 | 44.8 | | 0.75 |
| Less TCO's additional income tax expense | — | | — | | | |
| Funds from Operations attributable to TCO | $58.2 | | $0.90 | $44.8 | | $0.75 |

(1) Depreciation includes $4.7 million and $4.8 million of mall tenant allowance amortization for the three months ended March 31, 2013 and 2012, respectively.
(2) Amounts in this table may not recalculate due to rounding.

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Reconciliation of Net Income to Beneficial Interest in EBITDA

| | Three Months Ended March 31 (in millions) | |
|---|---|---|
| | 2013 | 2012 |
| Net income | $46.4 | $32.2 |
| Add (less) depreciation and amortization: | | |
| Consolidated businesses at 100% | 37.0 | 36.4 |
| Noncontrolling partners in consolidated joint ventures | (1.1) | (2.4) |
| Share of Unconsolidated Joint Ventures | 6.3 | 5.1 |
| Add (less) interest expense and income tax expense: | | |
| Interest expense: | | |
| Consolidated businesses at 100% | 34.5 | 37.5 |
| Noncontrolling partners in consolidated joint ventures | (2.2) | (4.2) |
| Share of Unconsolidated Joint Ventures | 9.4 | 8.1 |
| Share of income tax expense | 1.0 | 0.2 |
| Less noncontrolling share of income of consolidated joint ventures | (2.8) | (1.8) |
| Beneficial interest in EBITDA | $128.5 | $111.1 |
| TCO's average ownership percentage of TRG | 71.4% | 68.7% |
| Beneficial interest in EBITDA attributable to TCO | $91.8 | $76.4 |

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

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Reconciliation of Net Income to Net Operating Income

| | Three Months Ended March 31 (in millions) | |
|---|---|---|
| | 2013 | 2012 |
| Net income | $46.4 | $32.2 |
| Add (less) depreciation and amortization: | | |
| Consolidated businesses at 100% | 37.0 | 36.4 |
| Noncontrolling partners in consolidated joint ventures | (1.1) | (2.4) |
| Share of Unconsolidated Joint Ventures | 6.3 | 5.1 |
| Add (less) interest expense and income tax expense: | | |
| Interest expense: | | |
| Consolidated businesses at 100% | 34.5 | 37.5 |
| Noncontrolling partners in consolidated joint ventures | (2.2) | (4.2) |
| Share of Unconsolidated Joint Ventures | 9.4 | 8.1 |
| Share of income tax expense | 1.0 | 0.2 |
| Less noncontrolling share of income of consolidated joint ventures | (2.8) | (1.8) |
| Add EBITDA attributable to outside partners: | | |
| EBITDA attributable to noncontrolling partners in consolidated joint ventures | 6.1 | 8.5 |
| EBITDA attributable to outside partners in Unconsolidated Joint Ventures | 20.2 | 20.5 |
| EBITDA at 100% | $154.8 | $140.0 |
| Add (less) items excluded from shopping center Net Operating Income: | | |
| General and administrative expenses | 12.2 | 8.4 |
| Management, leasing, and development services, net | (1.4) | (0.1) |
| Gain on sale of peripheral land | (0.9) | |
| Interest income | (0.1) | (0.1) |
| Gain on sale of marketable securities | (1.3) | |
| Straight-line rents | (1.5) | (0.6) |
| Non-center specific operating expenses and other | 3.9 | 6.9 |
| Net Operating Income at 100% - all centers | $165.8 | $154.4 |
| Less - Net Operating Income of non-comparable center (1) | (3.1) | (0.3) |
| Net Operating Income at 100% - comparable centers | $162.7 | $154.1 |
| Lease cancellation income | (1.8) | (1.0) |
| Net Operating Income at 100% excluding lease cancellation income (2) | $160.8 | $153.1 |

(1) Includes City Creek Center.

(2) See "General Background and Performance Measurement - Use of Non-GAAP Measures" 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 recalculate due to rounding.

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Liquidity and Capital Resources

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 and pay dividends. 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 to raise additional funds or refinance existing obligations on a strategic basis. See “Capital Spending” for more details.

We are primarily financed with property-specific secured debt and we have six unencumbered center properties. The entities that own Dolphin Mall, Fairlane Town Center, Twelve Oaks Mall, and Willow Bend are guarantors under our unsecured primary revolving credit facility and are currently unencumbered assets under the facility. Any of the assets may be removed from the facility unencumbered asset pool and encumbered upon notice to lender that there is no default and the required covenant calculations are met on a pro forma basis. Additionally, City Creek Center and Stamford Town Center, a 50% owned Unconsolidated Joint Venture property, are unencumbered.

As of March 31, 2013, we had a consolidated cash balance of $73.7 million. We also have an unsecured revolving line of credit of $1.1 billion and a secured revolving line of credit of $65 million, as of March 31, 2013. The availability under these facilities as of March 31, 2013, after considering then outstanding loan balances and outstanding letters of credit, was $941 million. Sixteen banks participate in our $1.1 billion 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 unsecured line includes an accordion feature that would increase the borrowing capacity to as much as $1.5 billion if fully exercised. The line matures in March 2017, with a one-year extension option. The facility bears interest at a range based on our total leverage ratio. As of March 31, 2013, the leverage ratio results in a rate of LIBOR plus 1.45%.

In January 2013, a 10-year, $225 million non-recourse refinancing was completed on Great Lakes Crossing Outlets. The payments on the loan, which bears interest at an all-in rate of 3.63%, are based on amortizing principal over 30 years. The loan may be defeased beginning in March 2015. The existing $126 million, 5.25% fixed rate loan, which was scheduled to mature in March 2013, was paid off and the excess proceeds of approximately $100 million were used to pay down the revolving lines of credit.

The $107.4 million loan on The Mall At Green Hills matures in December 2013. We expect to pay off the loan using our revolving line of credit to allow for financial flexibility as we continue to explore expansion opportunities at the center.

We plan to obtain financing on City Creek Center during the second quarter of 2013. We expect financing proceeds to be in excess of our investment in the center.

Summaries of Capital Activities and Transactions for the Three Months Ended March 31, 2013 and 2012

Operating Activities

Our net cash provided by operating activities was $90.2 million in 2013, compared to $60.7 million in 2012. See also “Results of Operations” for descriptions of 2013 and 2012 transactions affecting operating cash flows.

Investing Activities

Net cash used in investing activities was $36.9 million in 2013, compared to $199.6 million provided by investing activities in 2012. Additions to properties in 2013 related primarily to the costs of new centers under development as well as tenant improvements at existing centers. Additions to properties in 2012 related primarily to the $75 million paid upon the opening of City Creek Center, tenant improvements at existing centers, and other capital items. A tabular presentation of 2013 capital spending is shown in “Capital Spending”. Net cash proceeds from the sale of peripheral land were $6.9 million in 2013. There were no peripheral land sales in 2012. The timing of peripheral land sales is variable and proceeds from peripheral land sales can vary significantly from period to period.

Proceeds from the sale of marketable securities were $2.5 million in 2013. Collection of the remaining consideration from the sale of assets of the Taubman TCBL business provided $12.9 million in 2013. Restricted cash in 2012 was used to repay the $281.5 million of installment notes that were issued as part of the consideration for acquired centers in 2011. In 2013, we invested $2.8 million for Taubman Asia project costs (see "Capital Spending - New Developments"). Distributions in excess of income from Unconsolidated Joint Ventures provided $2.9 million in 2013, compared to $3.6 million in 2012.

Financing Activities

Net cash used in financing activities was $11.6 million in 2013 compared to $257.2 million in 2012. Payments of debt and issuance costs, net of proceeds from the issuance of debt, were $124.4 million in 2013. Proceeds from the issuance of debt, net of payments, were $82.4 million in 2012. Installment notes issued in connection with the acquisitions of centers in 2011 were repaid in February 2012. In 2013, $3.4 million was paid in connection with incentive plans, compared to $10.9 million in 2012. In 2013, net proceeds of $164.4 million, after offering costs, were received from the issuance of the Series K Preferred Stock. Contributions from noncontrolling interests were $1.0 million in 2013 compared to $0.2 million in 2012. Total dividends and distributions paid were $49.3 million and $47.3 million in 2013 and 2012, respectively.

Beneficial Interest in Debt

At March 31, 2013, the Operating Partnership's debt and its beneficial interest in the debt of its Consolidated Businesses and Unconsolidated Joint Ventures totaled $3,505.2 million, with an average interest rate of 4.73% excluding amortization of debt issuance costs and interest rate hedging costs. These costs are reported as interest expense in the results of operations. Interest expense includes non-cash amortization of premiums relating to acquisitions. On an annualized basis, this amortization of acquisition premiums is equal to 0.13% 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 $301 million as of March 31, 2013, which includes $244.9 million of assets on which interest is being capitalized. The following table presents information about our beneficial interest in debt as of March 31, 2013:

| | Amount | Interest Rate Including Spread | |
|---|---|---|---|
| | (in millions) | | |
| Fixed rate debt | $3,025.8 | 4.97 | % (1) |
| Floating rate debt: | | | |
| Swapped through April 2018 | 137.5 | 4.10 | % |
| Swapped through August 2020 | 123.7 | 4.99 | % |
| | $261.2 | 4.52 | % (1) |
| Floating month to month | 218.2 | 1.64 | % (1) |
| Total floating rate debt | $479.4 | 3.21 | % (1) |
| Total beneficial interest in debt | $3,505.2 | 4.73 | % (1) |
| Amortization of financing costs (2) | | 0.19 | % |
| Average all-in rate | | 4.92 | % |

(1) Represents weighted average interest rate before amortization of financing costs.
(2) Financing costs include debt issuance costs and costs related to interest rate agreements of certain fixed rate debt.

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

Sensitivity Analysis

We have exposure to interest rate risk on our debt obligations and interest rate instruments. We use derivative instruments primarily to manage exposure to interest rate risks inherent in variable rate debt and refinancings. We routinely use cap, swap, and treasury lock agreements to meet these objectives. Based on the Operating Partnership's beneficial interest in floating rate debt in effect at March 31, 2013, a one percent increase on this floating rate debt would decrease cash flows by approximately $2.2 million, and due to the effect of capitalized interest, decrease annual earnings by approximately $2.0 million. A one percent decrease in interest rates (or to zero percent for LIBOR rates that are below one percent) would increase cash flows and annual earnings by approximately $0.4 million. Based on our consolidated debt and interest rates in effect at March 31, 2013, a one percent increase in interest rates would decrease the fair value of debt by approximately $84.7 million, while a one percent decrease in interest rates would increase the fair value of debt by approximately $89.5 million.

Loan Commitments and Guarantees

Certain loan agreements contain various restrictive covenants, including the following corporate covenants on our primary revolving line of credit: 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 revolving line of credit has unencumbered pool covenants, which currently apply to Dolphin Mall, Fairlane Town Center, Twelve Oaks Mall, and The Shops at Willow Bend 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. The corporate maximum secured leverage ratio is the most restrictive covenant for our primary revolving line of credit. We are in compliance with all of our covenants and loan obligations as of March 31, 2013. 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.

Cash Tender Agreement

A. Alfred Taubman has the annual right to tender units of partnership interest in the Operating Partnership 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 10 – Commitments and Contingencies – Cash Tender” to our consolidated financial statements for more details.

Capital Spending

New Developments

Our United States development currently includes three projects that are under construction: Taubman Prestige Outlets Chesterfield, The Mall at University Town Center, and The Mall of San Juan. We have also made initial investments in two projects in Asia: Xi'an Saigao City Plaza and Hanam Union Square. In addition, in February 2013, we announced Zhengzhou Vancouver Times Square, a second project in China. Internally generated funds, excess proceeds from refinancings of maturing debt obligations, and borrowings under our revolving lines of credit would be sufficient to finance the anticipated costs of these projects, but we also expect construction loan financing to be available.

Taubman Prestige Outlets Chesterfield, our project in the St. Louis market, is under construction. We have a 90% ownership interest in the project and expect to open the first phase for a 0.3 million square foot open-air outlet shopping center in August 2013. We will be responsible for management, leasing, and development of the center. Due to competitive pressures in the market, the return is uncertain. Total project costs are expected to be approximately $130 million for the first phase.

In Sarasota, The Mall at University Town Center is under construction and we are funding our 50% share of the project. We will be responsible for management, leasing, and development of the center. The 0.9 million square foot center will be anchored by Saks Fifth Avenue, Macy's, and Dillard's, and is expected to open in October 2014. We expect an 8% to 8.5% unlevered return on our share of the approximately $315 million total project cost.

The Mall of San Juan is under construction in San Juan, Puerto Rico. The 0.7 million square foot center will be anchored by the Caribbean's first Nordstrom and Saks Fifth Avenue. We expect a March 2015 opening. We will be responsible for management, leasing, and development of the center. The casino and hotel being developed by the landowner will connect to and are expected to open with the center. We are expecting an 8% to 8.5% unlevered return on our 80% share of the approximately $430 million total project cost.

In 2012, we entered into a joint-venture with Beijing Wangfujing Department Store (Group) Co., Ltd (Wangfujing), one of China's largest department store chains. The joint venture will own a 60% controlling interest in and manage a shopping center to be located at Xi'an Saigao City Plaza, a large-scale mixed-use development in Xi'an, China. It is scheduled to open in 2015 and is part of a 5.9 million square foot mixed-use project. We are investing in the retail portion only, which will be over 1.0 million square feet with over half of that in mall specialty stores. We have invested $50.9 million, including cumulative currency translation adjustments, in the project as of March 31, 2013. Our total anticipated investment will be approximately $115 million for a 30% equity interest. We are expecting a 6% to 6.5% unlevered return at stabilization. Sales growth rates are expected to be in excess of 10%.

In 2013, we announced a second joint venture with Wangfujing that will own a majority interest in and manage a shopping center to be located in Zhengzhou, China. Currently under construction, the approximately 1.0 million square foot shopping mall, Zhengzhou Vancouver Times Square, is scheduled to open in 2015. Our total anticipated investment will be somewhat over $100 million for a 32% equity interest. We are expecting a 6% to 6.5% unlevered return at stabilization.

Combined with shorter lease terms than the U.S., returns on our investments in China are expected to equal those earned in the U.S. by the seventh or eighth year.

We have invested in a 1.7 million square foot shopping mall project in Hanam, Gyeonggi Province, South Korea (Hanam Union Square) in which Taubman Asia has partnered with Shinsegae Group (Shinsegae), South Korea's largest retailer. The center is scheduled to open in 2016. As of March 31, 2013, we have invested $76.7 million, including cumulative currency translation adjustments, in the project. Our total anticipated investment including capitalized interest will be about $330 million for a 30% equity interest in the retail portion of the project. We are considering bringing in a financial partner for as much as 50% of our share. We are expecting a 7% to 7.5% unlevered return at stabilization.

2013 Capital Spending

Capital spending for routine maintenance of the shopping centers is generally recovered from tenants. Capital spending through March 31, 2013, is summarized in the following table:

| | 2013 [1] | | | |
|---|---|---|---|---|
| | Consolidated Businesses | Beneficial Interest in Consolidated Businesses | Unconsolidated Joint Ventures | Beneficial Interest in Unconsolidated Joint Ventures |
| | (in millions) | | | |
| New development projects - U.S. [2] | $37.3 | $32.8 | $8.2 | $8.2 |
| New development projects - Asia [3] [4] | | | 2.8 | 2.8 |
| Existing centers: | | | | |
| Projects with no incremental GLA and other | 1.9 | 1.4 | 1.6 | 0.8 |
| Mall tenant allowances | 1.5 | 1.5 | 2.8 | 1.4 |
| Asset replacement costs recoverable from tenants | 5.5 | 4.4 | 1.0 | 0.6 |

| | | | | |
|---|---|---|---|---|
| Corporate office improvements, technology, equipment, and other | 1.5 | 1.5 | | |
| Total | $47.8 | $41.6 | $16.3 | $13.8 |

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

(2) Includes costs related to The Mall of San Juan, Taubman Prestige Outlets Chesterfield, and The Mall at University Town Center.

(3) Includes costs related to the retail component of Xi'an Saigao City Plaza, Hanam Union Square, and Zhengzhou Vancouver Times Square. Asia spending is included at our beneficial interest in both the Unconsolidated Joint Ventures and Beneficial Interest in Unconsolidated Joint Ventures columns.

(4) Asia costs exclude $2.9 million in net unfavorable currency translation adjustments.

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

For the three months ended March 31, 2013, in addition to the costs above, we incurred our $1.3 million share of Consolidated Businesses' and $0.7 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 three months ended March 31, 2013:

| | (in millions) |
|---|---|
| Consolidated Businesses' capital spending | $47.8 |
| Differences between cash and accrual basis and other | 11.6 |
| Additions to properties | $59.4 |

Planned 2013 Capital Spending

The following table summarizes planned capital spending for 2013, including actual spending through March 31, 2013 and anticipated spending for the remainder of the year:

| | 2013 (1) | | | |
|---|---|---|---|---|
| | Consolidated Businesses | Beneficial Interest in Consolidated Businesses | Unconsolidated Joint Ventures | Beneficial Interest in Unconsolidated Joint Ventures |
| | (in millions) | | | |
| New development projects - U.S. (2) | $169.6 | $146.5 | $160.9 | $86.6 |
| New development projects - Asia (3)(4) | | | 78.5 | 78.5 |
| Existing centers: | | | | |
| Projects with no incremental GLA and other | 6.7 | 5.4 | 3.6 | 1.8 |
| Mall tenant allowances | 16.4 | 15.4 | 5.2 | 2.9 |
| Asset replacement costs recoverable from tenants | 28.8 | 21.5 | 33.0 | 18.1 |
| Corporate office improvements, technology, equipment, and other | 3.7 | 3.7 | | |
| Total | $225.3 | $192.6 | $281.1 | $187.8 |

(1) Costs are net of intercompany profits and are computed on an accrual basis.
(2) Includes costs related to The Mall at San Juan, Taubman Prestige Outlets Chesterfield, and The Mall at University Town Center.
(3) Includes costs related to the retail component of Xi'an Saigao City Plaza, Hanam Union Square, and Zhengzhou Vancouver Times Square. Asia spending is included at our beneficial interest in both the Unconsolidated Joint Ventures and Beneficial Interest in Unconsolidated Joint Ventures columns.
(4) Asia costs exclude currency translation adjustments.
(5) Amounts in this table may not add due to rounding.

We anticipate that our share of costs incurred for new center development projects included in the table above will be $360 million, $250 million, and $60 million for 2014, 2015, and 2016, respectively.

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

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Dividends

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

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

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

On March 8, 2013, we declared a quarterly dividend of $0.50 per common share and $0.40625 per share on our 6.5% Series J Preferred Stock, which was paid on March 29, 2013 to shareowners of record on March 18, 2013. In addition, dividends on the 6.25% Series K Preferred Stock, which began accruing, from and including, March 15, 2013, will be payable in the following quarter.

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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 March 31, 2013, 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 March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II
OTHER INFORMATION

Item 1. Legal Proceedings

Refer to “Note 10 – Commitments and Contingencies” to our consolidated financial statements relating to the restaurant owners at The Pier Shops litigation. There were no material developments regarding these matters during the quarter ended March 31, 2013.

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, 2012.

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Item 6. Exhibits

| Exhibit Number | Exhibit Description | Incorporated by Reference Form | Period Ending | Exhibit | Filing Date | Filed Herewith |
|---|---|---|---|---|---|---|
| 3 | Amended and Restated Articles of Incorporation of Taubman Centers, Inc. | 8-K | | 3.1 | March 15, 2013 | |
| 4.1 | Form of certificate evidencing 6.25% Series K Cumulative Redeemable Preferred Stock, Liquidation Preference $25.00 per share | 8-A12B | | 4.1 | March 14, 2013 | |
| 4.2 | Revolving Credit Agreement, dated as of February 28, 2013, by and among The Taubman Realty Group Limited Partnership and JPMorgan Chase Bank N.A., as Administrative Agent, and the various lenders and agents on the signature pages thereto | 8-K | | 4.1 | March 1, 2013 | |
| 4.3 | Guaranty, dated as of February 28, 2013, by and among Dolphin Mall Associates LLC, Fairlane Town Center LLC, Twelve Oaks Mall, LLC, and Willow Bend Shopping Center Limited Partnership in favor of JPMorgan Chase Bank, N.A., in its capacity as Administrative Agent for the Lenders under the Revolving Credit Agreement | 8-K | | 4.2 | March 1, 2013 | |
| 10 | First Amendment to Operating Agreement of Taubman Land Associates, a Delaware Limited Liability Company, dated October 20, 2006. | | | | | X |
| 12 | Statement Re: Computation of Taubman Centers, Inc. Ratio of Earnings to Combined Fixed Charges and Preferred Dividends | | | | | 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 | | | | | X |
| 32.2 | | | | | | X |

| | | |
|---|---|---|
| | 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 | |
| 99 | Debt Maturity Schedule | X |
| 101.INS | XBRL Instance Document | X |
| 101.SCH | XBRL Taxonomy Extension Schema Document | X |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | X |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | X |

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SIGNATURES

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

| | |
|---|---|
| Date: April 30, 2013 | TAUMAN CENTERS, INC.<br>By: /s/ Lisa A. Payne<br>Lisa A. Payne<br>Vice Chairman, Chief Financial Officer, and Director<br>(Principal Financial Officer) |

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