

Condensed Consolidated Financial Statements

Horizon Group Properties, Inc.

For the six months ended June 30, 2009 and 2008

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

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

	June 30, 2009	December 31, 2008
	<i>(In thousands)</i>	
ASSETS		
Real estate – at cost:		
Land	\$ 34,965	\$ 34,965
Buildings and improvements	103,489	103,591
Less accumulated depreciation	<u>(13,163)</u>	<u>(10,370)</u>
	125,291	128,186
Construction in progress	3,353	3,051
Land held for investment	<u>20,667</u>	<u>20,646</u>
Total net real estate	149,311	151,883
Investment in joint ventures	1,968	1,968
Cash and cash equivalents	1,746	755
Restricted cash	3,383	7,693
Marketable securities	5,484	10,174
Tenant and other accounts receivable, net	1,645	2,169
Real estate held for sale	2,741	2,825
Deferred costs (net of accumulated amortization of \$2,040 and \$1,465, respectively)	4,010	3,859
Other assets	<u>2,851</u>	<u>3,097</u>
Total assets	<u>\$173,139</u>	<u>\$184,423</u>
LIABILITIES AND OWNERS' EQUITY		
Liabilities:		
Mortgages and other debt	\$138,805	\$145,267
Accounts payable and other accrued expenses	4,374	5,481
Prepaid rents and other tenant liabilities	1,071	819
Participation interests and other liabilities	<u>2,136</u>	<u>2,300</u>
Total liabilities	<u>146,386</u>	<u>153,867</u>
Commitments and contingencies		
Stockholders' equity:		
Common shares (\$.01 par value, 50,000 shares authorized, 2,843 and 2,895 issued and outstanding, respectively)	28	29
Additional paid-in capital	37,463	37,514
Accumulated deficit	<u>(22,844)</u>	<u>(19,953)</u>
Total stockholders' equity attributable to the controlling interest	14,647	17,590
Noncontrolling interests in consolidated subsidiaries	<u>12,106</u>	<u>12,966</u>
Total stockholders' equity	<u>26,753</u>	<u>30,556</u>
Total liabilities and stockholders' equity	<u>\$173,139</u>	<u>\$184,423</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended June 30, 2009	Three months ended June 30, 2008
	<i>(In thousands)</i>	
REVENUE		
Base rent	\$ 2,899	\$ 3,119
Percentage rent	9	26
Expense recoveries	725	783
Other	440	332
Interest	<u>95</u>	<u>160</u>
Total revenue	<u>4,168</u>	<u>4,420</u>
EXPENSES		
Property operating	1,134	1,000
Real estate taxes	440	303
Other operating	25	339
Depreciation and amortization	1,688	1,823
General and administrative	1,457	1,244
Interest	2,049	2,147
Loss on marketable securities	<u>1</u>	<u>109</u>
Total expenses	<u>6,794</u>	<u>6,965</u>
Income/(loss) from investment in joint ventures	<u>458</u>	<u>(127)</u>
Consolidated net loss from continuing operations	(2,168)	(2,672)
Loss from discontinued operations	<u>(71)</u>	<u>(50)</u>
Consolidated net loss	(2,239)	(2,722)
Less net loss attributable to the noncontrolling interests	<u>770</u>	<u>915</u>
Net loss attributable to the Company	<u><u>\$(1,469)</u></u>	<u><u>\$(1,807)</u></u>

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended June 30, 2009	Six months ended June 30, 2008
	<i>(In thousands)</i>	
REVENUE		
Base rent	\$ 5,927	\$ 6,145
Percentage rent	56	45
Expense recoveries	1,665	1,677
Other	868	1,006
Interest	<u>215</u>	<u>343</u>
Total revenue	<u>8,731</u>	<u>9,216</u>
EXPENSES		
Property operating	2,387	2,182
Real estate taxes	877	663
Other operating	492	686
Depreciation and amortization	3,387	3,910
General and administrative	2,539	2,700
Interest	4,070	4,405
(Gain)/loss on marketable securities	<u>(241)</u>	<u>44</u>
Total expenses	<u>13,511</u>	<u>14,590</u>
Income from investment in joint ventures	<u>678</u>	<u>354</u>
Consolidated net loss from continuing operations	(4,102)	(5,020)
Loss from discontinued operations	<u>(233)</u>	<u>(218)</u>
Consolidated net loss	(4,335)	(5,238)
Less net loss attributable to the noncontrolling interests	<u>1,444</u>	<u>1,709</u>
Net loss attributable to the Company	<u><u>\$(2,891)</u></u>	<u><u>\$(3,529)</u></u>

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended <u>June 30, 2009</u>	Six months ended <u>June 30, 2008</u>
	<i>(In thousands)</i>	
Cash flows from operating activities:		
Net loss attributable to the Company	\$ (2,891)	\$(3,529)
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	(1,444)	(1,709)
Income from investment in joint ventures	(678)	(354)
Depreciation	3,370	3,940
Amortization, including deferred financing costs	537	424
(Gain)/loss on marketable securities	(241)	44
HGPI stock grants	29	292
Changes in assets and liabilities:		
Restricted cash	4,310	(547)
Tenant and other accounts receivable	524	497
Real estate held for sale	91	-
Deferred costs and other assets	(111)	(320)
Accounts payable and other accrued expenses	(1,105)	(1,199)
Prepaid rents and other tenant liabilities	<u>252</u>	<u>(482)</u>
Net cash provided by/(used in) operating activities	<u>2,643</u>	<u>(2,943)</u>
Cash flows from investing activities:		
Net marketable securities activity	4,931	2,338
Net distribution from joint ventures	678	301
Repayment of notes receivable	91	-
Expenditures for buildings and improvements	(779)	(1,195)
Expenditures for land held for investment	(21)	-
Expenditures for real estate held for sale	<u>(7)</u>	<u>-</u>
Net cash provided by investing activities	<u>4,893</u>	<u>1,444</u>
Cash flows from financing activities:		
Net contributions from noncontrolling interests	584	84
Principal payments on mortgages and other debt	(10,759)	(3,472)
Proceeds from borrowings	4,297	870
HGPI stock buy back and retirement	(81)	(300)
Debt issue costs	(422)	-
Payment of participation interests	<u>(164)</u>	<u>-</u>
Net cash used in financing activities	<u>(6,545)</u>	<u>(2,818)</u>
Net increase/(decrease) in cash and cash equivalents	991	(4,317)
Cash and cash equivalents:		
Beginning of period	<u>755</u>	<u>6,743</u>
End of period	<u>\$ 1,746</u>	<u>\$ 2,426</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, 2009</u>	Six Months Ended <u>June 30, 2008</u>
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(in thousands)

Supplemental Information -

The following represents the supplemental disclosure of noncash activity for the disposal of fully depreciated/amortized assets during the six months ended June 30, 2009 and 2008:

Buildings and improvements	\$167	\$115
Deferred costs	<u>13</u>	<u>16</u>
	<u>\$180</u>	<u>\$131</u>

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Condensed Consolidated Statements of Changes in Stockholders' Equity
Six Months Ended June 30, 2009 and 2008
(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, December 31, 2008	\$29	\$37,514	\$(19,953)	\$17,590	\$12,966	\$30,556
Net loss	-	-	(2,891)	(2,891)	(1,444)	(4,335)
Stock grant to officers	-	29	-	29	-	29
Stock buyback and retirement	(1)	(80)	-	(81)	-	(81)
Net contributions from noncontrolling interests	-	-	-	-	584	584
Balance, June 30, 2009	<u>\$28</u>	<u>\$37,463</u>	<u>\$(22,844)</u>	<u>\$14,647</u>	<u>\$12,106</u>	<u>\$26,753</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, December 31, 2007	\$29	\$37,522	\$(16,609)	\$20,942	\$12,625	\$33,567
Net loss	-	-	(3,529)	(3,529)	(1,709)	(5,238)
Stock grant to officers	1	291	-	292	-	292
Stock buyback and retirement	(1)	(299)	-	(300)	-	(300)
Net contributions from noncontrolling interests	-	-	-	-	84	84
Balance, June 30, 2008	<u>\$29</u>	<u>\$37,514</u>	<u>\$(20,138)</u>	<u>\$17,405</u>	<u>\$11,000</u>	<u>\$28,405</u>

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Six Months Ended June 30, 2009 and 2008
(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, 2009 and December 31, 2008, HGPI owned approximately 68.3% and 68.8%, 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, 2009 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, 2008.

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 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.

Note 2 - Summary of Significant Accounting Policies

The condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, 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 the Company and all subsidiaries that the Company controls, including HGP LP. The Company considers itself to control an entity if it is the majority owner of and has voting control over such entity. All significant intercompany balances and transactions have been eliminated in consolidation. In accordance with Financial Accounting Standards Board Interpretation No. 46R, “Consolidation of Variable Interest Entities,” the Company also consolidates variable interest entities if it is that entity’s primary beneficiary.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Six Months Ended June 30, 2009 and 2008
(unaudited)

Reclassifications

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

Pre-Development Costs

The pre-development stage of a project involves certain costs to ascertain the viability of a potential project and to secure the necessary land. Direct costs to acquire the assets are capitalized once the acquisition becomes probable. These costs are carried in Other Assets until conditions are met that indicate that development is forthcoming, at which point the costs are reclassified to Construction in Progress. In the event a development is no longer deemed probable, the costs previously capitalized are expensed when the project is abandoned. At June 30, 2009, pre-development costs classified as Other Assets and Construction in Progress were \$699,000 and \$3,269,000, respectively. At December 31, 2008, pre-development costs classified as Other Assets and Construction in Progress were \$687,000 and \$2,820,000, respectively.

Discontinued Operations

In accordance with Statement of Financial Accounting Standards, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), assets held for sale are valued at the lower of carrying value or fair value less costs to dispose. SFAS 144 requires that the results of operations and gain/(loss) on real estate properties sold or held for sale be reflected in the consolidated statements of operations as "Income/(Loss) from Discontinued Operations" for all periods presented. As of June 30, 2009 the carrying value and results of operations of the shopping center located in Holland, Michigan, which was sold on July 20, 2009, are included in the real estate held for sale and discontinued operations line items on the consolidated balance sheets and consolidated statements of operations, respectively. SFAS 144 also requires that prior period financial statements presented are reclassified for comparability. This reclassification has no effect on the Company's previously reported net income or loss.

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, 2009 and December 31, 2008 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 ending June 30, 2009 and 2008, 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 2006.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
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Recent Financial Accounting Standards

The Company adopted the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“SFAS 157”) effective January 1, 2008, except as it relates to certain nonfinancial assets and liabilities for which the effective date is January 1, 2009. SFAS 157 establishes a framework for measuring fair value and expands disclosure about fair value measurements in financial statements. 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, 2009 and December 31, 2008, the Company held marketable securities that total approximately \$5,484,000 and \$10,174,000, respectively, and are considered to have Level 1 fair value inputs. The Company did not hold any Level 3 assets during the periods ended June 30, 2009 or the year ended December 31, 2008.

In December 2007, the FASB issued Statement of Accounting Standards No. 141 (revised 2007), “Business Combinations” (“SFAS 141(R)”). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008, and was adopted by the Company in the first quarter of fiscal 2009. The Company will account for acquisitions subsequent to December 31, 2008, if any, in accordance with SFAS 141(R).

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 “Noncontrolling Interests in Consolidated Financial Statements” (“SFAS 160”). SFAS 160 will require noncontrolling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. In addition, the statement applies to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements. SFAS 160 is effective for periods beginning on or after December 15, 2008. The Company adopted SFAS 160 effective January 1, 2009 and has applied it retrospectively, for all periods presented.

The Company adopted the FASB issued Statement of Financial Accounting Standards No. 165 “Subsequent Events” (“SFAS 165”). SFAS 165 provides guidance for disclosing events that occur after the balance sheet date, but before the financial statements are issued or available to be issued. The adoption of SFAS 165 did not have an impact on the Company’s condensed consolidated financial statements. We have evaluated subsequent events through August 21, 2009, the date the financial statements were available to be issued, and determined that there have been no significant events that have 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.

In June 2009, FASB issued Statement of Financial Accounting Standards No. 167 “Amendments to FASB Interpretation No. 46 (R)” (“SFAS 167”). SFAS 167 modifies how a company determines when an entity is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. SFAS 167 clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity’s purpose and design and a company’s ability to direct the activities of the entity that most significantly impact the entity’s performance. SFAS 167 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity (“VIE”), and also requires additional disclosures about a

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company's involvement in VIEs, including any significant changes in risk exposure due to that involvement. SFAS 167 is effective for fiscal years beginning after November 15, 2009, and the Company is currently evaluating the effect of SFAS 167 on the condensed consolidated financial statements.

Note 3 – Investment in Real Estate

The following table contains information on the operating properties owned by the Company and for which the Company consolidates the results of operations and the assets and liabilities as of June 30, 2009.

<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	\$ 11,455,000	100.0
El Portal Center	Laredo, TX	Retail	345,106	11,376,000	38.0
The Outlet Shoppes at Fremont	Fremont, IN	Outlet Retail	228,925	12,038,000	100.0
The Outlet Shoppes at Gettysburg	Gettysburg, PA	Outlet Retail/ Adjacent Land	249,927	55,623,000	100.0
The Outlet Shoppes at Oshkosh	Oshkosh, WI	Outlet Retail	270,512	29,953,000	100.0
Village Green Shopping Center	Huntley, IL	Retail	22,204	2,941,000	100.0
5000 Hakes Drive	Norton Shores, MI	Office	28,863	1,814,000	51.1
Corporate Assets	Norton Shores, MI	Miscellaneous	-	91,000	100.0
Total			<u>1,319,797</u>	<u>\$125,291,000</u>	
			<u>Acres</u>		
Land Held for Investment	Fruitport Township, MI	Land	46	\$ 769,000	100.0
Land Held for Investment	Huntley, IL	Land	<u>408</u>	<u>19,898,000</u>	100.0
Total			<u>454</u>	<u>\$ 20,667,000</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.

The Holland Town Center located in Holland, Michigan is classified as held for sale as of June 30, 2009 and was sold on July 20, 2009 (see Notes 2, 9 and 10).

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
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Pre-Development Projects

On July 8, 2008, the Company formed Winding Brook Center, LLC, a joint venture for the development of an outlet center in Richmond, VA. The Company's partner will contribute land and the Company will contribute cash in an amount equal to the land value, when and as needed for the construction of the center. At June 30, 2009 and December 31, 2008, the Company had incurred pre-development costs of \$669,000 and \$588,000, respectively, for this project which are classified in Other Assets on the condensed consolidated balance sheet (See Note 2) and at June 30, 2009 had outstanding commitments for capital expenditures on leases signed (which amounts become payable when the spaces are delivered to the tenants) in the amount of \$1,875,000 and other capital expenditures and construction costs in the amount of \$21,000.

On November 18, 2008, the Company entered into a Preformation Agreement with Cousins Properties, Inc. ("Cousins") for the development of The Outlet Shoppes at Oklahoma City, a planned 341,400 square foot outlet shopping center in Oklahoma City, Oklahoma. The center is planned for the intersection of Interstate 40 and Council Road. Construction is scheduled to begin in late 2009 with a 2010 opening. The Company currently has an option on the land which expires on December 5, 2009. The Company is overseeing the development, management and leasing of the project. At June 30, 2009 and December 31, 2008, the Company had incurred pre-development costs of \$2,698,000 and \$2,509,000, respectively, for this project which are classified as Construction in Progress on the condensed consolidated balance sheet (See Note 2) and at June 30, 2009 had outstanding commitments for capital expenditures on leases signed (which amounts become payable when the spaces are delivered to the tenants) in the amount of \$3,329,000.

Note 4 - Investment in Joint Ventures

El Portal Entities

At June 30, 2009 and December 31, 2008, the Company owned a 60.8% interest in Horizon El Portal LLC ("Horizon El Portal"), an entity of which HGP LP is the managing member and of which the remaining 39.2% is owned by Gary Skoien, Chairman, President and CEO of the Company, and Pleasant Lake Apts. Limited Partnership ("PLA"), an affiliate of Howard Amster ("Amster"), a director and significant stockholder of the Company. Horizon El Portal owns 62.5% of El Portal Center LLC ("El Portal Center"), a joint venture that owns a shopping center in Laredo, Texas containing approximately 345,000 square feet of GLA (See Note 3). Through the third quarter of 2008, Horizon El Portal reported the results of operations and the assets and liabilities of El Portal Center using the equity method of accounting.

On September 26, 2008 Horizon El Portal purchased a 12.5% interest in El Portal Center from its joint venture partner for \$375,000. HGP LP made a capital contribution to Horizon El Portal to acquire the interest and increased its ownership in that entity to 60.8%. The Company also acquired an option to purchase the remaining 37.5% interest in El Portal Center for \$2,125,000 from the joint venture partner at any time prior to September 26, 2010. Horizon El Portal acts as a sole manager of El Portal Center with full authority with respect to the activities of the venture, excluding the authority to amend the operating agreement and enter into agreements with affiliates of the Company. Horizon El Portal has the obligation to advance, as loans to El Portal Center bearing interest at a rate of 15.0%, all reasonably necessary funds. The Company has agreed to fund 75.5% of such amounts. In the event that the Company does not exercise the purchase option, the property will be marketed for sale and each joint venture partner will have the obligation to fund its proportionate share of any required funds, also as loans to El Portal Center bearing interest at a rate of 15.0%.

The Company began consolidating the results of operations and the assets and liabilities of El Portal Center in the fourth quarter of 2008. The Company consolidates the results of operations and the assets and liabilities of Horizon El Portal.

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(unaudited)

Summary financial information (stated at 100%) of the El Portal Center joint venture for the three and six months ended June 30, 2008 are as follows (in thousands):

	Three Months Ended March 31, 2008	Six Months Ended June 30, 2008
Revenue	<u>\$ 125</u>	<u>\$ 250</u>
Operating expenses	188	378
General and administrative expenses	-	5
Depreciation and amortization expense	18	36
Interest expense	<u>161</u>	<u>297</u>
Total expenses	<u>367</u>	<u>716</u>
Net loss	<u>\$(242)</u>	<u>\$(466)</u>

The shopping center owned by El Portal Center secures a loan from Cathay Bank which had a principal balance of \$6.45 million and \$6.7 million at June 30, 2009 and December 31 2008, respectively, bears interest at Prime plus 1.0% (with a minimum rate of 7.5%) and matures on September 30, 2009. El Portal Center also has the option to extend the loan from Cathay Bank to March 31, 2010 with a required \$250,000 principal payment, replenishing the interest reserve with \$232,500 and payment of an extension fee of .5% of the loan balance at September 30, 2009. HGPI has guaranteed 50% of the principal and interest due on the loan from Cathay Bank.

The Company received management fees pursuant to a management agreement that totaled \$4,200 and \$7,600 during the three and six months ended June 30, 2008, respectively, while El Portal Center was accounted for using the equity method.

El Paso Entities

The Company owns 88.2% of the preferred interests and 80.7% 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 an outlet shopping center in El Paso, Texas, which opened on October 11, 2007 containing approximately 380,000 square feet of GLA 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 Amster owns 5.9% of the preferred and common interests and Gary Skoien owns 5.9% of the preferred interests and 7.2% of the common interests of Horizon El Paso. The Company uses the equity method to account for its investment in El Paso Center and TOSEP.

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(unaudited)

Summary financial information (stated at 100%) of El Paso Center and TOSEP as of June 30, 2009 and December 31, 2008 and for the three and six months ended June 30, 2009 and 2008 are as follows (in thousands):

	As of <u>June 30, 2009</u>	As of <u>December 31, 2008</u>
Assets		
Real estate	\$57,056	\$58,241
Cash and cash equivalents	985	3,022
Restricted cash	3,794	3,970
Other assets	<u>4,999</u>	<u>5,513</u>
Total assets	<u>\$66,834</u>	<u>\$70,746</u>
Liabilities and members' deficit		
Mortgages and other debt	\$78,542	\$78,882
Other liabilities	2,478	3,362
Members' deficit	<u>(14,186)</u>	<u>(11,498)</u>
Total liabilities and members' deficit	<u>\$66,834</u>	<u>\$70,746</u>

	Three Months Ended <u>June 30, 2009</u>	Three Months Ended <u>June 30, 2008</u>	Six Months Ended <u>June 30, 2009</u>	Six Months Ended <u>June 30, 2008</u>
Statements of Operations				
Revenue	<u>\$3,120</u>	<u>\$3,015</u>	<u>\$ 6,076</u>	<u>\$6,098</u>
Operating expenses	430	1,013	1,497	1,995
Depreciation and amortization	1,100	188	2,210	365
General and administrative expenses	573	772	764	773
Interest expense	<u>1,682</u>	<u>1,685</u>	<u>3,350</u>	<u>3,252</u>
Total expenses	<u>3,785</u>	<u>3,658</u>	<u>7,821</u>	<u>6,385</u>
Gain on sale of real estate	<u>415</u>	<u>-</u>	<u>415</u>	<u>-</u>
Net loss	<u>\$ (250)</u>	<u>\$ (643)</u>	<u>\$(1,330)</u>	<u>\$ (287)</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 \$69.0 million and \$70.0 million at June 30, 2009 and December 31, 2008, 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. The preferred equity investment is classified as debt on the balance sheet of El Paso Center.

The Company received management and similar fees pursuant to a management agreement that totaled \$438,000 and \$169,000 during the three months ended June 30, 2009 and 2008, respectively, and \$593,000 and \$314,000 during the six months ended June 30, 2009 and 2008. In May 2009, the Company and its partner in El Paso Center reached an agreement which clarified the reimbursement to the Company for administrative fees and certain corporate expenses and resulted in a reduction of operating expenses for El Paso Center.

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There was no significant operating activity for TOSEP for the six months ended June 30, 2009 and 2008.

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 condensed consolidated statements of operations. The Company recognized income from distributions in excess of equity investments of \$458,000 for the three months ended June 30, 2009 and \$679,000 and \$592,000 for the six months ended June 30, 2009 and 2008, respectively, related to El Paso Center. The Company did not recognize any income from distributions in excess of equity investments for the three months ended June 30, 2008.

Note 5 – Commitments

The Company has outstanding commitments for capital expenditures on leases signed (which amounts become payable when the spaces are delivered to the tenants) at June 30, 2009 in the amount of \$5,313,000 for tenant allowances and \$63,000 for other capital expenditures and construction costs, which are not reflected on the balance sheet as of June 30, 2009. These costs are expected to be paid during 2009 and 2010 and are anticipated to be funded from capital improvement escrows, construction financing, equity contributions and additional borrowings.

Note 6 – Secured Debt

Total secured indebtedness was \$138.0 million and \$144.2 million at June 30, 2009 and December 31, 2008, respectively. Cash paid for interest for the three months ended June 30, 2009 and 2008 was \$1,815,000 and \$1,727,000, respectively, and for the six months ended June 30, 2009 and 2008 was \$3,607,000 and \$3,460,000, respectively. Interest advanced on loans or reserve accounts tied to loans for the three months ended June 30, 2009 and 2008 was \$128,000 and \$404,000, respectively, and for the six months ended June 30, 2009 and 2008 was \$402,000 and \$870,000 respectively. The Company capitalized interest totaling \$40,000 and \$31,000 for the three months ended June 30, 2009 and 2008, respectively, and \$126,000 and \$31,000 for the six months ended June 30, 2009 and 2008, respectively.

In April 2009, the Company received notice from the Federal Deposit Insurance Corporation ("FDIC") that First Bank of Beverly Hills ("FBBH") was closed by the State of California, Department of Financial Institutions and that the FDIC was appointed as receiver. The Company has an outstanding loan due to FBBH that is secured by approximately 46 acres of land that the Company holds for investment purposes (the "FBBH Loan"). The outstanding balance on the FBBH Loan was \$258,000 and \$250,000 at June 30, 2009 and December 31, 2008, respectively. The FDIC stated that they intend to market the FBBH Loan and that no additional advances would be made from the interest reserve. The FBBH Loan matures on August 1, 2009.

In June 2009, US Bank amended the terms of its loan to the Company. The maturity date of the loan was extended to September 30, 2010 and the interest rate was increased to the 30-day LIBOR rate plus 4.5% with a floor of 5.5%. In connection with the loan extension, the Company pledged as additional collateral 25 acres of vacant land in Huntley, Illinois and funded an interest reserve with \$900,000. A portion of the net proceeds from the Company's sale of its shopping center in Holland, Michigan in July 2009 (see Note 10) were used to fund an additional \$600,000 for the interest reserve and a \$691,000 principal paydown on the loan. In April 2010, an additional six months of interest must be added to the reserve which will be calculated using the interest rate in effect at that time.

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 anticipates refinancing the \$13.7 million of obligations due in 2009 in the normal course of business.

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Huntley Net Profits Interests and TIF Bonds

Gary J. Skoien, Chairman, Chief Executive Officer and President of the Company, was also 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 Huntley Development Limited Partnership (“HDLP”), an entity which owns approximately 408 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 \$2.3 million as of June 30, 2009 and December 31, 2008, 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.

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 the 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.

Prior to the issuance of the Series 2009 TIF Bonds, a portion of the proceeds from the sale of certain land parcels in the TIF District was held in a collateral account (the “TIF Bond Collateral Account”) for the benefit of the Series B TIF bonds until those parcels were improved. The balance in the TIF Bond Collateral Account was approximately

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\$4.0 million at December 31, 2008, and was included in Restricted Cash on the Company's condensed consolidated balance sheet as of that date. In connection with the issuance of the Series 2009 TIF Bonds the balance of the TIF Bond Collateral Account (approximately \$2.9 million) was released to HDLP in May 2009.

Note 7 – Stock Repurchase

On June 22, 2009, the Company purchased 72,750 shares of Horizon Group Properties, Inc. stock from a stockholder for \$0.37 per share. After acquisition, the shares were retired.

Note 8 - Related Party Transactions

Howard Amster ("Amster") is a director and significant stockholder of HGPI. At June 30, 2009 an affiliate of Amster owns approximately 44% of an entity that owns a portfolio of marketable securities and 49% of the entities that own the office building in Norton Shores, Michigan and a shopping center. His affiliate also owns 39.2% of Horizon El Portal, LLC and 5.9% of the preferred and common interests in Horizon El Paso, LLC. Included in Other Assets in the condensed consolidated balance sheets at June 30, 2009 and December 31, 2008 is an unsecured note receivable from Amster which has a balance of \$1.42 million which bears interest at 5.0%. Included in Tenant and Other Accounts Receivable, Net on the condensed consolidated balance sheets is \$404,000 at December 31, 2008, due from Amster for the Company's pro rata share of the net assets of the entities sold to Amster in November 2006 and June 2007. There were no similar amounts due at June 30, 2009.

Mr. Skoien owns 9.8% of Horizon El Portal, LLC, 5.3% of the entity that owns a portfolio of marketable securities and 5.9% of the preferred interests and 7.2% of the common interests in Horizon El Paso, LLC.

Common interests in Horizon El Paso (the "El Paso Net Profits Interests") were granted in May 2007 to certain officers of the Company, Mr. Skoien, Thomas Rumptz 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 recognized compensation expense for the El Paso Net Profits Interests of \$32,000 and \$33,000 during the three and six months ended June 30, 2009, respectively. There was no similar expense for 2008.

Certain loans of the Company require 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. Mr. Skoien personally indemnified certain lenders for such losses and damages. The Company agreed to indemnify Mr. Skoien for any amounts paid under the indemnifications and to pay Mr. Skoien total annual fees of \$50,000 (\$44,475 for annual periods after August 19, 2008) related to such indemnifications until such loans are repaid (or Mr. Skoien is otherwise released from the indemnification obligations).

The Company utilizes entities affiliated with a Director of the Company as its agent for insurance and risk management programs. The Company paid premiums totaling approximately \$28,000 during the three months ended June 30, 2008, and \$98,000 and \$85,000 during the six months ended June 30, 2009 and 2008, respectively, on insurance policies placed by these entities. The Company did not pay any insurance premiums to this agent for the three months ended June 30, 2009.

Note 9 – Discontinued Operations

In accordance with SFAS 144, the results of operations on real estate held for sale are reflected on the condensed consolidated statements of operations as "Loss from discontinued operations" and the net carrying values are reflected on the condensed consolidated balance sheets as "Real estate held for sale".

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The following table is a summary of the results of operations of the property classified as discontinued operations in thousands (see Note 2):

	Three Months Ended <u>June 30, 2009</u>	Three Months Ended <u>June 30, 2008</u>	Six Months Ended <u>June 30, 2009</u>	Six Months Ended <u>June 30, 2008</u>
Total revenue	<u>\$113</u>	<u>\$179</u>	<u>\$ 248</u>	<u>\$ 361</u>
Operating expenses	131	188	385	488
General and administrative expenses	3	-	5	1
Depreciation and amortization expense	<u>50</u>	<u>41</u>	<u>91</u>	<u>90</u>
Total expense	<u>184</u>	<u>229</u>	<u>481</u>	<u>579</u>
Loss from discontinued operations	<u>\$(71)</u>	<u>\$(50)</u>	<u>\$(233)</u>	<u>\$(218)</u>
Loss from discontinued operations attributable to the noncontrolling interests	<u>\$(46)</u>	<u>\$(33)</u>	<u>\$(151)</u>	<u>\$(141)</u>
Loss from discontinued operations attributable to the Company	<u>\$(25)</u>	<u>\$(17)</u>	<u>\$ (82)</u>	<u>\$ (77)</u>

Note 10 – Subsequent Events

In July 2009, the Company sold the 194,000 square foot shopping center located in Holland, Michigan. The gross sales price was \$2.8 million. The Company owned approximately 51% and an affiliate of Amster owned approximately 49% of the entity that owned the center. A loss of approximately \$138,000 will be recognized on the transaction. The carrying value and results of operations for this center are classified as real estate held for sale and loss from discontinued operations on the Company's balance sheets and statements of operations, respectively.