

# LANDandBUILDINGS

## **The Achilles Heel of the Taubman Family's Control Over Taubman Centers**

- *Taubman Family's Ownership of Series B Preferred Stock is likely a violation of Taubman Centers' Charter and the Board should significantly reduce voting power of the Taubman Family –*
- *Taubman's Audit Committee must engage independent advisors to ensure enforcement of Charter Ownership Limits, among other issues –*
- *A hypothetical \$3.5 billion offer by a qualified buyer for Taubman Family's Series B Preferred Stock and \$85 per share for the common stock as outlined below, would result in the Taubman Family's voting power being reduced to approximately 8% –*
- *Taubman Family's dominance in boardroom must end and the Board should move immediately to rectify certain issues we have highlighted –*
- *Hosting Conference Call at 11:00 AM ET Today, Dial in (888) 223-4953 –*

**Stamford, CT**, December 13, 2016 – Land & Buildings Investment Management, LLC ("Land and Buildings") today issued the following letter to shareholders of Taubman Centers, Inc. (NYSE: TCO) ("Taubman Centers" or the "Company") and publicly released a letter sent to the Company's Audit Committee through its Whistleblower Policy. The full text of both letters follow:

Dear Fellow Taubman shareholders:

On December 6, 2016 we sent the attached letter to the members of the Audit Committee of the Board of Taubman Centers, Messrs. Chazen, Tysoe and Ullman, utilizing the Company's Whistleblower Policy. The letter identified several serious issues and demanded the Audit Committee engage their own advisors separate from the Company and the Taubman Family to:

- Ensure the Board enforces the Charter's 8.23% Ownership Limit and reduces the voting control of the Taubman Family accordingly.
- Ensure that one of Taubman Centers most valuable assets, its REIT status, is fiercely defended by enforcing the 8.23% Ownership Limit in the Charter.
- Ensure that the Taubman Family is making the appropriate filings and providing required disclosure under the Exchange Act and the Hart-Scott-Rodino Act.
- Ensure that the Taubman family does not continue to dominate Taubman Centers' Board of Directors to the detriment of common shareholders, as we believe to be the case.

The Taubman's Family's ownership of approximately 25 million shares of Taubman Centers Series B Preferred Stock, which equates to 30% of the voting stock of the Company, is likely in violation of Taubman Centers' Charter, which limits ownership to 8.23% of the Value of the Capital Stock of the Company. Value is based on the market value of the securities that constitute the Capital Stock of the

Company. The market value of the Series B Preferred Stock could be as high as \$4.3 billion<sup>1</sup> using Land and Buildings' estimate of fair value outlined in our presentation titled "Taubman: Unlocking Trapped Value Rooted in Decades of Poor Stewardship" available on [www.SaveTaubman.com](http://www.SaveTaubman.com).

We urge the Audit Committee to consider the following hypothetical scenario which, in our view, would cause an immediate breach of the Ownership Limit contained in the Charter:

A well-capitalized investor could make an offer this year, either publicly or privately, to purchase Taubman Centers consisting of \$3.5 billion for the Series B Preferred Stock and \$85 per share for all the common stock, which represents a 14% premium to the current share price<sup>2</sup>. The only condition of the offer is that prior to the transfer of the Series B Preferred Stock, the owners of the Series B Preferred Stock (principally the Taubman Family) are required to vote their 30% stake in favor of the investor's tender offer for Taubman Centers common stock. A transaction must be approved by two-thirds of the voting stock of the Company, and with one-third coming from the Series B Preferred Stock the transaction would in all likelihood be approved.

### **Implications of Hypothetical Offer – Immediate Breach of Ownership Limit**

1. Whether the Taubman Family or the Taubman Centers Board agreed to accept the offer or not, the offer would establish the value of the Series B Preferred Stock.
2. The Series B Preferred under this scenario would account for 39% of the Value of the Capital Stock of Taubman Centers by our estimate.
3. The Board would be required under the Ownership Limit in the Company's Charter to utilize the Excess Share provision to reduce the Taubman Family's ownership to 8.23% of the Capital Stock.
4. The Excess Shares of Series B Preferred Stock as outlined in the Charter would be given to a Designated Charity, converted to common stock at 14,000 to 1 ratio and immediately liquidated.
5. The Board must ensure the Company maintains its REIT status under the 5/50 test (IRC 542(a)(2)), by reducing the Taubman Family's ownership to 8.23% of the Capital Stock<sup>3</sup>.

Separately, we believe the Taubman Family may have been required and may have failed to make required filings of a Schedule 13D disclosing an aggregate position above 5% of the outstanding shares and to seek antitrust clearance for its acquisition of the Series B Preferred Stock with value in excess of the applicable Hart-Scott-Rodino threshold.

Please carefully read the attached letter sent to the Audit Committee of the Board for a detailed discussion of the foregoing.

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<sup>1</sup> The \$4.3 billion hypothetical valuation of the Series B Preferred Stock is based on assigning to that stock the entire value of the discount that Taubman Centers' common stock trades at relative to Land and Buildings Estimate of Taubman Centers fair market value. Assigning the discount to the effective control that the Taubman Family has over the Company through its ownership of the Series B Preferred Stock appears warranted. We are in the process of engaging a highly regarded third party valuation firm to undertake a value of the Series B Preferred Stock.

<sup>2</sup> Stock price based on December 12, 2016. The \$800 million reduction from Land and Buildings fair value estimate of \$4.3 billion incorporates a premium to the common shareholders of 14% over the current share common price.

<sup>3</sup>To maintain REIT status four additional investors could not own in total 11% of the Capital Stock.

**Land and Buildings Hosting Conference Call Today at 11:00 AM ET**

Please join us for a conference call on Tuesday, December 13, 2016, today, at 11:00 AM ET to discuss the achilles heel of the Taubman Family's control over Taubman Centers in greater detail.

To ask a question, please email [SaveTaubman@landandbuildings.com](mailto:SaveTaubman@landandbuildings.com). To avoid delays, please dial in 5-10 minutes before the start of the call. Information for accessing the call is as follows:

**PARTICIPANT ACCESS INFORMATION**

**Domestic:** (888) 223-4953

**International:** +1 303 223 4371

Sincerely,

A handwritten signature in cursive script, appearing to read "Jon", written in a light grey or blue ink.

Jonathan Litt

Founder & CIO  
Land and Buildings Investment Management, LLC

# LANDandBUILDINGS

**Jonathan Litt**  
Founder & CIO

December 6, 2016

Taubman Centers, Inc.  
Audit Committee Board Members  
Messrs. Chazen, Tysoe, and Ullman

c/o Jeffrey Miro  
General Counsel  
Honigman Miller Schwartz and Cohn LLP  
39400 Woodward Avenue, Suite 101  
Bloomfield Hills, Michigan 48304

Dear Messrs. Chazen, Tysoe and Ullman:

We are deeply concerned that the long-time dominance by the Taubman Family (Robert "Bobby" Taubman, William "Billy" Taubman and Gayle Taubman Kalisman) over Taubman Centers, Inc. ("Taubman Centers" or the "Company") has enabled the Taubman Family to act in its own self-interest to the detriment of the Company and its shareholders. For years, that dominance has resulted in Taubman Centers' stock dramatically underperforming its peers. Taubman Centers' poor performance has taken place in the context of the Taubman Family being permitted to maintain its position of effective control over the Company while appearing to be in material violation of the Company's Charter,<sup>1</sup> the Securities Exchange Act and possibly the Hart Scott Rodino Act. We also have very serious concerns about Taubman Centers' compliance with Internal Revenue Code regulations regarding REIT qualification.<sup>2</sup>

You are each highly regarded independent members of the Taubman Centers Board of Directors (the "Board"). Because of this, we are utilizing the Taubman Centers' Whistleblower Policy to approach you directly, unfettered by the influence of the Taubman Family, to ensure that the interests of all shareholders, the vast majority of whom are not members of the Taubman Family, are appropriately prioritized as the Board seeks to maximize the value of Taubman Centers.

We urge the Audit Committee to retain its own advisors separate and apart from the Company's advisors and from the Taubman Family and/or their advisors to investigate the four issues detailed below:

- 1) Charter Violation: As explained below, the Taubman Family alone holds well over 40% of the value of the Company's Capital Stock, well in excess of the Company's Ownership Limits. The Independent Board Members must act to enforce the Charter.

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<sup>1</sup> Amended and Restated Articles of Incorporation of Taubman Centers, Inc., dated Mar. 15, 2013 (the "Charter").

<sup>2</sup>The assertions contained in this letter reflect the views and opinions of Land & Buildings based on its review, with the assistance of counsel, of the facts cited herein.

The Taubman Centers' Charter limits ownership to 8.23%<sup>3</sup> of the value of Capital Stock.<sup>4</sup> The value of the Taubman Family's Beneficial Ownership<sup>5</sup> of Taubman Center Capital Stock is likely well over 40%<sup>6</sup>.

Action Required: Taubman Centers' Independent Board Members must immediately utilize<sup>7</sup> the Excess Share<sup>8</sup> provisions of the Charter to reduce the Taubman Family's holdings to 8.23% of the value of the Capital Stock. The Taubman Family must not be permitted to retain Capital Stock in violation of the Company's Ownership Limit<sup>9</sup>.

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<sup>3</sup> "Ownership Limit" means 8.23% of the value of the outstanding Capital Stock of the Corporation." (Charter at Art. III 2(d)(i))

<sup>4</sup> "Capital Stock" means the Common Stock and the Preferred Stock, including shares of Common Stock and Preferred Stock that have become Excess Stock." (Charter at Art. III 2(d)(i).)

<sup>5</sup> "Beneficial Ownership" means ownership of shares of Capital Stock (including Capital Stock that may be acquired upon conversion of Debentures) (i) by a Person who owns such shares of Capital Stock in his own name or is treated as an owner of such shares of Capital Stock constructively through the application of Section 544 of the Code, as modified by Sections 856(h)(1)(B) and 856(h)(3)(A) of the Code; or (ii) by a person who falls within the definition of Beneficial Owner" under Section 776(4) of the Act. The terms 'Beneficial Owner', 'Beneficially Owns' and 'Beneficially Owned' shall have the correlative meanings." (Charter at Art. III 2(d)(i).)

<sup>6</sup> The fair value of the Capital Stock of Taubman Centers is likely \$9.0 billion, as outlined in a Land and Buildings presentation entitled, "Unlocking Trapped Value Rooted in Decades of Poor Stewardship," issued on October 19, 2016, which is well above the current equity market capitalization of the Company at \$4.7 billion. The Series B Preferred likely have substantial value in and of themselves: 1) Assuming the difference between the equity market capitalization of Taubman Centers and the fair value is attributable to the value of the Series B Preferred Stock, the Series B Preferred Stock would be valued at \$4.3 billion, and, 2) Consider a scenario whereby the Taubman Family consents to sell their Series B Preferred to a single Buyer conditioned on the Buyer successfully tendering for all of the common stock of Taubman Centers. By our estimate the Buyer would likely pay a substantial portion of the \$4.3 billion value we outlined above for the Series B Preferred. Nearly all the Series B Preferred Stock is owned by the Taubman Family

Historically, shares of Taubman Centers have traded at a substantial discount to fair value while class A mall peers have not. While we recognize that value is a difficult area to agree on and that the value of the Series B Preferred Stock may be below \$4.3 billion, what is clear is that there appears to be a substantial risk that the value of the Series B Preferred Stock (particularly when combined with the Taubman Family's ownership of Taubman Company commons stock) owned by the Taubman Family substantially exceeds the Excess Share limits. A prudent board member should immediately look into this matter. Land and Buildings is engaging a highly-respected valuation expert to independently determine the value of the Series B Preferred Stock.

<sup>7</sup> "Subject to [certain limitations imposed to maintain REIT status], nothing contained in this Article III shall limit the authority of the Board of Directors to take such other action as it deems necessary or advisable (i) to protect the Corporation and the interests of its shareholders in the preservation of the Corporation's status as a REIT, and (ii) to insure compliance with the Ownership Limit and the Existing Holder Limit." (Charter at Art. III 2(d)(iii)(vi).)

<sup>8</sup> "Within thirty business days of the date upon which the Corporation determines that shares have become Excess Stock, the Corporation, by written notice to the Purported Transferee, shall demand that any certificate or other evidence of ownership of the shares of Excess Stock be immediately surrendered to the Designated Agent (the "Demand")." (Charter at Art. III 2(e)(i).)

<sup>9</sup> The Series B Preferred Stock gives the Taubman Family control over many aspects of the Company's affairs. For example, "the approval of an amendment to these Amended and Restated Articles of Incorporation. . . shall be authorized if approved by the affirmative vote of two- thirds of the shares of Capital Stock entitled to vote thereon." (Charter at Art. II (b).)

- 2) Maintain REIT Status: The Taubman Family's apparent violation of the Company's Ownership Limits puts the Company's REIT qualification at risk. Any violation may be curable by year end under current REIT regulations. But the Independent Board Members must act to protect one of the Company's most valuable assets, its REIT status.

In order to qualify for REIT tax status, five or fewer individuals may not own in excess of 50% of the outstanding value of the REIT's stock (the "5/50 test"). The Ownership Limit in the Charter was imposed to protect the Company's status as a REIT, which is among the Company's most valuable assets. By imposing an individual Ownership Limit of 8.23%, the Charter ensures that no five shareholders can own in excess of 50% of the REIT's value.

Moreover as defined in Internal Revenue Code Section 544(a)(2),<sup>10</sup> the Taubman Family collectively counts as a single individual. Notwithstanding that, the value of the Taubman Family's constructive ownership of Taubman Centers is likely well over 40%, as value under the tax code includes any additional value arising from a control or other premium.<sup>11</sup>

Action Required: The Independent Board Members must immediately utilize the Charter's Excess Stock provisions to reduce the Taubman Family's ownership from well over 40% to 8.23% of the value of the Capital Stock in order to ensure continued qualification as a REIT.

- 3) Control Shareholder and Failure to Comply with the Exchange Act: The Board must demand that the Taubman Family file a Schedule 13D with the SEC to cure a likely violation of the Exchange Act and applicable regulations.

Beneficial owners of more than 5% of any class of a Company's stock must file a Schedule 13D with the SEC pursuant to Section 13D of the Securities Exchange Act.<sup>12</sup> The Taubman Family's ownership of well over 40% of the value of the Taubman Centers' Capital Stock, including Common Stock<sup>13</sup> and nearly 100% of the Series B Preferred Stock convertible into Common Stock, is well in excess of the 5% filing threshold.

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<sup>10</sup> IRC 544(a)(2) "Family and partnership ownership -- An individual shall be considered as owning the stock owned, directly or indirectly, by or for his family or by or for his partner. For purposes of this paragraph, the family of an individual includes only his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants." (Emphasis added.)

<sup>11</sup> IRS Private Letter Ruling 9024076, IRC Sec(s). 542 ("if an individual owns enough shares to have actual or effective control of a corporation, then the value of his block of stock may be subject to an additional element of value or 'premium' for purposes of valuing the stock under section 542(a)(2).") The "facts and circumstances" approach is used to determine the value of a company's stock, regardless of the value that may be assigned by a taxpayer in the documentation of the securities in the stock, in this case the Series B Preferred.

<sup>12</sup> SEC Rule 13d-1 provides as follows: " Any person who, after acquiring directly or indirectly the beneficial ownership of any equity security of a class which is specified in paragraph (i) of this section, is directly or indirectly the beneficial owner of more than five percent of the class shall, within 10 days after the acquisition, file with the Commission, a statement containing the information required by Schedule 13D." The Taubman family, notwithstanding disclaimers to the contrary, constitutes a group holding in excess of five per cent beneficial ownership of Taubmans' equity securities.

<sup>13</sup> The Taubman Family's ownership of nearly 30% of the Operating Partnership Units in Taubman Realty Group can be converted into common shares pursuant to the Taubman Centers Second Amended and Restated Continuing Offering dated May 13, 2000.

Further, notwithstanding disclaimers to the contrary<sup>14</sup>, the Taubman Family members and the various entities they control constitute a 13D group as they have long “acted in concert” as evidenced both by the court opinion in *Simon Property Group, Inc. v. Taubman Centers Inc.* and the past 13D filings made by the family before claiming they no longer work as a group. In addition, the Taubman Family’s ability to control the Company through their ownership of their Series B Preferred Stock, including the attendant special voting rights and right to nominate up to four directors of the 9-member Board, as well as their executive and Board positions at the Company, clearly have the purpose and effect of influencing the control of the Company and must be disclosed on a Schedule 13D.

Action Required: The Independent Board Members must demand that the Taubman Family comply with the Exchange Act and applicable regulations by filing a Schedule 13D and providing to the investment public the legally required disclosure of their interest and controlling influence over the Company.

- 4) Hart Scott Rodino Antitrust Filing: The Board must demand that the Taubman Family provide evidence of compliance with applicable antitrust regulations.

It is unclear if the Taubman Family filed for Hart-Scott-Rodino Act ("HSR Act")<sup>15</sup> antitrust clearance in 1998 when it acquired the Taubman Centers Series B Preferred Stock. Acquisitions of voting securities in publicly traded REITs can be subject to HSR requirements.

Action Required – The Independent Board Members must demand that the Taubman Family provide evidence of filing for HSR clearance when they initially acquired their shares of Series B Preferred Stock. Alternatively, the Taubman Family must be required to file for HSR clearance now, if applicable.

### **Taubman Family Dominance of the Taubman Centers Board**

We urge the Audit Committee's Independent Board Members to immediately hire independent advisors separate from both the Taubman Family's and the Company's advisors to insure an unbiased assessment of these issues. This independent advice is necessitated by the Taubman Family's unique relationship with the Company, their influence with respect to its operation and management, and their history of dominating Board action.

The Taubman Family’s dominance of the Company's Board is both alarming and well-documented:

- (1) In September 2016, likely at the urging of Bobby Taubman and his advisors, the size of the Company’s board was reduced to 8 members from 9, in violation of the Company’s Charter. This action was reversed only after we brought this violation to the attention of the Board.
- (2) In a 2003 federal case captioned, *Simon Property Group, Inc. v. Taubman Centers Inc.*, the federal court found that the plaintiff had "demonstrated a likelihood of success on its claim that the [Taubman Centers] Board **breached its fiduciary duty**" when it approved a Special Meeting

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<sup>14</sup> In the Company's April 2016 Proxy each Taubman Family member "disclaims any beneficial interest in the Voting Stock and TRG units owned by TVG, TG Partners and Ridge Road beyond [his/her] pecuniary interest in such entities." (Taubman Centers, Inc., Schedule 14A, dated April 12, 2016 (Bobby Taubman at p. 8 n.3; Billy Taubman at p. 8 n.5; Gayle Taubman at p. 8 n.7).)

<sup>15</sup> Federal Trade Commission Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (HSR Act). Pub. L. No. 94-435, § 201, 90 Stat. 1383, 1390-94 (codified as amended at 15 U.S.C. § 18a).

Amendment to the Company Bylaws which the court determined was intended to “make it more difficult for shareholders to exercise their voting rights.”<sup>16</sup>

In that same decision, the Court highlighted various failures by the Taubman Family to act forthrightly with regard to non-Family board members. The Court noted that the Taubmans had hired Company advisors without consulting with the Board: “Robert Taubman claims that the decision to hire Goldman and Wachtell was decided after consulting with the Board. However, [now-former] Board member and Defendant Gilbert testified that when Robert Taubman called to advise him of the offer, Taubman told him that he had already hired Goldman and Wachtell.” The Court also pointed to testimony from now-former member of the Board, Bloostein who testified that during the GM negotiations in 1998, he was not aware that Goldman was advising the Taubman family.<sup>17</sup>

- (3) Moreover, the Court in *Simon* stated that the “timing of [Bobby Taubman]’s reversal of [certain voting agreements] and the fact that he and his family remain steadfast in their opposition to the Simon/Westfield offer call into question the credibility of his assertions.”<sup>18</sup> As the Court noted, after having entered into certain voting agreements, giving rise to the Taubman Family forming a group possessing 33.6% of the voting power in Taubman Centers, and filing a Schedule 13D: “Mr. Taubman then declared that he and the parties no longer had any specific agreement to vote their shares in a particular way. The testimony of Mr. Taubman’s reversal of the Voting Agreements and the fact that he and his family remain steadfast in their opposition to the Simon/Westfeld offer call into question the credibility of his assertions. As Plaintiffs contend, Mr. Taubman cannot ‘unring the bell.’”<sup>19</sup>

We appreciate your prompt attention to and consideration of these urgent matters, given that while the IRS provides a cure period for these breaches to maintain REIT status, the 5/50 test be met by the end of 2016.

Please notify us of the actions that the Audit Committee of Taubman Centers will take to remedy potential material violations of the Company’s Charter, the Securities Exchange Act and possibly the Hart Scott Rodino Act as well as compliance with Internal Revenue Code regulations regarding REIT qualification by no later than Monday, December 12, 2016 at noon EST.

We reserve our rights to take all action we deem appropriate to protect the best interests of Taubman’s public shareholders.

Sincerely,



Jonathan Litt

Founder & CIO  
Land and Buildings Investment Management, LLC

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<sup>16</sup> Excerpts from *Simon Property Group, Inc. v. Taubman Centers, Inc.*, 261 F. Supp. 2d 919, 939 (E.D. Mich. 2003) (emphasis added).

<sup>17</sup> *Id.* at 926 n.13.

<sup>18</sup> *Id.* at 943 (emphasis added).

<sup>19</sup> *Id.*