

Condensed Consolidated Financial Statements

Horizon Group Properties, Inc.

For the six months ended June 30, 2011 and 2010

Horizon Group Properties, Inc.
Condensed Consolidated Financial Statements
(Unaudited)

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HORIZON GROUP PROPERTIES, INC.
Condensed Consolidated Balance Sheets
(unaudited)

	June 30, 2011	December 31, 2010
	<i>(In thousands)</i>	
ASSETS		
Real estate – at cost:		
Land	\$ 34,965	\$ 34,965
Buildings and improvements	98,869	100,859
Less accumulated depreciation	<u>(16,648)</u>	<u>(17,324)</u>
	117,186	118,500
Construction in progress	1,047	731
Land held for investment	<u>19,162</u>	<u>19,453</u>
Total net real estate	137,395	138,684
Investment in and advances to joint ventures	10,575	10,517
Cash and cash equivalents	307	463
Restricted cash	2,320	4,113
Marketable securities	3,790	4,433
Tenant and other accounts receivable, net	1,718	1,387
Deferred costs (net of accumulated amortization of \$2,070 and \$2,465, respectively)	2,438	2,522
Other assets	<u>2,847</u>	<u>2,666</u>
Total assets	<u>\$161,390</u>	<u>\$164,785</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgages and other debt	\$131,189	\$133,744
Accounts payable and other accrued expenses	3,531	3,363
Prepaid rents and other tenant liabilities	1,325	812
Participation interests and other liabilities	<u>525</u>	<u>525</u>
Total liabilities	<u>136,570</u>	<u>138,444</u>
Commitments and contingencies		
Stockholders' equity:		
Common shares (\$.01 par value, 50,000 shares authorized, 2,888 and 2,859 issued and outstanding, respectively)	29	29
Additional paid-in capital	34,692	34,685
Accumulated deficit	<u>(27,574)</u>	<u>(26,484)</u>
Total stockholders' equity attributable to the controlling interest	7,147	8,230
Noncontrolling interests in consolidated subsidiaries	<u>17,673</u>	<u>18,111</u>
Total stockholders' equity	<u>24,820</u>	<u>26,341</u>
Total liabilities and stockholders' equity	<u>\$161,390</u>	<u>\$164,785</u>

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Condensed Consolidated Statements of Operations
(unaudited)

	Three months ended June 30, 2011	Three months ended June 30, 2010
	<i>(In thousands)</i>	
REVENUE		
Base rent	\$3,139	\$2,926
Percentage rent	121	65
Expense recoveries	668	702
Other	836	902
Interest	<u>159</u>	<u>129</u>
Total revenue	<u>4,923</u>	<u>4,724</u>
EXPENSES		
Property operating	1,025	963
Real estate taxes	432	445
Other operating	44	(11)
Depreciation and amortization	1,158	1,454
General and administrative	1,281	824
Interest	1,992	2,104
Gain on marketable securities	<u>(50)</u>	<u>(143)</u>
Total expenses	<u>5,882</u>	<u>5,636</u>
Income from investment in joint ventures	<u>-</u>	<u>149</u>
Consolidated net loss before gain on sale of real estate	(959)	(763)
Gain on sale of real estate	<u>17</u>	<u>-</u>
Consolidated net loss	(942)	(763)
Less net loss attributable to the noncontrolling interests	<u>408</u>	<u>289</u>
Net loss attributable to the Company	<u>\$ (534)</u>	<u>\$ (474)</u>

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Condensed Consolidated Statements of Operations
(unaudited)

	Six months ended June 30, 2011	Six months ended June 30, 2010
	<i>(In thousands)</i>	
REVENUE		
Base rent	\$ 6,058	\$ 5,768
Percentage rent	198	95
Expense recoveries	1,410	1,532
Other	1,985	1,257
Interest	<u>310</u>	<u>275</u>
Total revenue	<u>9,961</u>	<u>8,927</u>
EXPENSES		
Property operating	2,195	2,141
Real estate taxes	882	892
Other operating	77	97
Depreciation and amortization	2,469	2,950
General and administrative	2,206	1,711
Interest	4,017	4,209
Gain on marketable securities	<u>(34)</u>	<u>(174)</u>
Total expenses	<u>11,812</u>	<u>11,826</u>
Income from investment in joint ventures	<u>1</u>	<u>204</u>
Consolidated net loss before gain on sale of real estate	(1,850)	(2,695)
Gain on sale of real estate	<u>17</u>	<u>-</u>
Consolidated net loss	(1,833)	(2,695)
Less net loss attributable to the noncontrolling interests	<u>743</u>	<u>1,050</u>
Net loss attributable to the Company	<u><u>\$(1,090)</u></u>	<u><u>\$(1,645)</u></u>

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Condensed Consolidated Statements of Cash Flows
(unaudited)

	<u>Six months ended</u> <u>June 30, 2011</u>	<u>Six months ended</u> <u>June 30, 2010</u>
	<i>(In thousands)</i>	
Cash flows from operating activities:		
Net loss attributable to the Company	\$(1,090)	\$(1,645)
Gain on sale of real estate	(17)	-
Adjustments to reconcile net loss attributable to the Company to net cash provided by/(used in) operating activities:		
Net loss attributable to the noncontrolling interests	(743)	(1,050)
Income from investment in joint ventures	(1)	(204)
Interest income on advances to joint ventures	(152)	-
Depreciation	2,329	2,887
Amortization, including deferred financing costs	452	618
Gain on marketable securities	(34)	(174)
HGPI stock grants	7	9
Changes in assets and liabilities:		
Restricted cash	1,793	(686)
Tenant and other accounts receivable	(331)	66
Deferred costs and other assets	(269)	(71)
Accounts payable and other accrued expenses	174	(383)
Prepaid rents and other tenant liabilities	<u>513</u>	<u>(220)</u>
Net cash provided by/(used in) operating activities	<u>2,631</u>	<u>(853)</u>
Cash flows from investing activities:		
Net (advance)/repayment of notes receivable	6	(14)
Net distribution from joint venture	95	150
Net marketable securities activity	677	5,293
Net proceeds from sale of real estate	313	-
Expenditures for buildings and improvements	<u>(1,340)</u>	<u>(221)</u>
Net cash provided by/(used in) investing activities	<u>(249)</u>	<u>5,208</u>
Cash flows from financing activities:		
Net contributions from noncontrolling interests	305	108
Net proceeds from sale of ownership interests	-	1,350
Principal payments on mortgages and other debt	(3,625)	(6,492)
Proceeds from borrowings	1,070	-
Debt issue costs	<u>(288)</u>	<u>(76)</u>
Net cash used in financing activities	<u>(2,538)</u>	<u>(5,110)</u>
Net decrease in cash and cash equivalents	(156)	(755)
Cash and cash equivalents:		
Beginning of period	<u>463</u>	<u>1,406</u>
End of period	<u>\$ 307</u>	<u>\$ 651</u>

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Condensed Consolidated Statements of Cash Flows, continued
(unaudited)

	Six Months Ended <u>June 30, 2011</u>	Six Months Ended <u>June 30, 2010</u>
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(in thousands)

Supplemental Information -

During the six months ended June 30, 2011, the Company sold the following assets:

Land held for investment	\$ 291
Accounts payable and other accrued expenses	<u>9</u>
Net assets sold	300
Gross proceeds from sale of real estate	<u>317</u>
Gain on sale of real estate	<u>\$ 17</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 condensed consolidated statement of cash flows for the six months ended June 30, 2011:

Gross proceeds from sale of real estate	\$ 317
Accounts payable and other accrued expenses - closing costs	<u>(4)</u>
Net proceeds from sale of real estate	<u>\$ 313</u>

The following represents supplemental disclosure of the sale of ownership interests in subsidiaries to Bright Horizons (see Notes 3 and 8) during the six months ended June 30, 2010:

Noncontrolling interests in consolidated subsidiaries	\$ 2,955
Additional paid-in capital	<u>(1,605)</u>
Net proceeds from sale of ownership interests	<u>\$ 1,350</u>

The following represents the supplemental disclosure of noncash activity for the disposal of fully depreciated/amortized assets during the six months ended June 30, 2011 and 2010:

Buildings and improvements	\$ 327	\$ 533
Deferred costs	<u>(125)</u>	<u>(201)</u>
	<u>\$ 202</u>	<u>\$ 332</u>

See accompanying notes to condensed consolidated financial statement

HORIZON GROUP PROPERTIES, INC.
Condensed Consolidated Statements of Stockholders' Equity
Six Months Ended June 30, 2011 and 2010
(unaudited, 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, 2011	\$29	\$34,685	\$(26,484)	\$8,230	\$ 18,111	\$26,341
Net loss	-	-	(1,090)	(1,090)	(743)	(1,833)
Stock grant to officers	-	7	-	7	-	7
Net contributions from noncontrolling interest	-	-	-	-	305	305
Balance, June 30, 2011	<u>\$29</u>	<u>\$34,692</u>	<u>\$(27,574)</u>	<u>\$7,147</u>	<u>\$17,673</u>	<u>\$24,820</u>
				Total Stockholders' Equity Attributable to the Controlling Interest	Noncontrolling Interests in Consolidated Subsidiaries	Total Stockholders' Equity
Balance, January 1, 2010	\$28	\$36,008	\$(24,284)	\$11,752	\$12,787	\$24,539
Net loss	-	-	(1,645)	(1,645)	(1,050)	(2,695)
Stock grant to officers	1	8	-	9	-	9
Sale of interests in consolidated subsidiaries (see Notes 3 and 8)	-	(1,605)	-	(1,605)	2,955	1,350
Net contributions from noncontrolling interest	-	-	-	-	108	108
Balance, June 30, 2010	<u>\$29</u>	<u>\$34,411</u>	<u>\$(25,929)</u>	<u>\$ 8,511</u>	<u>\$14,800</u>	<u>\$23,311</u>

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Six Months Ended June 30, 2011 and 2010
(unaudited)

Note 1 – Organization and Basis of Presentation

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 June 30, 2011 and December 31, 2010, HGPI owned approximately 68.7% and 68.4%, 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 accompanying unaudited condensed consolidated financial statements include the accounts of all majority-owned subsidiaries, and all significant inter-company amounts have been eliminated. Due to the seasonal nature of certain operational activities, among other factors, the results for the interim period ended June 30, 2011 are not necessarily indicative of the results that may be obtained for the full fiscal year.

These condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and include selected information and disclosures for the interim periods. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2010.

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 equity or cost method. 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

The condensed consolidated financial statements have been prepared in conformity with GAAP, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities (including disclosure of contingent assets and liabilities) at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations for the interim periods presented have been included in these condensed consolidated financial statements and are of a normal and recurring nature.

Principles of Consolidation

The condensed 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. In accordance with GAAP, the Company also consolidates variable interest entities if it is that entity’s primary beneficiary.

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.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Six Months Ended June 30, 2011 and 2010
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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 those costs are determined to be non-recoverable. At June 30, 2011, pre-development costs classified as Other Assets and Construction in Progress were \$808,000 and \$721,000, respectively. At December 31, 2010, pre-development costs classified as Other Assets and Construction in Progress were \$610,000 and \$685,000, respectively.

Fair Value Measurements

The various inputs that may be used to determine the fair value of the Company's assets are summarized in three broad levels:

- Level 1 - Quoted prices in active markets for identical securities
- Level 2 - Other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.)
- Level 3 - Significant unobservable inputs (including the Company's own assumptions used to determine value)

At June 30, 2011 and December 31, 2010, the Company held marketable securities that total approximately \$3.8 million and \$4.4 million, respectively, which are considered to have Level 2 fair value inputs. The Company did not hold any Level 3 assets during the six months ended June 30, 2011 and 2010.

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. 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.

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 June 30, 2011 and December 31, 2010 and for the periods 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 statement of operations. For the periods ended June 30, 2011 and 2010, 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 2008.

Subsequent Events

The Company has evaluated subsequent events through October 31, 2011, the date the condensed consolidated financial statements were available to be issued, and determined that there have been no significant events that have

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
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(unaudited)

occurred through that date that have not been reflected in the condensed consolidated financial statements and/or disclosed in the notes to the condensed consolidated financial statements.

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 June 30, 2011.

<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Gross Leasable Area (Sq. Ft.)</u>	<u>Net Carrying Value</u>	<u>Ownership Percentage</u>
The Outlet Shoppes at Burlington	Burlington, WA	Outlet Retail	174,260	\$ 11,343,000	51.0%
El Portal Center	Laredo, TX	Retail	345,106	11,181,000	38.0%
The Outlet Shoppes at Fremont	Fremont, IN	Outlet Retail	228,925	10,994,000	51.0%
The Outlet Shoppes at Gettysburg	Gettysburg, PA	Outlet Retail/ Ancillary Land	249,937	51,744,000	51.0%
The Outlet Shoppes at Oshkosh	Oshkosh, WI	Outlet Retail	270,512	27,497,000	51.0%
Village Green Shopping Center	Huntley, IL	Retail	22,204	2,740,000	100.0%
5000 Hakes Drive	Norton Shores, MI	Office	28,863	1,636,000	51.1%
Corporate Assets	Norton Shores, MI	Miscellaneous	-	<u>51,000</u>	100.0%
Total			<u>1,319,807</u>	<u>\$117,186,000</u>	
			<u>Acres</u>		
Land Held for Investment	Fruitport Township, MI	Land	14	\$ 478,000	100%
Land Held for Investment	Huntley, IL	Land	<u>400</u>	<u>18,684,000</u>	100%
Total			<u>414</u>	<u>\$ 19,162,000</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 condensed consolidated statements of operations and such parties' portion of the net equity in such subsidiaries is reported on the Company's condensed consolidated balance sheets as Noncontrolling Interests in Consolidated Subsidiaries.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
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In December 2009, the Company sold noncontrolling interests in the entities that own 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). The total price for the acquired ownership interests was \$1.35 million. 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) for additional consideration of \$1.624 million which consists of \$1.35 million paid at closing and preferential distributions totaling \$274,000 from future positive cash flow distributions made from these entities in fourth quarter 2010. No gain or loss was recognized on these transactions. Bright Horizons is controlled by Somerset Outlet Center, L.P., (“Somerset, L.P.”) of which Howard Amster, a director and significant stockholder of the Company (“Howard Amster”) owns a controlling interest and Gary Skoien, Chairman, President and CEO of the Company (“Gary Skoien”) owns a non-controlling interest.

Pre-Development Projects

In December 2010, the Company entered into an agreement to acquire approximately 50 acres of vacant land in suburban Atlanta, Georgia, which is intended to be the site of an outlet center. The site is adjacent to Interstate 575 in Woodstock, Georgia. The Company’s obligation to purchase the property is subject to the satisfactory completion of due diligence, the achievement of certain pre-leasing of the project and other conditions. At June 30, 2011, and December 31, 2010, the Company’s condensed consolidated balance sheets included pre-development costs of \$393,000 and \$260,000, respectively, for this project. The Company had outstanding commitments for pre-development costs and capital expenditures on leases signed (which amounts become payable when the spaces are delivered to tenants) in the amount of \$1.3 million and \$21,000, respectively at June 30, 2011. In connection with the land acquisition contract, the Company made a \$3.0 million loan to the entity that controls the land for the outlet center as well as an additional 123 acres adjacent to the outlet center site. The loan receivable bears interest at 3.0%, matures in December 2012 and is secured by a pledge of the ownership interests in the land-owning entity. In addition, as an inducement to make the loan, the Company was granted a 15% economic interest in the land-owning entity. The Company uses the cost method to account for its investment in the entity which owns the vacant land (see Note 4).

Note 4 - Investment in Joint Ventures

El Paso Entities

As of June 30, 2011 and December 31, 2010, 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 owns 50% of El Paso Outlet Center Holding, LLC, (together with its subsidiaries, “El Paso Center”), a joint venture that developed and owns an outlet shopping center in El Paso, Texas, which opened on October 11, 2007 containing approximately 380,000 square feet of gross leasable area and owns several outparcels adjacent to the shopping center. Horizon El Paso also owns a 50% interest in TOSEP Land Company, LLC (“TOSEP”), an entity that owns approximately 45 acres of undeveloped land adjacent to the outlet center. An affiliate of Howard Amster directly owns 5.9% of the preferred and common interests and Gary Skoien directly owns 5.9% of the preferred interests and 7.2% of the common interests of Horizon El Paso. Bright Horizons owns 43.2% of the preferred interests and 39.6% of the common interests in Horizon El Paso (see Note 7). The Company controls Horizon El Paso with a 50.1% voting unit ownership position at June 30, 2011 and December 31, 2010. The Company consolidates the results of operations and the assets and liabilities of Horizon El Paso. The Company uses the equity method to account for its investment in El Paso Center and TOSEP.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
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(unaudited)

Summary financial information (stated at 100%) of El Paso Center and TOSEP as of June 30, 2011 and December 31, 2010 and for the three and six months ended June 30, 2011 and 2010 are as follows (in thousands):

	<u>As of</u> <u>June 30, 2011</u>	<u>As of</u> <u>December 31, 2010</u>		
Assets				
Real estate	\$51,063	\$52,013		
Cash and cash equivalents	197	1,183		
Restricted cash	4,246	4,959		
Other assets	<u>3,871</u>	<u>4,116</u>		
Total assets	<u>\$59,377</u>	<u>\$62,271</u>		
Liabilities and members' deficit				
Mortgages and other debt	\$77,085	\$77,476		
Other liabilities	2,437	3,237		
Members' deficit	<u>(20,145)</u>	<u>(18,442)</u>		
Total liabilities and members' deficit	<u>\$59,377</u>	<u>\$62,271</u>		
	<u>Three Months</u> <u>Ended</u> <u>June 30, 2011</u>	<u>Three Months</u> <u>Ended</u> <u>June 30, 2010</u>	<u>Six Months</u> <u>Ended</u> <u>June 30, 2011</u>	<u>Six Months</u> <u>Ended</u> <u>June 30, 2010</u>
Statements of Operations				
Revenue	<u>\$ 3,212</u>	<u>\$ 3,191</u>	<u>\$ 6,271</u>	<u>\$ 6,215</u>
Operating expenses	949	905	1,792	1,620
Depreciation and amortization expense	1,062	1,105	2,259	2,157
General and administrative expenses	241	258	460	453
Interest expense	<u>1,641</u>	<u>1,669</u>	<u>3,273</u>	<u>3,324</u>
Total expenses	<u>3,893</u>	<u>3,937</u>	<u>7,784</u>	<u>7,554</u>
Net loss	<u>\$ (681)</u>	<u>\$ (746)</u>	<u>\$ (1,513)</u>	<u>\$ (1,339)</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 \$67.6 million and \$68.0 million at June 30, 2011 and December 31, 2010, respectively, bears interest at 7.06%, requires principal payments over a 30-year amortization schedule and is due December 5, 2017. In November 2007, Dominion Capital Asset Company A, LLC made a preferred equity investment in El Paso Center in the amount of \$9.5 million, bearing interest at 15.0% and due October 27, 2010. In the event of a default, the preferred equity partner has an option to purchase the ownership interest for an amount equal to 10% of the amount that the Company would receive if the property were sold at its fair market value. The preferred equity member has asserted the maturity of the obligation and the Company is currently in negotiations with the holder of the preferred equity interest with respect to an extension of the maturity date of the preferred equity. The Company is also pursuing options to secure a replacement preferred equity partner. The preferred equity investment is classified as debt on the balance sheet of El Paso Center.

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(*unaudited*)

The Company received management, leasing and similar fees from El Paso Center that totaled \$274,000 and \$212,000 during the three months ended June 30, 2011 and 2010, respectively, and \$474,000 and \$425,000 during the six months ended June 30, 2011 and 2010, respectively.

There was no significant operating activity for TOSEP for the six months ended June 30, 2011 and 2010.

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 Venture on the condensed consolidated statements of operations. The Company recognized income from distributions in excess of equity investments of \$150,000 and \$205,000 for the three and six months ended June 30, 2010, respectively, related to El Paso Center. There was no similar income recognized in the three and six months ended June 30, 2011.

Oklahoma City

In October 2010, the Company formed a joint venture (the "OKC Joint Venture") with an affiliate of CBL & Associates, Inc. ("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 total equity commitment from CBL and Horizon OKC is \$20.9 million, of which Horizon OKC is obligated for \$5.23 million. Horizon OKC owns 25% of the OKC Joint Venture and CBL owns 75%. At formation, the OKC Joint Venture purchased the land for the project and made other payments, resulting in an initial equity capitalization of \$16.2 million of which Horizon OKC's 25% share was \$4.05 million. As of the date of formation of the OKC Joint Venture, the Company had incurred \$8.05 million of costs, \$3.35 million of which had been funded with the proceeds of loans from affiliates. The Company received a distribution of \$4.0 million representing excess capital contributions at closing and used a portion of this distribution to repay a portion of the loans from affiliates. The Company funded an additional \$1.2 million of capital contributions in the fourth quarter of 2010.

In November 2010, the OKC Joint Venture received a \$48.85 million construction loan from US Bank for the project. The loan bears interest at LIBOR plus 3.0% and matures on November 30, 2013. At June 30, 2011 and December 31, 2010, the principal balance of the construction loan was \$24.7 million and \$2.4 million, respectively. CBL has guaranteed the loan and receives an annual fee of 1.0% of the maximum loan amount for providing such guarantee. The Company leases and manages The Outlet Shoppes at Oklahoma City and acts as the co-developer of the project, which opened in August 2011.

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., Pleasant Lake Apts. Limited Partnership ("PLA LP") (an affiliate of Howard Amster), Gary Skoien and Andrew Pelmoter. On June 1, 2011, Magnolia Bluff Factory Shops Limited Partnership (see Note 7) distributed its original preferred interests in Horizon OKC to its partners: the Company, PLA LP and Gary Skoien. The Company also granted common interests in Horizon OKC (the "OKC Net Profits Interests") to Gary Skoien, Thomas Rumptz 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 and uses the equity method to account for its investment in the OKC Joint Venture.

At June 30, 2011 and December 30, 2010, the OKC Joint Venture had incurred construction costs of \$40.8 million and \$16.0 million, respectively. At June 30, 2011, the OKC Joint Venture had outstanding commitments for construction costs and capital expenditures on leases signed (which amounts become payable when the spaces are delivered to the tenants) in the amount of \$7.8 million and \$10.2 million, respectively. The Company received

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development, leasing and consulting fees from the OKC Joint Venture that totaled \$442,000 and \$762,000 during the three and six months ended June 30, 2011. No similar revenue was received in the three and six months ended June 30, 2010. There was no significant operating activity for the OKC Joint Venture for the three and six months ended June 30, 2011. This center opened in August 2011.

Summary financial information (stated at 100%) of the OKC Joint Venture as of June 30, 2011 and December 31, 2010 is as follows (in thousands):

	As of <u>June 30, 2011</u>	As of <u>December 31, 2010</u>
Assets		
Real estate-net	\$49,212	\$24,417
Cash and cash equivalents	48	7
Other assets	<u>511</u>	<u>17</u>
Total assets	<u>\$49,771</u>	<u>\$24,441</u>
Liabilities and members' equity		
Mortgages and other debt	\$24,746	\$ 2,413
Other liabilities	4,088	1,095
Members' equity	<u>20,937</u>	<u>20,933</u>
Total liabilities and members' equity	<u>\$49,771</u>	<u>\$24,441</u>

Woodstock

The Company is a joint venture partner in Ridgewalk Property Investments, LLC ("RPI") and accounts for its joint venture interest using the cost method. The Company acquired its joint venture interest in connection with a \$3.0 million loan it made to RPI in December 2010. The joint venture agreement provides that the Company receives a 15.0% economic interest in Ridgewalk Holding, LLC ("Holding") which is currently 100% owned by RPI. Holding owns approximately 173 acres of vacant land in Woodstock, Georgia, 50 acres of which comprise the site for an outlet center to be developed by the Company. The Company has a contract to purchase the 50-acre site from RPI subject to its release from the mortgage.

Note 5 – Commitments

The Company has outstanding commitments for pre-development/construction costs and tenant allowances on leases signed (which amounts become payable when the spaces are delivered to the tenants) at June 30, 2011 in the amount of \$1.4 million and \$705,000, respectively, which are not reflected on the balance sheet as of June 30, 2011. These amounts include the commitments for the pre-development projects (see Note 3). These capital expenditures are expected to be paid during 2011 and 2012 and are anticipated to be funded from capital improvement escrows, construction financing, equity contributions and additional borrowings.

Note 6 – Mortgages and Other Debt

Total secured indebtedness was \$130.7 million and \$133.2 million at June 30, 2011 and December 31, 2010, respectively. Cash paid for interest for both the three months ended June 30, 2011 and 2010 was \$1.8 million and for the six months ended June 30, 2011 and 2010 was \$3.6 million and \$3.3 million, respectively. Interest advanced on loans or reserve accounts tied to loans for the three months ended June 30, 2011 and 2010 was \$77,000 and \$220,000, respectively, and for the six months ended June 30, 2011 and 2010 was \$168,000 and \$633,000,

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respectively. The Company capitalized interest totaling \$30,000 and \$60,000 for the three and six months ended June 30, 2010, respectively.

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 2011 and is in the process of or anticipates refinancing or extending the maturities of the remainder of the \$15.4 million of obligations due prior to June 30, 2012.

The Company is currently negotiating with the servicer of the mortgage loan to 5000 Hakes Drive LLC with respect to modifying the terms of that loan. The Company has not reached an agreement with the servicer and has not paid its monthly scheduled debt service payment since January 2010. The Company is remitting the monthly net operating income generated by the property to be applied to the loan and continues to manage the property.

In December 2010, the Company entered into an agreement with a representative of The James T. Slayback, Sr. Family Trust to amend the terms of the unsecured promissory note it made to the Company. The loan now calls for monthly payments of \$30,000, bears interest at 3.904% and is due on October 1, 2012. The balance due on the loan was \$449,000 and \$591,000 as of June 30, 2011 and December 31, 2010, respectively.

MB Financial, the lender on the mortgage loan to Village Green Associates, LLC with a maturity date of February 15, 2011, has extended the maturity to February 15, 2014. The loan bears interests at a rate of 7.5% and is guaranteed by the Company.

In April 2010, US Bank, the lender on the mortgage loan to Huntley Development Limited Partnership ("HDLP") which is secured by approximately 400 acres of vacant land in Huntley, Illinois and guaranteed by the Company, amended the loan by requiring the Company to begin the payment of interest out of pocket commencing with the payment due for April 2010. In July 2010, US Bank amended the terms of the loan by extending the maturity of the loan to January 31, 2011 and requiring the Company to pledge its interest in the Huntley Series C TIF bonds (see below) as additional collateral. The Company also agreed to make principal payments of \$10,000 each in August and September 2010 and \$20,000 each month thereafter. In September 2010, the Company sold 8.4 acres of investment land in Huntley and utilized \$1.6 million of the proceeds to pay down the loan from US Bank. In February 2011, US Bank extended the maturity of the loan to May 1, 2011.

In June 2011, US Bank again 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 50.0% of the positive net cash flow distributed to the Company from the shopping center in Oklahoma City, Oklahoma. As additional collateral, the Company was also required to pledge its interest in Horizon OKC (see Note 4).

In July 2007, the Company entered into a guaranty agreement in connection with the \$6.0 million mezzanine loan to Gettysburg Outlet Center Holding, LLC, as borrower, from CW Capital LLC, as lender. The loan was purchased by Fortress Credit Opportunities I LP. The guaranty contains covenants (the "Guaranty Covenants") requiring that the Company maintain net worth of at least \$25.0 million and liquidity of \$5.0 million, each of which is to be reasonably determined by the lender. Although an uncertainty exists as the lender has not provided definitions with respect to the terms contained in the Guaranty Covenants, the Company believes it is in compliance with the Guaranty Covenants and has received no notice of default with respect to its compliance with the Guaranty Covenants. The loan required a \$4.0 million payment to be made on or before August 9, 2011 which the Company did not make. The Company has entered into a forbearance agreement with the lender pursuant to which the Company may purchase the loan at a discount or restructure the loan by making certain principal payments. On September 19, 2011, the mezzanine loan was purchased by an entity owned by an affiliate of CBL & Associates, Inc. and an affiliate of Howard Amster and Gary Skoien (see Note 9).

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The Company has exercised its option to extend the maturity of the loan from Cathay Bank to El Portal Center, LLC to September 1, 2011. In January 2011, a principal payment of \$1.65 million was made and an interest reserve was funded with \$80,000 from the flood insurance proceeds. In March 2011, a principal payment of \$176,000 was made from the flood insurance proceeds. In connection with the extension of the maturity of the loan to September 1, 2011, the Company made a principal payment of \$164,000 and funded \$163,000 into the interest reserve in April 2011 from the flood insurance proceeds. In September 2011, the maturity date of the loan was extended to November 1, 2011. The Company is currently negotiating with Cathay Bank with respect to an extension of the maturity date of the loan beyond November 1, 2011.

In December 2010, Somerset, L.P. made an unsecured loan to the Company in the amount of \$300,000. This loan bears interest at a rate of 25.0% (15.0% is payable currently and 10.0% is deferred until maturity) and matures on December 30, 2013. In December 2010, Somerset, L.P. made an additional unsecured loan to the Company in the amount of \$600,000. This loan bears interest at a rate of 9.0% and matures on May 31, 2013. Howard Amster and Gary Skoien and other unrelated parties own Somerset, L.P. In April 2011, the Company sold a 32-acre parcel of land located in Fruitport Township, Michigan for \$317,000. The Company used \$100,000 of the proceeds to partially repay the mortgage loan from Somerset, L.P. A gain of \$17,000 was recognized on this transaction.

In January 2011, the Company received loans from four related parties totaling \$400,000. These loans bear interest at a rate of 25.0% (15.0% is payable currently and 10.0% is deferred until maturity) and mature on January 28, 2013.

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 400 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. The Company has recorded a liability for the Skoien Net Profits Interest in the amount of \$525,000 as of June 30, 2011 and December 31, 2010, which represents its estimated fair value as of such dates and which amount is included in Participation Interests and Other Liabilities on the Company’s condensed consolidated balance sheets.

The Company granted to Prime Group and certain of its affiliates, a participation interest of 26% of the net cash flow distributed from the Huntley Project (the “Prime Group Participation Interest”) as additional consideration for the purchase of the Huntley Project from Prime Group. The Prime Group Participation Interest does not entitle Prime Group to participate in decision making or otherwise control the activities of the Huntley Project. No amount is payable to Prime Group until the Company has received distributions in excess of its purchase price and advances made by the Company to the Huntley Project plus a 40% return on such amounts, compounded quarterly. Aggregate amounts payable pursuant to the Prime Group Participation Interest are limited to \$5.0 million. No liability has been recorded by the Company for the Prime Group Participation Interest as its current fair value is estimated to be zero.

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 HDLP 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.

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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 thus is not reflected on the Company's condensed consolidated balance sheets as a liability.

Note 7 - Related Party Transactions

At June 30, 2011 and December 31, 2010 an affiliate of Howard Amster, PLA LP, owns approximately 44% of Magnolia Bluff Factory Shops Limited Partnership ("Magnolia Bluff") an entity that owns a portfolio of marketable securities and 49% of the entity that owns the office building in Norton Shores, Michigan. PLA LP also owns 31.3% of Horizon El Portal LLC and 5.9% of the preferred and common interests in Horizon El Paso, LLC. At June 30, 2011, PLA LP owns 7.88% of the preferred and common interests in Horizon OKC. Another affiliate of Howard Amster, Bright Horizons, owns 49% of the interests in the entities that own the outlet centers and related assets in Burlington, WA; Fremont, IN; Gettysburg, PA and Oshkosh, WI. Bright Horizons also owns 43.2% of Horizon El Paso, LLC. Included in Other Assets on the condensed consolidated balance sheets at June 30, 2011 and December 31, 2010 is an unsecured note receivable from Howard Amster which has a balance of \$1.42 million which bears interest at 5.0%.

At June 30, 2011 and December 31, 2010, Gary Skoien owns 7.8% of Horizon El Portal, LLC, 5.3% of Magnolia Bluff, and 5.9% of the preferred interests and 7.2% of the common interests in Horizon El Paso, LLC. At June 30, 2011, Gary Skoien owns 0.95% of the preferred interests and 3.45% of the common interests in Horizon OKC. Gary Skoien also indirectly owns 9.3% of Bright Horizons.

At June 30, 2011, Andrew Pelmoter, an officer of the Company, owns 4.955% of the preferred and 7.955% of the common interests in Horizon OKC.

Common interests in Horizon El Paso (the "El Paso Net Profits Interests") were granted in May 2007 to certain officers of the Company, Gary Skoien, Thomas Rumpitz and Andrew Pelmoter, representing 1.3%, 2.6% and 3.5%, respectively, of the total common interests in Horizon El Paso, LLC. Holders of the El Paso 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%, compounded quarterly. The El Paso Net Profits Interests are accounted for as a profit sharing arrangement with compensation expense being recognized for payments related to such interests.

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 OKC Net Profits Interests will be

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accounted for as a profit sharing arrangement with compensation expense being recognized for payments related to such interests.

The mortgage loan which is secured by the Company's office building located in Norton Shores, Michigan requires an officer of the Company to be personally liable for losses suffered by the lender for environmental damages and certain actions prohibited under the loan documents. Gary Skoien personally indemnified this lender for such losses and damages. The Company agreed to indemnify Gary Skoien for any amounts paid under the indemnification and to pay Gary Skoien total an annual fee of \$30,000 related to such indemnification until such loan is repaid (or Gary Skoien is otherwise released from the indemnification obligation).

The Company incurred interest expense on the margin account between Magnolia Bluff and Ramat Securities Ltd in the amount of \$9,000 and \$27,000 for the three months ended June 30, 2011 and 2010, respectively, and \$18,000 and \$52,000 for the six months ended June 30, 2011 and June 30, 2010, respectively. Ramat Securities Ltd is an affiliate of Howard Amster.

The Company incurred interest expense on the loan from Somerset, L.P., which is secured by approximately 46 acres of vacant land in Fruitport Township, Michigan in the amount of \$3,000 and \$4,000 for the three months ended June 30, 2011 and 2010, respectively, and \$6,000 and \$8,000 for the six months ended June 30, 2011 and 2010, respectively. In April 2011, the Company sold a 32-acre parcel of the vacant land for \$317,000 and made a principal payment of \$100,000 on this loan. This loan matures in December 2013, has a balance of \$200,000 and bears interest at a rate of 5.0%, payable monthly. Somerset, L.P. also has a 50% interest in the net profits from the sale of the land over certain thresholds. Howard Amster owns a controlling interest and Gary Skoien owns a non-controlling interest in Somerset, L.P.

In December 2009, the Company sold noncontrolling interests in the entities that own 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). The total price for the acquired ownership interests was \$1.35 million. 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) for additional consideration of \$1.624 million which consists of \$1.35 million paid at closing and preferential distributions totaling \$274,000 from future positive cash flow distributions made from these entities in fourth quarter 2010. No gain or loss was recognized on these transactions. Bright Horizons is controlled by Somerset Outlet Center, L.P., ("Somerset, L.P.") of which Howard Amster, a director and significant stockholder of the Company ("Howard Amster") owns a controlling interest and Gary Skoien, Chairman, President and CEO of the Company ("Gary Skoien") owns a non-controlling interest.

Note 8 – Recent Developments

In January 2010, the Company formed a joint venture with a partner from the People's Republic of China whereby it will lease, manage and provide development services with respect to the design, construction and operation of outlet shopping centers in mainland China. The Company's partner is an affiliate of a publicly traded real estate firm that is working on the development of eight outlet shopping centers in China. The Company recognized income from this agreement totaling \$72,000 and \$100,000 for the three months ended June 30, 2011 and 2010, respectively, and \$87,000 and \$190,000 for the six months ended June 30, 2011 and 2010, respectively.

In July 2010, the El Portal Center in Laredo, Texas was damaged as a result of Hurricane Alex. The majority of the damage was caused by the water entering the buildings from the Rio Grande River. The Company has two flood insurance policies in place on this property. It has agreed to a settlement with one insurer for a total claim of \$2.5

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million (the policy limit). The second insurer has asserted that the settlement with the first carrier exceeds the value of the damage for which it is liable. The Company is contesting this assertion. The Company incurred cleaning costs of approximately \$650,000 in 2010 in connection with the flooding and \$1.9 million of insurance proceeds were utilized in January 2011 to partially repay the loan from Cathay Bank and fund an interest reserve and closing costs for an extension of the maturity date. In March 2011, the Company received \$549,000 of additional insurance proceeds which funded a principal payment of \$176,000. In connection with the extension of the maturity of the loan to September 1, 2011, the Company made a principal payment of \$164,000 and \$163,000 into the interest reserve in April 2011 from the flood insurance proceeds. Any additional insurance proceeds which the Company may receive are required to be applied to the principal balance of the Cathay Bank Loan. There can be no assurance that any additional proceeds will be received. The net insurance proceeds of \$481,000 are reflected in the condensed consolidated statements of operations for the six months ended June 30, 2011 as Other Income. No similar revenue was received in the three months ended June 30, 2011. The Company also recognized \$1.9 million of net insurance proceeds as Other Income in the fourth quarter of 2010.

In April 2011, the Company sold a 32-acre parcel of land located in Fruitport Township, Michigan for \$317,000. The Company used \$100,000 of the proceeds to partially repay the mortgage loan from Somerset, L.P. A gain of \$17,000 was recognized on this transaction.

Note 9 – Subsequent Events

In August 2011, newAX, Inc. made two loans to the Company, both in the amount of \$150,000. The first loan bears interest at a rate of 10.0%, matures on August 31, 2013 and is secured by the Company's interest in Horizon El Portal, LLC. The second loan bears interest at a rate of 5.0%, matures on August 31, 2016 and is convertible into partnership units of Horizon Group Properties, L.P. 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. newAX, Inc. is an affiliate of Howard Amster.

On September 14, 2011, the Company entered into an agreement with an entity owned by an affiliate of CBL & Associates, Inc. and an affiliate of Howard Amster and Gary Skoien ("CBL Mezz Lender") with respect to the acquisition of the mezzanine loan to Gettysburg Outlet Center Holding, LLC by CBL Mezz Lender. The agreement provides that the interest rate on the mezzanine loan will be the greater of LIBOR plus 9.0% or 10.0% and that the parties shall revise the mezzanine loan documents in a manner mutually satisfactory to the parties. The agreement also provides that CBL Mezz Lender may convert the mezzanine loan into equity equal to 62.63% of the Gettysburg property. CBL Mezz Lender closed on its acquisition of the mezzanine loan on September 19, 2011.

Note 10 – Business Operations

The condensed consolidated financial statements have been prepared on a going concern basis, which contemplates continuation of the Company as a going concern. The Company has sustained operating losses and has increased its accumulated deficit. In addition, the Company has \$15.4 million of debt obligations due prior to June 30, 2012. The Company is currently in negotiations with the lenders on modifications of the terms of the loans related to its properties in El Paso and Laredo, Texas and Gettysburg, Pennsylvania.

In view of these matters, realization of a major portion of the Company's assets in the accompanying condensed consolidated financial statements is dependent upon continuing operations of the Company which in turn is dependent upon the Company's ability to meet its financing requirements and the success of its future operations. The Company anticipates refinancing or extending the maturities of the obligations due in the next twelve months. Management believes the operations of the Company and the support from its shareholders will continue to generate sufficient cash flow for its working capital and financing requirements. Management believes the actions presently being taken provide the opportunity for the Company to continue as a going concern.