

Consolidated Financial Statements

Horizon Group Properties, Inc.

For the years ended December 31, 2013 and 2012

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To the Board of Directors
Horizon Group Properties, Inc.

Independent Auditors' Report

We have audited the accompanying consolidated financial statements of Horizon Group Properties, Inc. ("the Company"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Horizon Group Properties, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Restatement

As discussed in Note 11 to the consolidated financial statements, an error related to the recognition of leasing fees received from joint ventures relating to 2012 and prior, was discovered by management of the Company during the current year. Accordingly, amounts reported for accrued expenses, other income, and general and administrative expense have been restated in the 2012 consolidated financial statements now presented, and an adjustment has been made to stockholders' equity as of January 1, 2012, to correct the error. Our opinion is not modified with respect to that matter.

April 17, 2014
Cleveland, Ohio

Cohen & Company

HORIZON GROUP PROPERTIES, INC.
Consolidated Balance Sheets
(In thousands)

	December 31, 2013	December 31, 2012*
ASSETS		
Real estate – at cost:		
Land	\$ 18,547	\$ 18,582
Buildings and improvements	55,759	57,080
Less accumulated depreciation	<u>(13,777)</u>	<u>(12,776)</u>
	60,529	62,886
Construction in progress	397	1,603
Land held for investment	<u>18,324</u>	<u>18,318</u>
Total net real estate	79,250	82,807
Investment in and advances to joint ventures	13,066	11,902
Cash and cash equivalents	3,164	3,262
Restricted cash	1,927	2,168
Tenant and other accounts receivable, net	1,607	1,561
Deferred costs (net of accumulated amortization of \$372 and \$607, respectively)	196	143
Other assets	<u>830</u>	<u>921</u>
Total assets	<u>\$100,040</u>	<u>\$102,764</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgages and other debt	\$ 64,161	\$ 70,430
Accounts payable and other accrued expenses	4,083	3,830
Prepaid rents and other tenant liabilities	382	748
Other liabilities	<u>-</u>	<u>1,063</u>
Total liabilities	<u>68,626</u>	<u>76,071</u>
Commitments and contingencies		
Stockholders' equity:		
Common shares (\$.01 par value, 50,000 shares authorized, 4,663 and 2,863 issued and outstanding, respectively)	47	29
Additional paid-in capital	36,865	34,853
Accumulated deficit	<u>(21,926)</u>	<u>(22,649)</u>
Total stockholders' equity attributable to the controlling interest	14,986	12,233
Noncontrolling interests in consolidated subsidiaries	<u>16,428</u>	<u>14,460</u>
Total stockholders' equity	<u>31,414</u>	<u>26,693</u>
Total liabilities and stockholders' equity	<u>\$100,040</u>	<u>\$102,764</u>

* Restated – see Note 11

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

HORIZON GROUP PROPERTIES, INC.
Consolidated Statements of Operations
(In thousands)

	<u>Year ended</u> <u>December 31, 2013</u>	<u>Year ended</u> <u>December 31, 2012*</u>
REVENUE		
Base rent	\$ 8,695	\$ 9,769
Percentage rent	410	363
Expense recoveries	960	1,473
Other	8,424	7,845
Interest	<u>3</u>	<u>172</u>
Total revenue	<u>18,492</u>	<u>19,622</u>
EXPENSES		
Property operating	2,477	3,113
Real estate taxes	1,407	1,418
Other operating	429	452
Depreciation and amortization	2,470	3,179
General and administrative	9,066	6,612
Interest	4,089	5,583
Loss on marketable securities	<u>-</u>	<u>43</u>
Total expenses	<u>19,938</u>	<u>20,400</u>
Income/(loss) from investment in joint ventures	<u>3,812</u>	<u>(1,042)</u>
Consolidated net income (loss) before gain on sale of real estate and investment in joint venture	2,366	(1,820)
Gain on sale of real estate and investment in joint venture	<u>681</u>	<u>18,370</u>
Consolidated net income	3,047	16,550
Less net income attributable to the noncontrolling interests	<u>(2,324)</u>	<u>(8,782)</u>
Net income attributable to the Company	<u>\$ 723</u>	<u>\$7,768</u>

* Restated – see Note 11

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

HORIZON GROUP PROPERTIES, INC.
Consolidated Statements of Stockholders' Equity
(In thousands)

	Common Shares	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity Attributable to the Controlling Interest	Noncontrolling Interests in Consolidated Subsidiaries	Total Stockholders' Equity
Balance, January 1, 2013	\$29	\$34,853	\$(22,649)	\$12,233	\$14,460	\$26,693
Net income	-	-	723	723	2,324	3,047
Common units granted to officer	-	-	-	-	112	112
Stock issued	18	2,012	-	2,030	-	2,030
Net distributions to noncontrolling interests	-	-	-	-	(468)	(468)
Balance, December 31, 2013	<u>\$47</u>	<u>\$36,865</u>	<u>\$(21,926)</u>	<u>\$14,986</u>	<u>\$16,428</u>	<u>\$31,414</u>
	Common Shares	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity Attributable to the Controlling Interest	Noncontrolling Interests in Consolidated Subsidiaries	Total Stockholders' Equity
Balance, January 1, 2012, as originally stated	\$29	\$34,812	\$(30,217)	\$ 4,624	\$10,334	\$14,958
Restatement – see Note 11	-	-	(168)	(168)	(76)	(244)
Balance January 1, 2012, as restated	29	34,812	(30,385)	4,456	10,258	14,714
Net income as restated	-	-	7,768	7,768	8,782	16,550
Stock repurchase	-	(37)	-	(37)	-	(37)
Deconsolidation of Gettysburg	-	-	-	-	(1,348)	(1,348)
Sale of ownership interests	-	78	(32)	46	-	46
Conversion of debt to equity	-	-	-	-	1,700	1,700
Net distributions to noncontrolling interests	-	-	-	-	(4,932)	(4,932)
Balance, December 31, 2012	<u>\$29</u>	<u>\$34,853</u>	<u>\$(22,649)</u>	<u>\$12,233</u>	<u>\$14,460</u>	<u>\$26,693</u>

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

HORIZON GROUP PROPERTIES, INC.
Consolidated Statements of Cash Flows
(In thousands)

	<u>Year ended</u> <u>December 31, 2013</u>	<u>Year ended</u> <u>December 31, 2012*</u>
Cash flows from operating activities:		
Net income attributable to the Company	\$ 723	\$ 7,768
Adjustments to reconcile net income attributable to the Company to net cash provided by operating activities:		
Gain on sale of real estate	(681)	(3,613)
Net gain on sale of investment in joint venture	-	(14,757)
Net income attributable to the noncontrolling interests	2,324	8,782
(Income)/loss from investment in joint ventures	(3,812)	1,042
Common units granted to officer	112	-
Depreciation	2,490	3,011
Amortization, including deferred financing costs	157	167
Loss on marketable securities	-	43
Decrease in participation interest	-	(350)
Changes in assets and liabilities:		
Restricted cash	241	(957)
Tenant and other accounts receivable	(64)	(456)
Deferred costs and other assets	(281)	214
Accounts payable and other accrued liabilities	1,215	(739)
Prepaid rents and other tenant liabilities	<u>(361)</u>	<u>130</u>
Net cash provided by operating activities	<u>2,063</u>	<u>285</u>
Cash flows from investing activities:		
Investments in joint ventures	(6,078)	(7,265)
Distributions from joint ventures	9,676	1,584
Net marketable securities activity	-	5,361
Net proceeds from sale of real estate	-	4,457
Net proceeds from sale of investment in joint venture	-	15,147
Increase in participation interests and partner loans	1,787	1,917
Cash deconsolidated with Louisville & Gettysburg entities	(223)	(25)
Expenditures for buildings and improvements	<u>(4,454)</u>	<u>(3,308)</u>
Net cash provided by investing activities	<u>708</u>	<u>17,868</u>
Cash flows used in financing activities:		
Distributions to noncontrolling interests	(4,641)	(6,818)
Contributions from noncontrolling interests	4,173	1,886
Net proceeds from sale of ownership interests	-	485
Principal payments on mortgages and other debt	(7,131)	(12,674)
Proceeds from borrowings	2,700	300
Stock buyback	-	(37)
Stock issued	<u>2,030</u>	<u>-</u>
Net cash used in financing activities	<u>(2,869)</u>	<u>(16,858)</u>
Net increase/(decrease) in cash and cash equivalents	(98)	1,295
Cash and cash equivalents:		
Beginning of year	<u>3,262</u>	<u>1,967</u>
End of year	<u>\$ 3,164</u>	<u>\$ 3,262</u>

* Restated – see Note 11

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

HORIZON GROUP PROPERTIES, INC.
Consolidated Statements of Cash Flows, continued
(In thousands)

	<u>Year ended</u> <u>December 31, 2013</u>	<u>Year ended</u> <u>December 31, 2012</u>
Supplemental Information		
During the year ended December 31, 2012, the Company sold the following assets:		
Land held for investment		\$ 844
Accounts receivable, accounts payable and accrued expenses		<u>195</u>
Net assets sold		1,039
Gross proceeds from sale of real estate		<u>4,652</u>
Gain on sale of real estate		<u>\$ 3,613</u>
Gross proceeds from sale of membership interests		\$15,147
Net assets sold		<u>390</u>
Gain on sale of membership interests		<u>\$14,757</u>

The following represents the supplemental disclosure of significant cash activity from the gross proceeds from sale of real estate (above) to arrive at the net proceeds from sale of real estate as shown on the consolidated statements of cash flows for the years ended December 31, 2012:

Gross proceeds from sale of real estate	\$ 4,652
Accounts payable and other accrued expenses – closing costs	<u>195</u>
Net proceeds from sale of real estate	<u>\$ 4,457</u>

The following represents supplemental disclosure of noncash activity for the disposal of fully depreciated/amortized assets during the years ended December 31, 2013 and 2012:

Buildings and improvements	\$ 114	\$ 599
Deferred costs	<u>270</u>	<u>515</u>
	<u>\$ 384</u>	<u>\$ 1,114</u>

The following represents supplemental disclosure of noncash activity for the de-consolidation of the assets and liabilities of the Atlanta Joint Venture on April 9, 2012 (see Note 4):

Construction in progress	\$ 2,585
Note receivable and other assets	2,725
Participation interest and other liabilities	<u>(3,970)</u>
Investment in joint ventures	<u>\$ 1,340</u>

The following represents supplemental disclosure of noncash activity related to the conversion of debt to equity with the creation of the Atlanta Joint Venture on April 9, 2012 (see Note 4):

Unsecured promissory notes to HGP LP from Somerset	\$1,400,000
Unsecured promissory notes to HGP LP from four related parties	<u>300,000</u>
	<u>\$1,700,000</u>

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

HORIZON GROUP PROPERTIES, INC.
Consolidated Statements of Cash Flows, continued
(In thousands)

	<u>Year ended</u> <u>December 31, 2013</u>	<u>Year ended</u> <u>December 31, 2012</u>
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The following represents supplemental disclosure of noncash activity for the de-consolidation of the assets and liabilities of the Gettysburg entities on April 16, 2012 (see Note 4):

Land		\$16,383
Buildings and improvements		38,143
Construction in progress		293
Accumulated depreciation		(7,148)
Cash and cash equivalents		25
Restricted cash		964
Tenant and other accounts receivable - net		797
Deferred costs - net		931
Other assets		(570)
Mortgages and other debt		(46,563)
Accounts payable and other accrued expenses		(348)
Prepaid rents and other tenant liabilities		(110)
Noncontrolling interests		<u>(1,348)</u>
Investment in joint ventures		<u>\$ 1,449</u>

The following represents supplemental disclosure of noncash activity for the de-consolidation of the assets and liabilities of the Louisville Joint Venture on May 6, 2013 (see Note 4):

Construction in progress	\$ 4,001	
Cash	223	
Other assets	151	
Accounts payable and other accrued expenses	(575)	
Participation interest and other liabilities	<u>(2,850)</u>	
Investment in joint venture	<u>\$ 950</u>	

The following represents supplemental disclosure of noncash activity for the disposal of the assets and liabilities of 5000 Hakes Drive, LLC on February 2, 2013 (see Note 9):

Land	\$ 35	
Buildings and improvements	2,860	
Accumulated depreciation	(1,375)	
Other assets	29	
Mortgage and other liabilities	<u>(2,230)</u>	
Gain on sale of real estate	<u>\$ (681)</u>	

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

Note 1 – Organization and Principles of Consolidation

Horizon Group Properties, Inc. (“HGPI” or, together with its subsidiaries, “HGP” or the “Company”) is a Maryland corporation that was established on June 15, 1998. The operations of the Company are conducted primarily through a subsidiary limited partnership, Horizon Group Properties, L.P. (“HGP LP”) of which HGPI is the sole general partner. As of December 31, 2013 and 2012, HGPI owned approximately 78.6% and 71.7%, respectively, of the partnership interests (the “Common Units”) of HGP LP. In general, Common Units are exchangeable for shares of Common Stock on a one-for-one basis (or for an equivalent cash amount at HGPI’s election).

The Company’s primary assets are its investments in subsidiary entities that own real estate. HGPI consolidates the results of operations and the balance sheets of those entities of which the Company owns the majority interest and of those variable interest entities of which the Company is the primary beneficiary. The Company accounts for its investments in entities which do not meet these criteria using the cost or equity methods. The entities referred to herein are consolidated subsidiaries of the Company, unless they are discussed in Note 4; those entities are accounted for using the equity method of accounting or the cost method, as identified.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of HGPI and all subsidiaries that HGPI controls, including HGP LP. The Company considers itself to control an entity if it is the majority owner of or has voting control over such entity. All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and accompanying notes. Actual results could differ from those estimates.

Investment in Real Estate

The Company allocates the purchase price of properties to net tangible and intangible assets acquired based on their fair values in accordance with the provisions of GAAP. In making estimates of fair values for purposes of allocating purchase price, the Company utilizes a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property and other market data. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing, and leasing activities, in estimating the fair value of the tangible and intangible assets acquired.

The Company allocates a portion of the purchase price to above-market and below-market lease values for acquired properties based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between: (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management’s estimate of fair market lease rates for the corresponding in-place leases, measured over the remaining non-cancelable term of the lease. In the case of below market leases, the Company considers the remaining contractual lease period and renewal periods, taking into consideration the likelihood of the tenant exercising its renewal options. The capitalized above/below-market lease values (included in Deferred Costs or Prepaid Rents and Other Tenant Liabilities on the consolidated balance sheets) are amortized as either a reduction of, or addition to, rental income over the remaining noncancelable terms of the respective leases. Should a tenant terminate its lease

prior to its scheduled expiration, the unamortized portion of the related lease intangibles would be added to income or charged to expense, as applicable. The net book value of capitalized above/below-market lease values was \$22,000 and \$31,000 at December 31, 2013 and 2012, respectively.

The Company allocates a portion of the purchase price to the value of leases acquired based on the difference between: (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued as if vacant. The Company utilizes independent appraisals or its internally developed estimates to determine the respective in-place lease values. The Company's estimates of value are made using methods similar to those used by independent appraisers. Factors management considers in its analysis include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases including leasing commissions, legal and other related expenses.

The value of in-place leases (included in Buildings and Improvements on the consolidated balance sheets) is amortized over the remaining initial terms of the respective leases. Should a tenant terminate its lease prior to its scheduled expiration, the unamortized portion would be charged to expense. The net book value of in-place leases was \$80,000 and \$116,000 at December 31, 2013 and 2012, respectively.

Real Estate and Depreciation

Costs incurred for the acquisition, development, construction and improvement of properties, as well as significant renovations and betterments to the properties, are capitalized. Maintenance and repairs are charged to expense as incurred. Interest costs incurred with respect to qualified expenditures relating to the construction of assets are capitalized during the construction period.

Amounts included under Buildings and Improvements on the consolidated balance sheets include the following types of assets which are depreciated on the straight-line method over estimated useful lives, which are:

Buildings and improvements	31.5 years
Tenant improvements/origination costs	10 years or lease term, if less
Furniture, fixtures and equipment	3 - 7 years

In accordance with GAAP, the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated over their expected holding periods are less than the carrying amounts of those assets. For assets held in the portfolio, impairment losses are measured as the difference between carrying value and fair value. For assets to be sold, impairment is measured as the difference between carrying value and fair value, less costs to dispose. Fair value is based upon estimated cash flows discounted at a risk-adjusted rate of interest, comparable or anticipated sales in the marketplace, or estimated replacement cost, as adjusted to consider the costs of retreating and repositioning those properties which have significant vacancy issues, depending on the facts and circumstances of each property.

Depreciation and amortization expense includes charges for unamortized capitalized costs related to unscheduled tenant move-outs totaling \$0 and \$72,900 for the years ended December 31, 2013 and 2012, respectively.

Pre-Development Costs

The pre-development stage of a project involves certain costs to ascertain the viability of a potential project and to secure the necessary land. Direct costs to acquire the assets are capitalized once the acquisition becomes probable. These costs are carried in Other Assets until conditions are met that indicate that development is forthcoming, at which point the costs are reclassified to Construction in Progress. In the event a development is no longer deemed probable and costs are deemed to be non-recoverable, the applicable costs previously capitalized are expensed when the project is abandoned or these costs are determined to be non-recoverable. In December of 2013, costs totaling \$805,000 related to an abandoned project were expensed in general and administrative expense.

At December 31, 2013, predevelopment costs classified as Other Assets and Construction in Progress totaled \$343,000 and \$397,000, respectively. At December 31, 2012, predevelopment costs classified as Other Assets and Construction in Progress totaled \$411,000 and \$1.2 million, respectively.

Cash Equivalents

The Company considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company's cash is held in accounts with balances, which at times, exceed federally insured limits. The Company has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Restricted Cash

Restricted Cash consists of amounts deposited (i) in accounts with the Company's primary lenders in connection with certain loans (see Note 9), (ii) in escrow accounts for infrastructure requirements related to land sales in Huntley and future infrastructure expenses and interest payments related to Huntley. At December 31, 2013 and 2012, the escrow accounts related to the Company's primary lenders included approximately \$42,000 and \$101,000 in capital improvement and tenant allowance reserves, respectively, \$748,000 and \$729,000 in real estate tax and insurance escrows, respectively, and approximately \$496,000 and \$697,000 for cash collateral accounts, respectively. At December 31, 2013 and 2012, the Huntley interest, infrastructure and expense escrow accounts totaled \$641,000 and \$641,000, respectively.

Tenant Accounts Receivable

Management regularly reviews accounts receivable and estimates the necessary amounts to be recorded as an allowance for uncollectability. These reserves are established on a tenant-specific basis and are based upon, among other factors, the period of time an amount is past due and the financial condition of the obligor.

At December 31, 2013 and 2012, total tenant accounts receivable is reflected net of reserves of \$383,500 and \$166,000, respectively. The provision for doubtful accounts was \$385,000 and \$166,000 for the years ended December 31, 2013 and 2012, respectively. This charge is included in the line items entitled "Other operating" and "General and administrative" in the consolidated statements of operations.

Deferred Costs

Deferred leasing costs consist of fees and direct internal costs incurred to initiate and renew operating leases, as well as allocated purchase price related to above and below market lease values, and are amortized on the straight-line method over the initial lease term or renewal period. Deferred financing costs are amortized as interest expense over the life of the related debt.

Revenue Recognition

Leases with tenants are accounted for as operating leases. Minimum annual rentals are recognized on a straight-line basis over the terms of the respective leases. As a result of recording rental revenue on a straight-line basis, tenant accounts receivable include \$224,000 and \$185,000 as of December 31, 2013 and 2012, respectively, which is expected to be collected over the remaining lives of the leases. Rents which represent basic occupancy costs, including fixed amounts and amounts computed as a function of sales, are classified as base rent. Amounts which may become payable in addition to base rent and which are computed as a function of sales in excess of certain thresholds are classified as percentage rents and are accrued after the reported tenant sales exceed the applicable thresholds. Expense recoveries based on common area maintenance expenses and certain other expenses are accrued in the period in which the related expense is incurred.

Other Revenue

Other revenue consists of income from management, leasing and development agreements and income from tenants with lease terms of less than one year. For the year ended December 31, 2012 other revenue also includes insurance proceeds of \$1,430,000.

Income Taxes

Deferred income taxes are recorded based on enacted statutory rates to reflect the tax consequences in future years of the differences between the tax bases of assets and liabilities and their financial reporting amounts. Deferred tax assets, such as net operating loss carryforwards which will generate future tax benefits, are recognized to the extent that realization of such benefits through future taxable earnings or alternative tax strategies in the foreseeable future is more likely than not.

As of December 31, 2013 and 2012, and for the years then ended, the Company did not have a net liability for any unrecognized tax benefits. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as interest or general and administrative expense in the consolidated statements of operations. During 2013 and 2012, the Company did not incur any interest or penalties. The Company is not subject to examination by U.S. federal tax authorities for tax years before 2010.

Legal Proceedings

In the ordinary course of business the Company is subject to certain legal actions. While any litigation contains an element of uncertainty, management believes the losses, if any; resulting from such matters will not have a material adverse effect on the consolidated financial statements of the Company.

Subsequent Events

Management has evaluated events through April 16, 2014, the date the consolidated financial statements were available to be issued.

Note 3 - Investment in Real Estate

The following table contains information on the operating properties and land held for investment owned by the Company and for which the Company consolidates the results of operations and the assets and liabilities as of December 31, 2013.

<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Leasable Area (Sq.Ft.)</u>	<u>Net Carrying Value</u> (in thousands)	<u>Ownership Percentage</u>
The Outlet Shoppes at Burlington	Burlington, WA	Outlet Retail	174,260	\$10,821	51.0%
El Portal Center	Laredo, TX	Retail	345,106	10,940	38.0%
The Outlet Shoppes at Fremont	Fremont, IN	Outlet Retail	228,922	10,342	51.0%
The Outlet Shoppes at Oshkosh	Oshkosh, WI	Outlet Retail	270,512	25,924	51.0%
Village Green Shopping Center	Huntley, IL	Retail	22,204	2,484	100.0%
Corporate Assets	Muskegon, MI	Various	-	18	100.0%
		Total	<u>1,041,004</u>	<u>\$60,529</u>	

Land Held for Investment	Fruitport, MI	Land	<u>Acres</u> 14	\$ 484	100.0%
Land Held for Investment	Huntley, IL	Land	<u>383</u>	<u>17,840</u>	100.0%
Total			<u>397</u>	<u>\$18,324</u>	

The portion of the net income or loss of HGPI's subsidiaries owned by parties other than HGPI is reported as Net Income or Loss Attributable to the Noncontrolling Interests on the Company's consolidated statements of operations and such parties' portion of the net equity in such subsidiaries is reported on the Company's consolidated balance sheets as Noncontrolling Interests in Consolidated Subsidiaries.

Pre-Development Projects

During 2012, the Company entered into agreements to acquire vacant land in Louisville, Kentucky, which is intended to be the site of an outlet center. At December 31, 2012, the Company's consolidated balance sheets included pre-development costs of \$1.2 million for this project. On December 18, 2012, the Company entered into a Preformation Agreement with an affiliate of CBL & Associates Properties, Inc. ("CBL") with respect to the project. Prior to the formation of the joint venture, CBL agreed to fund 75% of certain predevelopment costs related to the project. The Company formed a subsidiary entity (Horizon Louisville) to be CBL's partner in the Louisville JV. As of December 31, 2012, CBL funded \$1,063,000 of predevelopment costs which is included in participation interest and other liabilities on the Company's consolidated balance sheets. On May 6, 2013, the Company entered into a joint venture (the "Louisville JV") with an affiliate of CBL and began the development of the outlet center to be named The Outlet Shoppes of the Bluegrass. (see Note 4)

Note 4- Investment in Joint Ventures

The following table contains information and the effective ownership percentage attributable to the Company for the joint venture outlet centers in operation or development as of December 31, 2013. In addition, the joint ventures' own out parcels and other land for development.

<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Leasable Area (Sq. Ft.)</u>	<u>Ownership Percentage</u>
The Outlet Shoppes at El Paso	El Paso, TX	Outlet Retail	378,955	10.29%
The Outlet Shoppes at Oklahoma City	Oklahoma City, OK	Outlet Retail	348,600	8.71%
The Outlet Shoppes at Gettysburg	Gettysburg, PA	Outlet Retail	249,937	19.06%
The Outlet Shoppes at Atlanta	Woodstock, GA	Outlet Retail	371,238	12.08%
The Outlet Shoppes of the Bluegrass	Louisville, KY	Development	<u>374,046</u>	15.64%
Total			<u>1,722,776</u>	

El Paso Entities

The Company owned 45.0% of the preferred interests and 41.2% of the common interests in Horizon El Paso, LLC ("Horizon El Paso"), which owned a 25% joint venture interest in El Paso Outlet Center Holding, LLC ("El Paso Holding"), at December 31, 2013 and 2012, respectively. El Paso Holding owns an entity that owns a 380,000 square foot outlet shopping center in El Paso, TX (the "El Paso Center"). Horizon El Paso also owns a 25% joint venture interest in El Paso Outlet Center II, LLC, which owns expansion land for the shopping center (the "Expansion Land"). Horizon El Paso owns a 50% joint venture interest in El Paso Outlet Outparcels, LLC which

owns outparcels and ancillary land adjacent to the shopping center (the “Outparcels”). Prior to April 12, 2012, Horizon El Paso owned 50% of the entities that owned the El Paso Center, the Expansion Land and the Outparcels.

The Company had previously entered into an agreement with CBL (the “El Paso Master Agreement”) pursuant to which CBL was granted an option to purchase ownership interests representing 75% of the El Paso Center and the Expansion Land and 50% of the Outparcels. On April 12, 2012, the Company consummated the transactions pursuant to the El Paso Master Agreement by selling CBL interests owned by Horizon El Paso representing ownership of 25% of the El Paso Center and the Expansion Land and by causing interests representing the other 50% ownership of the El Paso Center, the Expansion Land and the Outparcels to be sold to CBL by Grand Misuma, LLC (“Misuma”). The Company had previously entered into an option agreement with Misuma (the “Misuma Option”) pursuant to which Misuma granted the Company an option to purchase its 50% interest in the El Paso Center, the Expansion Land and the Outparcels. During the year ended December 31, 2012, the Company reported a gain of \$15.1 million related to the transactions.

The Company continues to lease and manage the El Paso Center and the Company and CBL have entered into a co-development agreement with respect to the development of an expansion of the El Paso Center. The Company will also be appointed to lease and manage the expansion phase.

Summary financial information (stated at 100% and adjusting for the acquisition of controlling interests by CBL on April 12, 2012) of the entities that own the El Paso Center, the Outparcels and the Expansion Land as of December 31, 2013 and 2012, and for the years ended December 31, 2013 and 2012, are as follows (in thousands):

	As of <u>December 31, 2013</u>	As of <u>December 31, 2012</u>
Assets		
Real estate - net	\$102,189	\$105,427
Cash and cash equivalents	628	784
Restricted cash	4,862	4,962
Other assets	<u>3,181</u>	<u>3,608</u>
Total assets	<u>\$110,860</u>	<u>\$114,781</u>
Liabilities and members' equity		
Mortgages and other debt	\$ 65,466	\$ 66,367
Other liabilities	4,596	4,405
Members' equity	<u>40,798</u>	<u>44,009</u>
Total liabilities and members' equity	<u>\$110,860</u>	<u>\$114,781</u>
	Year Ended <u>December 31, 2013</u>	Year Ended <u>December 31, 2012</u>
Statements of Operations		
Revenue	<u>\$14,300</u>	<u>\$13,869</u>
Operating expenses	4,970	4,801
Depreciation and amortization expense	3,942	5,060
General and administrative expenses	1,184	1,096
Interest expense	<u>5,010</u>	<u>5,884</u>
Total expenses	<u>15,106</u>	<u>16,841</u>
Gain on sale of real estate	—	<u>56</u>
Net loss	<u>\$ (806)</u>	<u>\$(2,916)</u>

The shopping center owned by El Paso Center secures a loan originated by NATIXIS Commercial Mortgage Funding, LLC which had a principal balance of \$65.4 million and \$66.4 million at December 31, 2013 and 2012,

respectively, bears interest at 7.06%, requires principal payments over a 30-year amortization schedule and is due December 5, 2017.

The Company received management, leasing and similar fees from El Paso Center that totaled \$865,000 and \$1.3 million during the years ended December 31, 2013 and 2012, respectively.

Distributions in excess of the Company's net investments in entities accounted for using the equity method are recognized as income if the Company is not obligated to make future contributions to those entities or budgeted capital contributions that would require the return of such excess distributions. Such distributions are included in Income from Investment in Joint Ventures on the consolidated statements of operations. During the years ended December 31, 2013 and 2012, income recognized from distributions in excess of equity investments totaled \$448,000 and \$1,135,000, respectively.

Oklahoma City Entities

In October 2010, the Company formed OKC JV, LLC (the "OKC Joint Venture") with an affiliate of CBL to develop The Outlet Shoppes at Oklahoma City. The Company contributed all of its rights and interests in leases, contracts and construction in progress related to the project. The Company formed a subsidiary entity ("Horizon OKC") to be CBL's partner in the OKC Joint Venture. The Company leases and manages The Outlet Shoppes at Oklahoma City, which opened in August 2011.

In December 2011, the OKC Joint Venture obtained a \$60.0 million loan from an affiliate of Goldman Sachs (the "OKC Loan"). The OKC Loan has a term of 10 years maturing March 2021, bears interest at 5.73% and requires amortization based on a 25-year schedule. The OKC Loan is secured by a mortgage on The Outlet Shoppes at Oklahoma City. The loan is generally non-recourse. The Company and an affiliate of CBL have entered into guaranties to the lender with respect to certain environmental issues and customary "bad-boy" acts. The majority of the proceeds of the OKC Loan were used to repay the construction loan from US Bank related to the project.

During 2012, an additional 27,986 square feet of retail space, which is owned by OK City Outlets II, LLC (OKC II), was developed at The Outlet Shoppes at Oklahoma City. OKC II is owned by OKC Joint Venture. The addition was completed and opened in November of 2012. The addition was funded with a construction loan from an affiliate of CBL. On completion of the project, the construction loan was paid off and replaced with a mortgage from an affiliate of CBL, with an initial principal balance of \$4,681,233. The mortgage has a maturity date of August 2, 2015, and bears interest at a rate of LIBOR plus 275 basis points for the first two years. During the third year the mortgage bears interest at a rate of the greater of LIBOR plus 275 basis points or 5%. The note is secured by the ownership interest and all other property of OKC JV, LLC.

On June 19, 2013, OKC JV, LLC closed on a loan from an affiliate of CBL with an original principal balance of \$1,050,000. The proceeds were used to fund a portion of tenant allowances in connection with a ground lease.

The Company has voting control over Horizon OKC and owns, directly and indirectly, approximately 34% of the preferred interests in Horizon OKC. The other preferred members include Somerset, L.P., and Pleasant Lake Apts. Limited Partnership ("PLA LP") (affiliates of Howard Amster), and Gary Skoien and Andrew Pelmoter. Howard Amster is a significant shareholder and director of the Company. The Company also granted common interests in Horizon OKC (the "OKC Net Profits Interests") to Gary Skoien, Thomas Rumpitz and Andrew Pelmoter, all officers of the Company. Holders of the OKC Net Profits Interests are not entitled to any distributions until the holders of the preferred interests have received a return of their capital plus interest thereon calculated at an annual rate of 12.0%, compounded quarterly. The Company consolidates the results of operations and the assets and liabilities of Horizon OKC which uses the equity method to account for its investment in the OKC Joint Venture.

The Company received development, leasing, management and consulting fees from the OKC Joint Venture that totaled \$383,000 and \$1.1 million during the years ended December 31, 2013 and 2012, respectively.

Summary financial information (stated at 100%) of the OKC Joint Venture as of December 31, 2013 and 2012, and for the years ended December 31, 2013 and 2012 are as follows (in thousands):

	As of <u>December 31, 2013</u>	As of <u>December 31, 2012</u>
Assets		
Real estate - net	\$60,237	\$62,335
Cash and cash equivalents	990	2,406
Restricted cash	446	861
Other assets	<u>3,773</u>	<u>3,977</u>
Total assets	<u>\$65,446</u>	<u>\$69,579</u>
Liabilities and members' equity		
Mortgages and other debt	\$62,820	\$61,944
Other liabilities	1,273	1,745
Members' equity	<u>1,353</u>	<u>5,890</u>
Total liabilities and members' equity	<u>\$65,446</u>	<u>\$69,579</u>
	Year Ended <u>December 31, 2013</u>	Year Ended <u>December 31, 2012</u>
Statement of Operations		
Revenue	<u>\$12,328</u>	<u>\$11,144</u>
Operating expenses	2,786	2,570
Depreciation and amortization expense	5,292	4,695
General and administrative expenses	531	456
Interest expense	<u>3,602</u>	<u>3,500</u>
Total expenses	<u>12,211</u>	<u>11,221</u>
Net income/(loss)	<u>\$ 117</u>	<u>\$ (77)</u>

Gettysburg Entities

In July 2007, Gettysburg Outlet Center Holding, LLC received the proceeds from a \$6.0 million mezzanine loan. In September 2011, the Company entered into an agreement with an entity owned by an affiliate of CBL and an affiliate of Howard Amster and Gary Skoien ("CBL Gettysburg Mezz Lender") with respect to the acquisition of the mezzanine loan by CBL Gettysburg Mezz Lender. The agreement permitted CBL Gettysburg Mezz Lender to convert the mezzanine loan into equity representing 62.63% of the Gettysburg property subject to the approval of the senior lender, which was subsequently obtained.

The shopping center owned by Gettysburg Outlet Center, LP secures a mortgage loan originated by Column Financial, Inc., in the original principal amount of \$43.75 million, bearing interest at 5.87%, due February 11, 2016.

On April 17, 2012, CBL Gettysburg Mezz Lender converted the mezzanine loan into equity representing 62.63% ownership in Gettysburg Outlet Center Holding, LLC and Gettysburg Outlet Center LLC (the Gettysburg entities). The Company had previously recorded an impairment loss on the Gettysburg property; a loss of approximately \$350,000 was recognized on the conversion of the mezzanine loan into equity in the Gettysburg entities. Prior to the conversion of the mezzanine debt into equity, the Company consolidated the results of operations and the assets and liabilities of the Gettysburg entities; for periods after the conversion, the Company uses the equity method of accounting with respect to the Gettysburg entities.

The Company received management, leasing and similar fees from the Gettysburg Entities that totaled \$344,000 during the year ended December 31, 2013, and \$243,000 during the period from April 17, 2012 to December 31, 2012.

Summary financial information (stated at 100%) of the Gettysburg entities as of December 31, 2013 and December 31, 2012, for the year ended December 31, 2013, and for the period April 17, 2012 to December 31, 2012 is as follows (in thousands):

	As of <u>December 31, 2013</u>	As of <u>December 31, 2012</u>
Assets		
Real estate-net	\$45,244	\$46,456
Cash and cash equivalents	166	425
Restricted cash	1,072	1,043
Other assets	<u>2,016</u>	<u>2,100</u>
Total assets	<u>\$48,498</u>	<u>\$50,024</u>
Liabilities and members' equity		
Mortgages and other debt	\$39,437	\$40,170
Other liabilities	994	927
Members' equity	<u>8,067</u>	<u>8,927</u>
Total liabilities and members' equity	<u>\$48,498</u>	<u>\$50,024</u>
	Year Ended <u>December 31, 2013</u>	April 17, 2012 to <u>December 31, 2012</u>
Statements of Operations		
Revenue	<u>\$6,831</u>	<u>\$4,669</u>
Operating expenses	2,331	1,641
Depreciation and amortization expense	1,607	1,152
General and administrative	388	273
Interest expense	<u>2,429</u>	<u>1,762</u>
Total expenses	<u>6,755</u>	<u>4,828</u>
Net income (loss)	<u>\$ 76</u>	<u>\$ (159)</u>

Atlanta Entities

On May 11, 2012, the Company entered into a joint venture (the "Atlanta JV") with an affiliate of CBL and began the development of an outlet center in Woodstock, Georgia to be named The Outlet Shoppes at Atlanta. The Company formed a subsidiary entity, Horizon Atlanta Outlet Shoppes, LLC (Horizon Atlanta) to be CBL's partner in Atlanta JV. The Company owns 48.3% of the preferred interests and 44.3% of the common interests in Horizon Atlanta. Atlanta JV purchased approximately 50 acres of land for the project from Ridgewalk Holding, LLC ("Holding"). Ridgewalk Property Investments, LLC ("RPI") is the managing member of Holding. Horizon Atlanta owns 25% of Atlanta JV and CBL owns 75% of Atlanta JV. The Company and CBL are co-developers of the project; the Company is responsible for the leasing and management of the center.

On August 9, 2012, the Atlanta JV closed on a \$69.8 million construction loan from a group of banks, of which US Bank, NA is the Administrative Bank for the construction of The Outlet Shoppes at Atlanta.

On October 11, 2013, the Atlanta JV obtained an \$80.0 million loan from an affiliate of Goldman Sachs (the "Atlanta Loan"). The proceeds from the Atlanta Loan were used to repay the construction loan. The Atlanta Loan has a term of 10 years and bears interest at 4.9%. Payments are based on a 30 year amortization. The Atlanta Loan is secured by a mortgage on The Outlet Shoppes at Atlanta.

The Company and an affiliate of CBL are also joint venture partners in an entity ("Woodstock GA Investments") that lent RPI \$6.0 million, which was contributed to Holding and, together with the proceeds from the sale of the parcel to Atlanta JV, were used to retire a loan secured by the land owned by Holding. In connection with its loan to RPI, Woodstock GA Investment acquired an equity interest in RPI that is entitled to 15% of the economic interest in Holding. After the sale of the parcel to Atlanta JV, Holding owns approximately 123 acres of vacant land near The Outlet Shoppes at Atlanta.

Prior to the formation of these entities, the Company consolidated the results of operations and the assets and liabilities contributed to Atlanta JV and Woodstock GA Investments; for periods after the conversion, the Company uses the equity method of accounting with respect to Atlanta JV and Woodstock GA Investments (the Atlanta Entities).

The joint venture agreement for the Atlanta Entities includes a provision to increase the Company's share of future distributions after return of investment and internal rate of return criteria are met. In December of 2013, these criteria were met, and the Company's share of future distributions increased from 25% to 35%.

The Company received development, management, leasing, and similar fees from Atlanta JV that totaled \$3.3 million and \$2.9 million for the years ended December 31, 2013 and 2012, respectively.

Distributions in excess of the Company's net investments in entities accounted for using the equity method are recognized as income if the Company is not obligated to make future contributions to those entities or budgeted capital contributions that would require the return of such excess distributions. Such distributions are included in Income from Investment in Joint Ventures on the consolidated statements of operations. During the year ended December 31, 2013, income recognized from distributions in excess of equity investments totaled \$2.6 million. There was no similar income for the year ended December 31, 2012.

Summary financial information (stated at 100%) of Atlanta JV and Woodstock GA Investments as of December 31, 2012 is as follows (in thousands):

	<u>As of</u> <u>December 31, 2013</u>	<u>As of</u> <u>December 31, 2012</u>
Assets		
Real estate-net	\$62,833	\$37,191
Cash and cash equivalents	1,620	-
Restricted cash	6,358	-
Other assets	<u>8,649</u>	<u>7,013</u>
Total assets	<u>\$79,460</u>	<u>\$44,204</u>
Liabilities and members' equity (deficit)		
Mortgages and other debt	\$79,902	\$15,403
Other liabilities	1,371	4,882
Members' equity (deficit)	<u>(1,813)</u>	<u>23,919</u>
Total liabilities and members' equity	<u>\$79,460</u>	<u>\$44,204</u>

	<u>Year Ended</u> <u>December 31, 2013</u>	<u>Year Ended</u> <u>December 31, 2012</u>
Statement of Operations		
Revenue	<u>\$6,048</u>	<u>\$ 423</u>
Operating expenses	892	-
Depreciation and amortization expense	1,462	-
General and administrative expenses	254	1
Interest expense	<u>1,914</u>	<u>-</u>
Total expenses	<u>4,522</u>	<u>1</u>
Gain on sale of land	<u>1,182</u>	<u>-</u>
Net income	<u>\$2,708</u>	<u>\$ 422</u>

Louisville Entities

On May 6, 2013, the Company entered into a joint venture (the "Louisville JV") with an affiliate of CBL and began the development of an outlet center in Louisville, Kentucky to be named The Outlet Shoppes of the Bluegrass. The Company formed a subsidiary entity (Horizon Louisville) to be CBL's partner in the Louisville JV. On May 7, 2013, Horizon Louisville exercised its option to increase its ownership of the Louisville JV from 25% to 35%.

On August 27, 2013, the Louisville JV closed on a \$60.2 million construction loan from a group of banks, of which US Bank, NA is the Administrative Bank, for the construction of The Outlet Shoppes of the Bluegrass.

Prior to the formation of the Louisville JV, the Company consolidated the results of operations and the assets and liabilities of the Louisville JV; for periods after the conversion, the Company uses the equity method of accounting with respect to the Louisville JV. There is no significant operating activity for the Louisville JV for the period ended December 31, 2013.

The Company received development, management, leasing, and similar fees from the Louisville JV that totaled \$2.7 million for the year ended December 31, 2013. There were no similar fees for 2012.

Summary financial information (stated at 100%) of the Louisville JV as of December 31, 2013, is as follows (in thousands):

	As of <u>December 31, 2013</u>
Assets	
Land and construction in progress	\$23,974
Other assets	<u>16</u>
Total assets	<u>\$23,990</u>
Liabilities and members' equity	
Construction loan	\$ 3,274
Other liabilities	1,609
Members' equity	<u>19,107</u>
Total liabilities and members' equity	<u>\$23,990</u>

Note 5 – Income Taxes

HGPI is taxable as a corporation under the provisions of Subchapter C of the Internal Revenue Code. The net provision for income taxes after the change in the valuation reserve for the years ended December 31, 2013 and 2012, consisted of the following (in thousands):

	<u>2013</u>	<u>2012</u>
Federal	\$ -	\$ -
State	<u>-</u>	<u>-</u>
Net provision	<u>\$ -</u>	<u>\$ -</u>

For federal income tax purposes, HGPI had net operating loss carryforwards (“NOLs”) of approximately \$72.8 million and \$71.9 million at December 31, 2013 and 2012, respectively. The NOLs expire from 2020 to 2031.

Deferred income tax liabilities and assets are determined based on the differences between the financial statement and tax basis of assets and liabilities. The components of the Company’s gross deferred tax assets and liabilities are as follows as of December 31, 2013 and 2012 (in thousands):

	<u>2013</u>	<u>2012</u>
Deferred Tax Assets:		
NOL carryforwards - federal and state	\$26,728	\$26,651
Tax basis of assets in excess of book basis:		
Fixed/intangible assets	333	495
Other	21	19
Book basis of liabilities in excess of tax basis:		
Prepaid rental revenue	<u>43</u>	<u>119</u>
Gross deferred tax assets	27,125	27,284
Less: valuation allowance	<u>(26,340)</u>	<u>(26,498)</u>
	<u>\$ 785</u>	<u>\$ 786</u>
Deferred Tax Liabilities:		
Book basis of assets in excess of tax basis:		
Fixed/intangible assets	\$ (760)	\$ (775)
Other	<u>(25)</u>	<u>(11)</u>
Gross deferred tax liabilities	<u>(785)</u>	<u>(786)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The valuation allowance related to the net deferred tax assets decreased by approximately \$158,000 in 2013 and increased by \$5.5 million in 2012.

Note 6 – Leases

Space in the Company's centers is leased to various tenants under operating leases, which are generally for one to ten year periods. Some leases contain renewal options and may also provide for the payment of a tenant's share of certain operating expenses. Leases may also obligate a tenant to pay rent based on a percentage of sales in excess of certain thresholds. Minimum future rentals to be received under non-cancelable leases are summarized as follows (in thousands):

2014	\$ 6,381
2015	4,984
2016	3,147
2017	1,691
2018	1,221
<i>Thereafter</i>	<u>2,405</u>
	<u>\$19,829</u>

The above scheduled rentals are subject to the usual business risks associated with collection.

Note 7 - Long Term Stock Incentive Plan and Grants of Common Units

The Company has adopted the HGP 1998 Long Term Stock Incentive Plan (the "HGP Stock Plan") to advance the interests of the Company by encouraging and enabling the acquisition of a financial interest in the Company by key employees and directors of the Company and its subsidiaries through equity awards. The Company reserved 338,900 common shares for issuance pursuant to the HGP Stock Plan and options covering 15,000 shares were outstanding at December 31, 2013.

The Company estimated the fair value of options granted using a Black-Scholes option pricing model for the purpose of presenting pro forma information, in accordance with GAAP. The Black-Scholes model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The HGP Stock Plan provided for the issuance of shares over the ten-year period ended June 15, 2008. Accordingly, as of December 31, 2013, no additional equity awards may be made pursuant to the HGP Stock Plan.

Options granted, exercised and expired under the Long-term Stock Incentive Plan are summarized below:

	For the years ended December 31, 2013 and 2012	
	<u>Shares</u>	<u>Price</u>
Outstanding, beginning of the year	15,000	\$5.04
Granted	-	-
Exercised	-	-
Expired	-	-
Outstanding, end of the year	<u>15,000</u>	<u>\$5.04</u>

The weighted average exercise price for options outstanding was \$5.04 at December 31, 2013 and 2012. The weighted average contractual life of options outstanding at December 31, 2013 and 2012 was .25 years and 1.25 years, respectively. At December 31, 2013 and 2012 there were 15,000 options vested and exercisable.

The Company did not grant any shares of stock in HGPI to key employees during 2013.

On March 11, 2013, the Company granted 140,000 common units, valued at \$112,000 to Gary Skoien as part of his bonus.

Note 8 – Commitments

The Company has outstanding commitments for construction costs and tenant allowances on leases signed (which amounts become payable when the spaces are delivered to the tenants) at December 31, 2013, in the amount of \$1.3 million and \$137,000, respectively, which are not reflected on the consolidated balance sheet as of December 31, 2013. These capital expenditures are expected to be paid during 2014 and are anticipated to be funded from capital improvement escrows, construction financing, equity contributions and additional borrowings.

Note 9 – Mortgages and Other Debt

	Principal Balance as of:	
	<u>December 31,</u>	<u>December 31,</u>
	<u>2013</u>	<u>2012</u>
	<i>(in thousands)</i>	
Mortgage loan to 5000 Hakes Drive LLC, from UBS, as of August 19, 2003, in the amount of \$2.25 million, bearing interest at 6.89%, secured by the corporate office in Muskegon, Michigan. Note was settled during 2013 (see below).	\$ -	\$ 1,834
Mortgage loan to Village Green Associates, LLC, from MB Financial, as of November 17, 2005, in the amount of \$2.9 million, bearing interest at 7.5%, due February 15, 2014, secured by the shopping center in Huntley, Illinois and guaranteed by the Company. Loan was refinanced in March 2014. (see below)	2,451	2,539
Mortgage loan to BFO Factory Shoppes LLC, from Wachovia Bank, National Association, as lender, in the original principal amount of \$54.0 million, bearing interest at 5.58%, due January 11, 2016, and secured by The Outlet Shoppes at Burlington, The Outlet Shoppes at Fremont, and The Outlet Shoppes at Oshkosh.	47,470	48,465
Mortgage loan to Huntley Development Limited Partnership, from US Bank, in the maximum principal amount of \$23.4 million, bearing interest at LIBOR plus 4.5% with a floor of 5.5%, due July 1, 2014, secured by approximately 383 acres of vacant land in Huntley, Illinois, the Huntley Series C TIF bonds and guaranteed by the Company (see below).	13,231	14,572
Mortgage loan to El Portal Center LLC, from Cathay Bank, in the amount of \$6.7 million, bearing interest at Prime plus 1.0% with a 7.5% floor, secured by El Portal Center and guaranteed to 50% of principal and interest due by HGPI. Note was paid off during 2013 (see below).	-	2,800
Capital lease between BFO Factory Shoppes LLC and Banner Bank, as of October 29, 2009, bearing interest at 9.0%, due November 1, 2014, secured by an LED sign at The Outlet Shoppes at Oshkosh and guaranteed by the Company.	12	25
Capital lease between BFO Factory Shoppes LLC and First Bank & Trust Leasing Services, dated as of January 25, 2011, bearing interest at 17.5%, due March 1, 2016, secured by an LED sign at The Outlet Shoppes at Burlington and guaranteed by HGPI.	31	45
Convertible promissory note to HGP LP, as borrower, from newAX, Inc., as lender, as of August 9, 2011, in the amount of \$150,000, bearing interest at 5.0%, matures on August 31, 2016, secured by the Company's interest in Horizon El Portal, LLC and convertible into partnership units of HGP LP at newAX, Inc.'s election at a conversion price per unit of \$1.00, subject to adjustment per the terms of the Convertible Promissory Note dated August 9, 2011.	150	150
Mortgage loan to Horizon El Portal, LLC from a subsidiary of CBL in the		

original amount of \$2,700,000, bearing interest at 7%, with a maturity date of May 31, 2015, secured by the Company's ownership interest in the Atlanta JV and guaranteed by the Company (see below).

816	-
<u>\$64,161</u>	<u>\$70,430</u>

On April 4, 2012, the servicer of the Mortgage loan to 5000 Hakes Drive LLC filed a Claim to Foreclose on the property in connection with the loan. On February 2, 2013, 5000 Hakes Drive, LLC and UBS entered into a Deed in Lieu of Foreclosure Agreement related to the Mortgage. The nonrecourse loan balance was \$1,834,000. This transaction resulted in an approximate \$340,000 gain attributable to the controlling interest.

In June 2011, US Bank amended the terms of its loan to the Company by extending the maturity date to May 1, 2013 and requiring the Company to make principal payments in amounts equal to 50% of the positive net cash flow distributed to the Company from the shopping center located in Oklahoma City, Oklahoma. As additional collateral, the Company was also required to pledge its interest in Horizon OKC (See Note 4). In the third quarter of 2012, the Company sold approximately 11 acres of land to the Illinois Tollway Authority and made a \$3.6 million principal payment on the US Bank loan. On December 28, 2012, the Company sold an additional 3.8 acres of land. Proceeds of \$656,000 were used to pay down the principal of the US Bank loan.

Effective July 1, 2013, US Bank amended the terms of its loan to the Company by extending the maturity date to July 1, 2014, with an additional one year extension available if the Company complies with the terms of the loan during the first year. The Company agreed to make principal payments of \$20,000 per month and cumulative minimum principal payments of \$650,000 by December 31, 2013 and \$1,750,000 by June 30, 2014. Effective September 1, 2013, the amendment requires the Company to make principal payment in amounts equal to 100% of the positive net cash flow distributed to the Company from the Oklahoma City Entities, the El Paso Entities, and the Atlanta Entities (see Note 4). As additional collateral, the Company was also required to pledge its interest in Horizon OK City Outlets, LLC and Horizon El Paso, LLC. Payments totaling \$1,078,000 were made between July 1, 2013 and December 31, 2013.

In May 2012, the Company reached an agreement to extend the maturity date of the loan from Cathay Bank to El Portal Center, LLC to March 1, 2013. On May 31, 2013, Horizon El Portal, a subsidiary of the Company, entered into a loan agreement with a subsidiary of CBL in the amount of \$2,700,000, bearing interest at 7%, with a maturity date of May 31, 2015, secured by the Company's ownership interest in the Atlanta JV and guaranteed by the Company. The proceeds of the loan were used to pay the balance of the \$2,800,000 mortgage of El Portal Center LLC to Cathay Bank. Interest payments are due on the first of each month and principal is due at maturity. The agreement also requires the Company to make principal payment in amounts equal to 100% of the capital distributions from the Atlanta Entities.

On March 6, 2014, Village Green Associates, LLC refinanced its Mortgage loan. The new loan is secured by the shopping center in Huntley, Illinois and guaranteed by the Company. The new loan with a principal amount of \$2,486,400 bears interest at 6.5% and matures March 1, 2019.

Cash interest payments for the years ended December 31, 2013 and 2012, totaled \$3.8 million and \$5.5 million, respectively.

Huntley Net Profits Interests and TIF Bonds

Gary J. Skoien was formerly the Executive Vice President and Chief Operating Officer of The Prime Group, Inc. ("Prime Group"). In connection with his employment with Prime Group, Mr. Skoien was previously granted an interest (the "Skoien Net Profits Interest") in the net profits generated by HDLP, an entity which owns approximately 383 acres of land in a master planned community in Huntley, Illinois (the "Huntley Project"), which obligation the Company assumed in connection with the purchase of the Huntley Project from Prime Group. The Skoien Net Profits Interest consists of a 9.675% participation in the Net Cash Flow (as defined in Mr. Skoien's Net Profits Agreement) distributed to the Company (excluding distributions of all amounts contributed or advanced by the Company to the Huntley Project plus interest per the terms of the agreement) from the Huntley Project. No liability

has been recorded by the Company for the Skoien Net Profits Interest as its current fair value is estimated to be zero. The change in the estimated fair value of the Skoien Net Profits Interests is reflected as a reduction of interest expense in the amount of \$350,000 for the year ended December 31, 2012. There was no change in estimated fair value of the Skoien Net Profits Interests for the year ended December 31, 2013.

In 1993, the Village of Huntley (the "Village") created a Tax Increment Financing District (the "TIF District"). In 1995, the Village sold \$7.0 million of Series A TIF bonds and \$14.0 million of Series B TIF bonds and issued to HD LP Series C TIF bonds with a principal amount of \$24.4 million. In May 2009, the Village sold \$14.3 million of Series 2009 TIF Bonds (the "Series 2009 TIF Bonds"), the proceeds of which were used to retire the Series A and B TIF bonds.

In connection with the issuance of the Series 2009 TIF Bonds, HDLP assigned a portion of the tax increment allocable to the Series C TIF bonds to the Village. The assignment agreement provides that payments made with respect to the Series C TIF bonds will be distributed in the following order of priority: (i) HDLP will receive the first \$204,285 annually until it has received a total of \$1.43 million; (ii) the next \$3.04 million will be allocated 75% to HDLP and 25% to the Village; and (iii) amounts in excess of those in (i) and (ii) will be allocated 25% to HDLP and 75% to the Village. The Series C bonds are subordinate to the Series 2009 TIF Bonds. Currently, no portion of the tax increment is available to the Series C TIF bonds and no value has been ascribed to them by the Company.

The TIF District contains approximately 900 acres of land currently or previously owned by HDLP or Huntley Meadows Residential Venture. The source of repayment for the Series 2009 TIF Bonds and Series C TIF bonds is (a) 100% of the increase in real estate taxes on the land in the TIF District above the taxes in place when the TIF District was created, (b) one-half of the Village's one percent (1%) sales tax collected on retail sales occurring within the TIF District and (c) reserves associated with the Series 2009 TIF Bonds. The repayment of the Series 2009 TIF Bonds is not an obligation of the Company and is not reflected on the Company's consolidated balance sheets as a liability.

Debt Maturities

Debt maturities and principal payments due subsequent to December 31, 2013, are as follows (in thousands):

<u>Due in:</u>	
2014	\$ 2,661
2015	13,818
2016	45,598
2017	150
2018	160
<i>Thereafter</i>	<u>1,774</u>
Total	<u>\$64,161</u>

The Company's ability to secure new loans is limited by the fact that most of the Company's real estate assets are currently pledged as collateral for its current loans. The Company will pay the scheduled principal amortization in the normal course of business during 2014.

Note 10 - Related Party Transactions

In December 2009, the Company sold noncontrolling interests in the entities that owned five of its outlet centers to Bright Horizons of South Florida, LLC ("Bright Horizons"). The centers subject to the transaction are located in Burlington, Washington; El Paso, Texas; Fremont, Indiana; Gettysburg, Pennsylvania and Oshkosh, Wisconsin. Bright Horizons acquired a 22.5% interest in the entities that own the outlet centers (excluding the entity that owns the center in El Paso, in which it acquired a 19.6% preferred interest and a 17.8% common interest). In May 2010, Bright Horizons acquired an additional 26.5% interest in the entities that own the outlet centers (excluding the entity that owns the center in El Paso, in which it acquired an additional 23.6%, preferred interest and an additional 21.8%

common interest). Bright Horizons is controlled by Somerset Outlet Center, L.P., (“Somerset, L.P.”) of which Howard Amster, owns a controlling interest and Gary Skoien, owns a non-controlling interest. Howard Amster is a significant shareholder and director of the Company. Gary Skoien is Chairman of the Board, Chief Executive Officer, President, and a stockholder of the Company.

At December 31, 2013 and 2012, an affiliate of Howard Amster, PLA LP, owned the following interests: (1) 31.3% of Horizon El Portal LLC; (2) 5.9% of the preferred and common interests in Horizon El Paso, LLC; and (3) 7.88% of the preferred and common interests in Horizon OKC. Another affiliate of Howard Amster, Bright Horizons, owns 49% of the interests owned by the Company in the entities that own the outlet centers and related assets in Burlington, WA; Fremont, IN; Gettysburg, PA and Oshkosh, WI and 43.2% of Horizon El Paso, LLC. Somerset Outlet Center, L.P. (“Somerset L.P.”), another affiliate of Mr. Amster, owns 12.6% of the interests in the entities that own the outlet center and related assets in Gettysburg, PA, and 46.4% of Horizon Atlanta, LLC which owns 25% of the Atlanta JV. At December 31, 2013, Somerset L.P. also owned 47.54% of Horizon Louisville which owns 35% of the Louisville JV.

In November 2012, the Company’s interests in the entities related to Magnolia Bluff Factory Shops Limited Partnership (“Magnolia Bluff”) were redeemed by other related parties. A loss of approximately \$40,000 was recognized in connection with the redemption..

At December 31, 2013 and 2012, Gary Skoien owned the following interests (excluding the Net Profits Interests discussed below): (1) 7.8% of Horizon El Portal, LLC (2) 5.9% of Horizon El Paso, LLC; (3) 0.95% of Horizon OKC. Mr. Skoien also owns 9.28% of Bright Horizons and 9.66% of Somerset LP.

At December 31, 2013 and 2012 David Tinkham, an officer of the Company, owned 1.27% of Horizon Atlanta. At December 31, 2013, David Tinkham also owned 3.24% of Horizon Louisville.

At December 31, 2013 and 2012, Andrew Pelmoter, an officer of the Company, owned 4.955% of Horizon OKC and 2.12% of Horizon Atlanta, in addition to the Net Profits Interests discussed below. At December 31, 2013, Andrew Pelmoter also owned 4.31% of Horizon Louisville.

The Company has granted Common interests in Horizon El Paso, Horizon OKC and Horizon Atlanta, LLC (the “Net Profits Interests”) to certain officers of the Company. Holders of the Net Profits Interests are not entitled to any distributions until the holders of the preferred interests have received their capital plus a 12% return thereon. Amounts distributed to holders of the Net Profits Interests are accounted for as profit sharing arrangements with compensation expense being recognized for distributions related to such interests. Net profits interests have been granted as follows: (1) Horizon El Paso - 1.3%, 2.6% and 3.5%, to Gary Skoien, Thomas Rumptz and Andrew Pelmoter, respectively (2) Horizon OKC - 2.5%, 2.5% and 3% to Messers. Skoien, Rumptz and Pelmoter, respectively; and (3) Horizon Atlanta, - 1.25%, 1.25%, 1.25% and .0375% to Messers Skoien, Rumptz, Pelmoter and James Harris, respectively.

The Company incurred interest expense on the margin account between Magnolia Bluff and Ramat Securities Ltd in the approximate amount of \$30,356 for the year ended December 31, 2012. There was no similar expense in the twelve months ended December 31, 2013 as Magnolia Bluff is no longer consolidated. Ramat Securities Ltd is an affiliate of Howard Amster.

The Company incurred interest expense on a loan from Somerset, L.P., which was secured by approximately 46 acres of vacant land in Fruitport Township, Michigan in the amount of \$8,333 for the year ended December 31, 2012. During 2012, this note was converted to Equity in Horizon Atlanta. There was no similar expense in the twelve months ended December 31, 2013.

The Company incurred interest expense on unsecured loans from Somerset, L.P. in the amount of \$88,175 for the year ended December 31 2012. During 2012, these notes were converted to Equity in Horizon Atlanta. There was no similar expense in the twelve months ended December 31, 2013.

The Company incurred interest expense totaling \$25,500 for the year ended December 31, 2012, on loans from four related parties totaling \$400,000. During 2012, the loans were converted to equity in Horizon Atlanta. There was no similar expense in the twelve months ended December 31, 2013.

The Company incurred interest expense on unsecured loans from newAX, Inc. in the amount of \$7,500 and \$12,163 for the years ended December 31, 2013 and 2012, respectively. newAX, Inc. is an affiliate of Howard Amster.

On June 10, 2013, the Company sold 1,350,000 and 450,000 additional shares of stock to PLA, LP and Gary Skoien respectively. The shares were sold at a price of \$1.25 per share netting the Company \$2,250,000 in proceeds. In conjunction with the sale, the Company entered into a loan agreement with Gary Skoien in the amount of \$220,500 bearing interest at 2%, maturing in 2018, and secured by a pledge of his securities.

Note 11 – Restatement of 2012 Financial Statements

The accompanying consolidated financial statements for 2012 have been restated to correct an error related to the recognition of leasing fees received from the joint ventures the Company invests in. The effect of the restatement for 2012 was to increase consolidated net income by \$1,105,000 and net income attributable to the Company by \$794,000. Total stockholders' equity at the beginning of 2012 has been reduced by \$244,000 to correct the error relating to years prior to 2012.

Note 12 – Subsequent Events

In December 2012, Horizon El Portal LLC, the majority member of El Portal Center, LLC, sent a notice to Morgan Stern Realty Holdings, LLC (Morgan Stern), the minority member of its intent to terminate El Portal Center, LLC and require Morgan Stern to sell its interest to Horizon El Portal, LLC. Morgan Stern disputed the validity of the termination notice and Horizon El Portal filed suit on March 4, 2013, seeking, among other things, the enforcement of its rights under the operating agreement to terminate El Portal Center, LLC. On March 19, 2014, Texas District Court issued a temporary order that Morgan Stern is restrained from delaying or preventing the sale of its 37.5% interest in El Portal Center, LLC to Horizon El Portal, LLC. The Court further ordered that Horizon El Portal, LLC post bond or deposit security in the amount of \$130,165, the contractual sales price for Morgan Stern's interest.