

Condensed Consolidated Financial Statements

Horizon Group Properties, Inc.

For the six months ended June 30, 2016 and 2015

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

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

	June 30, 2016	December 31, 2015
	<i>(In thousands)</i>	
ASSETS		
Real estate – at cost:		
Land	\$ 11,120	\$ 18,334
Buildings and improvements	55,432	58,040
Less accumulated depreciation	(18,418)	(18,300)
	48,134	58,074
Construction in progress	169	5,241
Land held for investment	18,266	18,253
Total net real estate	66,569	81,568
Investment in and advances to joint ventures	15,832	5,207
Cash and cash equivalents	5,553	4,326
Restricted cash	1,880	2,344
Tenant and other accounts receivable, net	1,077	1,325
Deferred costs (net of accumulated amortization of \$485 and \$343, respectively)	1,073	1,221
Other assets	6,054	4,787
Total assets	\$ 98,038	\$ 100,778
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgages and other debt	\$ 64,683	\$ 67,486
Accounts payable and other accrued expenses	5,940	5,459
Prepaid rents and other tenant liabilities	321	450
Total liabilities	70,944	73,395
Commitments and contingencies		
Stockholders' equity:		
Common shares (\$.01 par value, 50,000 shares authorized, 4,829 and 4,672 issued and outstanding as of June 30, 2016 and December 31, 2015, respectively.)	48	47
Additional paid-in capital	37,447	37,058
Accumulated deficit	(20,864)	(20,476)
Total stockholders' equity attributable to the controlling interest	16,631	16,629
Noncontrolling interests in consolidated subsidiaries	10,463	10,754
Total stockholders' equity	27,094	27,383
Total liabilities and stockholders' equity	\$ 98,038	\$ 100,778

See accompanying notes to condensed consolidated financial statements.

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

	<u>Three months ended</u> <u>June 30, 2016</u>	<u>Three months ended</u> <u>June 30, 2015</u>
	<i>(In thousands)</i>	
REVENUE		
Base rent	\$ 2,066	\$ 2,110
Percentage rent	98	167
Expense recoveries	245	257
Other	<u>2,163</u>	<u>2,071</u>
Total revenue	<u>4,572</u>	<u>4,605</u>
EXPENSES		
Property operating	975	866
Real estate taxes	326	326
Other operating	150	83
Depreciation and amortization	589	641
General and administrative	2,860	2,302
Interest	<u>861</u>	<u>819</u>
Total expenses	<u>5,761</u>	<u>5,037</u>
Income from investment in joint ventures	<u>1,676</u>	<u>1,193</u>
Consolidated net income before gain on sale of real estate	<u>487</u>	<u>761</u>
Gain from deconsolidation of subsidiary	<u>1,855</u>	<u>-</u>
Consolidated net income	2,342	761
Less net income attributed to the noncontrolling interests	<u>(1,690)</u>	<u>(578)</u>
Net income attributable to the Company	<u>\$ 652</u>	<u>\$ 183</u>

See accompanying notes to condensed consolidated financial statements.

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

	<u>Six months ended</u> <u>June 30, 2016</u>	<u>Six months ended</u> <u>June 30, 2015</u>
<i>(In thousands)</i>		
REVENUE		
Base rent	\$ 4,124	\$ 4,188
Percentage rent	201	298
Expense recoveries	497	521
Other	<u>3,360</u>	<u>3,233</u>
Total revenue	<u>8,182</u>	<u>8,240</u>
EXPENSES		
Property operating	1,996	1,747
Real estate taxes	620	668
Other operating	291	141
Depreciation and amortization	1,246	1,340
General and administrative	5,271	4,144
Interest	<u>1,771</u>	<u>1,640</u>
Total expenses	<u>11,195</u>	<u>9,680</u>
Income from investment in joint ventures	<u>2,550</u>	<u>1,987</u>
Consolidated net income (loss) before gain on sale of real estate and loss on extinguishment of debt	(463)	547
Gain from deconsolidation of subsidiary	1,855	2,312
Loss on extinguishment of debt	<u>-</u>	<u>(1,761)</u>
Consolidated net income	1,392	1,098
Less net income attributed to the noncontrolling interests	<u>(1,780)</u>	<u>(353)</u>
Net income (loss) attributable to the Company	<u>\$ (388)</u>	<u>\$ 745</u>

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Condensed Consolidated Statements of Stockholders' Equity
Six Months Ended June 30, 2016 and 2015
(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, 2016	\$ 47	\$ 37,058	\$ (20,476)	\$ 16,629	\$ 10,754	\$ 27,383
Net income (loss)	-	-	(388)	(388)	1,780	1,392
Stock granted to or purchased by officer	1	389	-	390	-	390
Distributions to noncontrolling interests	-	-	-	-	(2,071)	(2,071)
Balance, June 30, 2016	<u>\$ 48</u>	<u>\$ 37,447</u>	<u>\$ (20,864)</u>	<u>\$ 16,631</u>	<u>\$ 10,463</u>	<u>\$ 27,094</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, 2015	\$ 47	\$ 37,046	\$ (21,548)	\$ 15,545	\$ 11,866	\$ 27,411
Net income (loss)	-	-	745	745	353	1,098
Distributions to noncontrolling interests	-	-	-	-	(6,823)	(6,823)
Contributions to noncontrolling interests	-	-	-	-	3,981	3,981
Balance, June 30, 2015	<u>\$ 47</u>	<u>\$ 37,046</u>	<u>\$ (20,803)</u>	<u>\$ 16,290</u>	<u>\$ 9,377</u>	<u>\$ 25,668</u>

See accompanying notes to condensed consolidated financial statements.

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

	Year Ended June 30, 2016	Year Ended * June 30, 2015
	<i>(In thousands)</i>	
Cash flows from operating activities:		
Net income (loss) attributable to the Company	\$ (388)	\$ 745
Adjustments to reconcile net income (loss) attributable to the Company to net cash used in operating activities:		
Gain on sale of land	(1,855)	(2,312)
Loss on extinguishment of debt	-	1,761
Distributions from joint ventures included in income	2,611	1,799
Net income attributable to the noncontrolling interests	1,780	353
Income from investment in joint ventures	(2,550)	(1,987)
Depreciation	1,104	1,310
Amortization	142	30
Changes in assets and liabilities:		
Restricted cash	464	419
Tenant and other accounts receivable	248	(195)
Deferred costs and other assets	(212)	(790)
Accounts payable and other accrued liabilities	481	(676)
Prepaid rents and other tenant liabilities	(129)	4
Net cash provided by operating activities	1,696	461
Cash flows provided by (used in) investing activities:		
Investments in joint ventures	-	(112)
Distributions from joint ventures	2,434	477
Investment in future developments	(1,049)	(1,550)
Net proceeds from sale of real estate	-	2,371
Expenditures for buildings and improvements	(2,650)	(871)
Net cash provided by (used in) investing activities	(1,265)	315
Cash flows provided by financing activities:		
Distributions to noncontrolling interests	(2,071)	(6,823)
Contributions from noncontrolling interests	-	3,981
Principal payments on mortgages and other debt	(104)	(2,904)
Proceeds from borrowings	2,581	6,582
Stock issued	390	-
Net cash provided by financing activities	796	836
Net increase (decrease) in cash and cash equivalents	1,227	1,612
Cash and cash equivalents:		
Beginning of year	4,326	2,930
End of year	\$ 5,553	\$ 4,542

* Reclassified to current period presentation

See accompanying notes to condensed consolidated financial statements.

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

(unaudited)

June 30, 2016 **June 30, 2015**
(In thousands)

Noncash financing activity		
Refinance of long-term debt	-	<u>\$ 46,331</u>
Noncash activity related to the disposal of fully depreciated or amortized assets		
Building and improvements	\$67	\$153
Deferred costs	<u>-</u>	<u>176</u>
	<u>\$67</u>	<u>\$329</u>

The following represents supplemental disclosure of sales and noncash activity for the sale and de-consolidation of the assets and liabilities of the Laredo Outlet Shoppes on May 10, 2016 (see Note 4):

Land	\$ 7,214
Building	1,931
Construction in progress	7,400
Partner loan	-5,280
Gain from deconsolidation of subsidiary	<u>1,855</u>
Investment in joint venture	<u>\$13,120</u>

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Six Months Ended June 30, 2016 and 2015
(*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, 2016 and December 31, 2015, HGPI owned approximately 78.7% 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, 2016 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, 2015.

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. 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

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Six Months Ended June 30, 2016 and 2015
(*unaudited*)

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, 2016, pre-development costs, related to projects in Hartford Connecticut and Malaysia, classified as Other assets and Construction in progress totaled \$5.3 million and \$169,000, respectively. At December 31, 2015, pre-development costs classified as Other assets and Construction in progress totaled \$4.3 million and \$5.2 million, 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 Company's own assumptions used to determine value)

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.

Other Revenue

Other revenue consists of income from management, leasing and development agreements, income from tenants with lease terms of less than one year, Series C TIF bonds, and restaurant income.

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, 2016 and December 31, 2015 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, 2016 and 2015 the Company did not incur any interest or penalties.

Subsequent Events

The Company has evaluated subsequent events through November 30, 2016, the date the condensed consolidated financial statements were available to be issued.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Six Months Ended June 30, 2016 and 2015
(unaudited)

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, 2016 (in thousands):

<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Gross Leasable Area (Sq. Ft.)</u>	<u>Net Carrying Value (in thousands)</u>	<u>Ownership Percentage</u>
The Outlet Shoppes at Burlington	Burlington, WA	Outlet Retail	174,660	\$ 9,313	51.0%
The Outlet Shoppes at Fremont (Phases II & III)	Fremont, IN	Outlet Retail	110,510	5,053	51.0%
The Outlet Shoppes at Fremont (Phase I)	Fremont, IN	Outlet Retail	118,422	4,455	51.0%
The Outlet Shoppes at Oshkosh	Oshkosh, WI	Outlet Retail	270,512	23,709	51.0%
Village Green Shopping Center	Huntley, IL	Retail	22,204	2,318	100.0%
El Portal Center	Laredo, TX	Development	N/A	1,663	60.8%
Johnny Rockets	Oshkosh, WI	Restaurant	N/A	496	100.0%
Johnny Rockets	Woodstock, GA	Restaurant	N/A	401	100.0%
Johnny Rockets	Louisville, KY	Restaurant	N/A	622	100.0%
Corporate Assets	Norton Shores, MI	Miscellaneous	-	104	100.0%
	Total		<u>696,308</u>	<u>\$48,134</u>	
			<u>Acres</u>		
Land Held for Investment	Fruitport, MI	Land	14	\$ 379	100.0%
Land Held for Investment	Huntley, IL	Land	<u>375</u>	<u>17,887</u>	100.0%
	Total		<u>389</u>	<u>\$ 18,266</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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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 June 30, 2016. 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 Laredo	Laredo, TX	Outlet Retail	Construction	21.00%
The Outlet Shoppes at El Paso	El Paso, TX	Outlet Retail	433,045	10.29%
The Outlet Shoppes at Oklahoma City	Oklahoma City, OK	Outlet Retail	394,661	8.71%
The Outlet Shoppes at Gettysburg	Gettysburg, PA	Outlet Retail	249,937	19.06%
The Outlet Shoppes at Atlanta	Woodstock, GA	Outlet Retail	413,969	12.08%
The Outlet Shoppes of the Bluegrass	Louisville, KY	Outlet Retail	<u>428,060</u>	15.64%
Total			<u>1,919,672</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 June 30, 2016 and December 31, 2015, respectively. El Paso Holding owns an entity that owns an outlet shopping center in El Paso, TX (the "El Paso Center"). Horizon El Paso 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 several outparcels and ancillary land adjacent to the shopping center (the "Outparcels").

The shopping center owned by El Paso Center secures a loan by NATIXIS Commercial Mortgage Funding, LLC which had a principal balance of \$62.9 million and \$63.5 million at June 30, 2016 and December 31, 2015, respectively, bears interest at 7.06%, and is due December 5, 2017.

During August 2014, El Paso Outlet Center II Expansion, LLC, was opened. El Paso Outlet Center II Expansion is 100% owned by El Paso Outlet Center II, LLC, which is owned 25% by Horizon El Paso and 75% by CBL & Associates Properties, Inc. ("CBL"). The construction was financed by a 48 month construction loan with an interest rate of LIBOR plus 2.75%. The loan balance was \$6.8 million at both June 30, 2016 and December 31, 2015.

The Company received management, leasing and similar fees from El Paso Center that totaled \$197,000 and \$215,000 during the three months ended June 30, 2016 and 2015, respectively, and \$356,000 and \$455,000 during the six months ended June 30, 2016 and 2015, 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. The Company recognized income from distributions in excess of equity investments in the El Paso Entities that totaled \$133,000 and \$514,000 during the three months ended June 30, 2016 and 2015, respectively, and \$233,000 and \$706,000 during the six months ended June 30, 2016 and 2015, respectively.

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

Summary financial information (stated at 100%) for the entities that own the El Paso Center, the Outparcels and the Expansion Land as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015 are as follows (in thousands):

	As of June 30, 2016	As of December 31, 2015
Assets		
Real estate - net	\$ 98,416	\$ 100,559
Cash and cash equivalents	647	1,069
Restricted cash	4,865	5,058
Other assets	2,412	2,582
Total assets	<u>\$ 106,340</u>	<u>\$ 109,268</u>
Liabilities and members' equity		
Mortgages and other debt	\$ 69,727	\$ 70,335
Other liabilities	2,818	3,839
Members' equity	33,795	35,094
Total liabilities and members' equity	<u>\$ 106,340</u>	<u>\$ 109,268</u>

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Statements of Operations				
Revenue	<u>\$ 4,037</u>	<u>\$ 3,865</u>	<u>\$ 7,954</u>	<u>\$ 7,511</u>
Operating expenses	1,610	1,212	3,153	2,303
General and administrative expenses	248	290	480	565
Depreciation and amortization expense	1,052	1,098	2,118	2,196
Interest expense	1,265	1,277	2,521	2,537
Total expenses	<u>4,175</u>	<u>3,877</u>	<u>8,272</u>	<u>7,601</u>
Gain (loss) on sale of land	509	(9)	509	425
Net income (loss)	<u>\$ 371</u>	<u>\$ (21)</u>	<u>\$ 191</u>	<u>\$ 335</u>

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 formed a subsidiary entity ("Horizon OKC") to be CBL's partner in the OKC Joint Venture. Horizon OKC owns 25% of 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

HORIZON GROUP PROPERTIES, INC.
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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. The loan balance was \$54.6 million and \$55.3 million at June 30, 2016 and December 31, 2015 respectively.

During 2012 OK City Outlets II, LLC (OKC II), was developed at The Outlet Shoppes at Oklahoma City. OKC II is owned by OKC Joint Venture. OKC II secures a mortgage loan from US Bank with a principal balance of \$5.7 million at both June 30, 2016 and December 31, 2015. The loan term is 5 years, plus 2 one-year extension options and bears interest at LIBOR plus 2.75%.

During 2014 OK City Outlets III, LLC (OKC III) was developed at The Outlet Shoppes at Oklahoma City. OKC III is owned by OKC Joint Venture. OKC III secures a construction loan with a maximum balance of \$5.4 million and a principal balance of \$2.9 million at both June 30, 2016 and December 31, 2015. The loan term is 5 years, plus 2 one year extension options, and bears interest at LIBOR plus 2.75%.

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.

In December of 2015, Horizon OKC met certain return of investment and internal rate of return criteria stipulated in the joint venture agreement with CBL; therefore, the Company’s share of future distributions from the OKC Joint Venture increased from 25% to 30%.

The Company received management, leasing and similar fees from OKC Joint Venture that totaled \$147,000 and \$146,000 during the three months ended June 30, 2016 and 2015, respectively, and \$222,000 and \$369,000 during the six months ended June 30, 2016 and 2015, 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. The Company recognized income from distributions in excess of equity investments in the Oklahoma City Entities that totaled \$227,000 and \$301,000 during the three months ended June 30, 2016 and 2015, respectively, and \$452,000 and \$301,000 during the six months ended June 30, 2016 and 2015, respectively.

Summary financial information (stated at 100%) of the OKC Joint Venture as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015 are as follows (in thousands):

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Six Months Ended June 30, 2016 and 2015
(unaudited)

	As of June 30, 2016	As of December 31, 2015
Assets		
Real estate - net	\$ 50,083	\$ 52,004
Cash and cash equivalents	985	1,321
Restricted cash	1,129	657
Other assets	3,794	3,486
Total assets	<u>\$ 55,991</u>	<u>\$ 57,468</u>

Liabilities and members' deficit

Mortgages and other debt	\$ 63,052	\$ 63,875
Other liabilities	1,241	991
Members' deficit	(8,302)	(7,398)
Total liabilities and members' equity	<u>\$ 55,991</u>	<u>\$ 57,468</u>

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Statements of Operations				
Revenue	\$ 3,483	\$ 3,242	\$ 6,851	\$ 6,691
Operating expenses	777	817	1,649	1,720
General and administrative expenses	127	133	252	257
Depreciation and amortization expense	1,292	1,230	2,597	4,311
Interest expense	862	908	1,751	1,820
Total expenses	<u>3,058</u>	<u>3,088</u>	<u>6,249</u>	<u>8,108</u>
Gain (loss) on sale of land	<u>-</u>	<u>(33)</u>	<u>-</u>	<u>163</u>
Net income (loss)	<u>\$ 425</u>	<u>\$ 121</u>	<u>\$ 602</u>	<u>\$ (1,254)</u>

Gettysburg Entities

An affiliate of CBL and PL Skoien, an affiliate of Howard Amster and Gary Skoien, own 62.63% of Gettysburg Outlet Center Holding, LLC and Gettysburg Outlet Center LLC (the Gettysburg entities). The Company owns 19.06% of the Gettysburg entities and Bright Horizons of South Florida, LLC ("Bright Horizons"), an affiliate of Howard Amster, owns the remaining 18.31% interest in the Gettysburg entities. Gettysburg Outlet Center Holding, LLC, owns Gettysburg Outlet Center, LP, which owns the shopping center. Gettysburg Outlet Center LLC owns vacant land around the shopping center. The Company uses the equity method of accounting with respect to the Gettysburg entities.

On September 11, 2015, Gettysburg Outlet Center, LP refinanced its mortgage loan. The new loan, secured by the shopping center, had an initial balance of \$38.5 million, bears interest at 4.8% and matures in 2025. The Gettysburg entities mortgage balance was \$38.5 million at both June 30, 2016 and December 31, 2015.

Members accrue a 10% return (Returns) on capital invested. Cash distributions go first to CBL and Somerset L.P., then to the Company and Bright Horizons to pay accrued returns.

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The Company received management, leasing and similar fees from Gettysburg entities that totaled \$74,000 and \$21,000 during the three months ended June 30, 2016 and 2015, respectively, and \$152,000 and \$113,000 during the six months ended June 30, 2016 and 2015, respectively.

Summary financial information (stated at 100%) of the Gettysburg entities as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015 is as follows (in thousands):

	As of June 30, 2016	As of December 31, 2015
Assets		
Real estate - net	\$ 42,227	\$ 42,728
Cash and cash equivalents	677	867
Restricted cash	1,135	1,118
Other assets	1,055	1,247
Total assets	<u>\$ 45,094</u>	<u>\$ 45,960</u>
Liabilities and members' equity		
Mortgages and other debt	\$ 38,450	\$ 38,450
Other liabilities	807	1,375
Members' equity	5,837	6,135
Total liabilities and members' equity	<u>\$ 45,094</u>	<u>\$ 45,960</u>

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Statements of Operations				
Revenue	<u>\$ 1,636</u>	<u>\$ 1,728</u>	<u>\$ 3,276</u>	<u>\$ 3,492</u>
Operating expenses	541	547	1,146	1,287
General and administrative expenses	86	96	158	184
Depreciation and amortization expense	386	389	774	778
Interest expense	467	584	926	1,165
Total expenses	<u>1,480</u>	<u>1,616</u>	<u>3,004</u>	<u>3,414</u>
Loss on sale of land	-	-	-	-
Net income	<u>\$ 156</u>	<u>\$ 112</u>	<u>\$ 272</u>	<u>\$ 78</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, but maintains voting control over Horizon Atlanta. The Atlanta JV is owned 25% by Horizon Atlanta and

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75% by CBL. The Company and CBL are co-developers of the project; the Company is responsible for the leasing and management of the center.

The 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. The Company and an affiliate of CBL own 25% and 75%, respectively, of Woodstock GA Investments (WGI). WGI 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, WGI acquired an equity interest in RPI that is entitled to 30% 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.

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 loan balance was \$76.8 million and \$77.4 million at June 30, 2016 and December 31, 2015 respectively.

On December 19, 2014, the Atlanta JV obtained a construction loan with a maximum balance of \$2,435,000 from US Bank. The loan, guaranteed by CBL, bears interest at LIBOR plus 2.5% and matures on December 19, 2019. Proceeds were used to construct a strip center (Outparcel 5) at The Outlet Shoppes at Atlanta. The loan balance was \$2.1 million and \$1.8 million at June 30, 2016 and December 31, 2015, respectively.

On May 13, 2015 the Atlanta JV closed on a \$6,200,000 construction loan for Atlanta Outlet Shoppes Phase II. The loan carries an initial interest rate of LIBOR plus 2.5%, and matures on December 19, 2019. This loan was cross-defaulted and cross-collateralized with the Outparcel 5 loan which closed on December 19, 2014. Proceeds will be used to construct Atlanta Outlet Shoppes Phase II. The loan balance was \$4.1 million and \$4.0 million at June 30, 2016 and December 31, 2015, respectively.

In December of 2013, the Company met return of investment and internal rate of return criteria stipulated in the joint venture agreement; therefore, the Company’s share of future distributions increased from 25% to 35%.

The Company received management, leasing and similar fees from the Atlanta JV that totaled \$152,000 and \$173,000 during the three months ended June 30, 2016 and 2015, respectively, and \$264,000 and \$252,000 during the six months ended June 30, 2016 and 2015, 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. The Company recognized income from distributions in excess of equity investments in the Atlanta Entities that totaled \$163,000 and \$331,000 during the three months ended June 30, 2016 and 2015, respectively, and \$331,000 during the six months ended June 30, 2016 and 2015.

Summary financial information (stated at 100%) of the Atlanta JV and Woodstock GA Investments as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015 is as follows (in thousands):

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	As of June 30, 2016	As of December 31, 2015
Assets		
Real estate - net	\$ 62,513	\$ 64,657
Cash and cash equivalents	2,038	1,678
Restricted cash	678	481
Other assets	10,358	9,777
Total assets	<u>\$ 75,587</u>	<u>\$ 76,593</u>

Liabilities and members' deficit

Mortgages and other debt	\$ 82,977	\$ 83,246
Other liabilities	887	912
Members' deficit	(8,277)	(7,565)
Total liabilities and members' deficit	<u>\$ 75,587</u>	<u>\$ 76,593</u>

	Three Months Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Three Months Ended June 30, 2016	Six Months Ended June 30, 2015
Statements of Operations				
Revenue	<u>\$ 3,856</u>	<u>\$ 3,716</u>	<u>\$ 7,294</u>	<u>\$ 7,418</u>
Operating expenses	906	862	1,666	1,708
General and administrative expenses	128	148	253	270
Depreciation and amortization expense	1,146	1,251	3,134	2,654
Interest expense	1,014	989	2,030	1,970
Total expenses	<u>3,194</u>	<u>3,250</u>	<u>7,083</u>	<u>6,602</u>
Gain on sale of land	<u>-</u>	<u>-</u>	<u>15</u>	<u>-</u>
Net income	<u>\$ 662</u>	<u>\$ 466</u>	<u>\$ 226</u>	<u>\$ 816</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 November 24, 2014, the Louisville JV obtained a \$77.5 million loan from JP Morgan (the "Louisville Loan"). The proceeds from the Louisville Loan were used to repay the construction loan. The Louisville Loan has a term of 10 years and bears interest at 4.045%. Payments are based on a 30 year amortization. The Louisville Loan is secured by a mortgage on The Outlet Shoppes of the Bluegrass. The loan balance was \$75.0 million and \$76.1 million at June 30, 2016 and December 31, 2015, respectively.

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On July 15, 2015, the Louisville JV established Bluegrass Outlet Shoppes II, LLC and closed on an \$11,320,000 construction loan to develop additional retail space at the Outlet Shoppes of the Bluegrass. The loan has a term of 60 months and an initial interest rate of LIBOR plus 2.5%. When the project reaches 90% occupancy, the interest rate is reduced to LIBOR plus 2.35%. The loan balance was \$10.1 million at both June 30, 2016 and December 31, 2015.

In December of 2014, Horizon Louisville met certain return of investment and internal rate of return criteria stipulated in the joint venture agreement with CBL; therefore, the Company's share of future distributions from the Louisville JV increased from 35% to 50%.

The Company received management, leasing and similar fees from the Louisville JV that totaled \$89,000 and \$137,000 during the three months ended June 30, 2016 and 2015, respectively, and \$170,000 and \$212,000 during the six months ended June 30, 2016 and 2015, 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. The Company recognized income from distributions in excess of equity investments in the Oklahoma City Entities that totaled \$811,000 and \$472,000 during the three months ended June 30, 2016 and 2015, respectively, and \$1.3 million and \$472,000 during the six months ended June 30, 2016 and 2015, respectively.

Summary financial information (stated at 100%) of the Louisville JV as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015 is as follows (in thousands):

	As of June 30, 2016	As of December 31, 2015
Assets		
Real estate - net	\$ 72,397	\$ 72,782
Cash and cash equivalents	896	3,288
Restricted cash	1,130	893
Other assets	5,174	4,977
Total assets	<u>\$ 79,597</u>	<u>\$ 81,940</u>
Liabilities and members' deficit		
Mortgages and other debt	\$ 85,549	\$ 86,222
Other liabilities	1,232	1,193
Members' deficit	(7,184)	(5,475)
Total liabilities and members' deficit	<u>\$ 79,597</u>	<u>\$ 81,940</u>

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	Three Months Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Three Months Ended June 30, 2016	Six Months Ended June 30, 2015
Statements of Operations				
Revenue	\$ 3,468	\$ 3,199	\$ 6,813	\$ 6,176
Operating expenses	704	636	1,391	1,191
General and administrative expenses	134	113	263	227
Depreciation and amortization expense	1,239	1,056	2,507	2,080
Interest expense	865	793	1,734	1,581
Total expenses	<u>2,942</u>	<u>2,598</u>	<u>5,895</u>	<u>5,079</u>
Loss on sale of land	-	(18)	-	(18)
Net income	<u>\$ 526</u>	<u>\$ 583</u>	<u>\$ 918</u>	<u>\$ 1,079</u>

Laredo Outlet Shoppes

On May 10, 2016, the Company, an Affiliate of CBL (CBL) and Lawrence Friedman formed a joint venture, Laredo Outlet JV, LLC (Laredo JV) to continue the development of an outlet shopping center in Laredo, Texas. The new venture is owned 65% by CBL and 35% by the Company. Lawrence Friedman is a Class B member and will participate in distributions after certain internal rate of return hurdles are met. The outlet center is expected to open in March of 2017.

On May 13, 2016, Laredo JV closed on a construction loan to finance the construction of the center. The loan has a maximum principal balance of \$91.3 million, a 36 month term and one 24 month extension option. Interest will accrue on the loan at LIBOR plus 2.5% until the development reaches 90% occupancy, at which time the interest rate will drop to LIBOR plus 2.25%.

Prior to the formation of the Laredo JV, the Company consolidated the results of operations and the assets and liabilities of the Laredo JV; for periods after the conversion, the Company uses the equity method of accounting with respect to the Laredo JV.

There is no significant operating activity for the Laredo JV as of December 31, 2015 or for the three and six months ended June 30, 2016 and 2015. Summary financial information (stated at 100%) of the Laredo JV as of June 30, 2016 is as follows (in thousands):

	As of <u>June 30, 2016</u>
Assets	
Real estate - net	\$ 27,178
Cash and cash equivalents	<u>144</u>
Total assets	<u>\$ 27,322</u>
Liabilities and members' equity	
Other liabilities	\$ 1,143
Members' equity	<u>26,179</u>
Total liabilities and members' equity	<u>\$ 27,322</u>

Note 5- Commitments

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The Company has outstanding commitments for tenant allowances on leases signed (which amounts become payable when the spaces are delivered to the tenants) at June 30, 2016 in the amount of \$6.3 million, which are not reflected on the condensed consolidated balance sheet as of June 30, 2016. These amounts include the commitments for the pre-development projects (see Note 2). These capital expenditures are expected to be paid during 2016 and 2017, 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 \$64.7 million and \$67.5 million at June 30, 2016 and December 31, 2015, respectively. Cash paid for interest for the six months ended June 30, 2016 and 2015 was \$1.5 million.

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 2016.

On February 17, 2015, BFO Factory Shoppes, LLC refinanced its loan prior to the stated maturity date. Management made the decision to refinance early to take advantage of a favorable lending environment and lower interest rates. The defeasance of the mortgage resulted in a loss of \$1,761,000 which is shown as Loss on extinguishment of debt in the Consolidated Statements of Operations. The new loan from Starwood Mortgage Capital, LLC has an initial principal balance of \$54,675,000 and bears interest at 4.509%. Monthly payments of interest only are required through March 6, 2017. Starting on April 6, 2017, principal and interest payments of \$277,300 are due each month, and a balloon payment is due at maturity on March 6, 2025. The loan is secured by The Outlet Shoppes at Burlington and Oshkosh, and Phases II and III of the Outlet Shoppes at Fremont. Phase I of the Outlet Shoppes at Fremont was excluded from the collateral for the loan, and was transferred to a new entity, which is still under control of the Company.

On June 29, 2016, Huntley Development Limited Partnership secured a new mortgage loan from Heartland Bank and Trust. The new loan has an initial principal balance of \$7,000,000 and bears interest at prime plus 1.5%. Interest is due monthly and principal payments are due as follows: \$750,000 on January 31, 2017, 3 annual payments of \$700,000 starting on June 30, 2017, and final payment on the maturity date of July 1, 2019. The loan is secured by land in Huntley, Illinois, and guarantees from Horizon Group, Inc, and Horizon Group Limited Partnership. Proceeds from the loan were used to repay the loan from US Bank.

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. At June 30, 2016 and 2015, a liability of \$166,000 and \$154,000 respectively, was recorded to reflect the estimated current fair value of the Skoien Net Profits Interests.

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. On June 15, 2015, HDLP received a payment of \$840,000 from the Series C TIF bonds, which is recorded as other income. The funds were used to make a principal payment to U S Bank on the Huntley debt. On June 3, 2016, HDLP received payment of \$663,000 from the Series C TIF bonds, which is recorded as other income.

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

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 June 30, 2016 and 2015, an affiliate of Howard Amster, PLA LP, owned the following interests: (1) 19.6% 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 (1) 12.6% of the interests in the entities that own the outlet center and related assets in Gettysburg, PA, (2) 46.4% of Horizon Atlanta, and (3) 47.54% of Horizon Louisville.

At June 30, 2016 and 2015, Gary Skoien owned the following interests (excluding the Net Profits Interests discussed below): (1) 4.9% 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 June 30, 2016 and 2015, David Tinkham, an officer of the Company, owned 1.27% of Horizon Atlanta, and 3.24% of Horizon Louisville.

At June 30, 2016 and 2015, Andrew Pelmoter, an officer of the Company, owned 4.955% of Horizon OKC, 2.12% of Horizon Atlanta, and 4.31% of Horizon Louisville, in addition to the Net Profits Interests discussed below.

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At June 30, 2016, Amster Skoien L.P owned jointly by Howard Amster and Gary Skoien owned 14.7% of Horizon El Portal, LLC

The Company has granted Common interests in Horizon El Paso, Horizon OKC, Horizon Atlanta Horizon Louisville, and Horizon El Portal (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; (3) Horizon Atlanta, - 1.25%, 1.25%, 1.25% and .375% to Messers Skoien, Rumptz, Pelmoter and James Harris, respectively, (4) Horizon Louisville, - 1.25%, 1.25%, 1.25% and .375% to Messers Skoien, Rumptz, Pelmoter and Harris, respectively, (5) Horizon El Portal, - 1.52%, 1.52%, 1.22% and .61% to Messers Skoien, Pelmoter, Rumptz and Harris, respectively.

The Company incurred interest expense in the amount of \$2,300 for the six months ended June 30, 2016 and 2015 on loans from newAX, Inc. newAX, Inc. is an affiliate of Howard Amster.

The Company has granted 20,000 common shares of Horizon Group Properties, Inc. to Gary Skoien. The shares will vest over a three year period with 6,667 shares vesting in March 2016.

On June 23, 2016, the Company issued 150,000 new common shares of Horizon Group Properties, Inc to Pleasant Lake – Skoien Investments, LLC.

Note 8 – Subsequent Events

On August 31, 2016, Gary Skoien exercised his option to convert the \$150,000 principal balance of a note due from the Company into 150,000 shares of stock in Horizon Group Properties, Inc.

On October 1, 2016, Howard Amster, Gary Skoien, Pleasant Lake – Skoien Investments, LLC, and Pleasant Lake Apts. Limited Partnership, exercised their option to exchange their membership interest in Horizon El Paso and Horizon OKC for 3,520,000 shares of stock in Horizon Group Properties, Inc. After the transaction, the Company will own 95% of Horizon El Paso, and 100% of Horizon OKC. Howard Amster and his affiliates will own approximately 65% of the stock in Horizon Group Properties, Inc.