

Condensed Consolidated Financial Statements

Horizon Group Properties, Inc.

For the nine months ended September 30, 2010 and 2009

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

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

	September 30, 2010	December 31, 2009
	<i>(In thousands)</i>	
<b>ASSETS</b>		
Real estate – at cost:		
Land	\$ 34,965	\$ 34,965
Buildings and improvements	101,682	103,136
Less accumulated depreciation	<u>(17,728)</u>	<u>(15,249)</u>
	118,919	122,852
Construction in progress	7,054	3,544
Land held for investment	<u>19,453</u>	<u>20,295</u>
Total net real estate	145,426	146,691
Investment in joint ventures	2,021	1,967
Cash and cash equivalents	1,545	1,406
Restricted cash	3,788	3,108
Marketable securities	4,065	11,392
Tenant and other accounts receivable, net	1,441	1,471
Deferred costs (net of accumulated amortization of \$3,441 and \$2,265, respectively)	3,208	3,646
Other assets	<u>5,577</u>	<u>3,070</u>
Total assets	<u>\$167,071</u>	<u>\$172,751</u>
<b>LIABILITIES AND OWNERS' EQUITY</b>		
<b>Liabilities:</b>		
Mortgages and other debt	\$136,598	\$143,026
Accounts payable and other accrued expenses	3,944	3,346
Prepaid rents and other tenant liabilities	663	740
Participation interests and other liabilities	<u>1,100</u>	<u>1,100</u>
Total liabilities	<u>142,305</u>	<u>148,212</u>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Common shares (\$.01 par value, 50,000 shares authorized, 2,859 and 2,843 issued and outstanding, respectively)	29	28
Additional paid-in capital	34,411	36,008
Accumulated deficit	<u>(25,749)</u>	<u>(24,284)</u>
Total stockholders' equity attributable to the controlling interest	8,691	11,752
Noncontrolling interests in consolidated subsidiaries	<u>16,075</u>	<u>12,787</u>
Total stockholders' equity	<u>24,766</u>	<u>24,539</u>
Total liabilities and stockholders' equity	<u>\$167,071</u>	<u>\$172,751</u>

*See accompanying notes to condensed consolidated financial statements.*

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

	Three months ended September 30, 2010	Three months ended September 30, 2009
	<i>(In thousands)</i>	
<b>REVENUE</b>		
Base rent	\$2,934	\$ 3,092
Percentage rent	95	96
Expense recoveries	744	803
Other	2,301	314
Interest	<u>72</u>	<u>77</u>
Total revenue	<u>6,146</u>	<u>4,382</u>
<b>EXPENSES</b>		
Property operating	1,012	1,090
Real estate taxes	454	383
Other operating	(40)	109
Depreciation and amortization	1,363	1,609
General and administrative	805	748
Interest	2,192	2,198
Loss/(gain) on marketable securities	<u>33</u>	<u>(31)</u>
Total expenses	<u>5,819</u>	<u>6,106</u>
Income/(loss) from investment in joint ventures	<u>1</u>	<u>(1)</u>
Consolidated net income/(loss) from continuing operations	328	(1,725)
Loss from discontinued operations	<u>-</u>	<u>(166)</u>
Consolidated net income/(loss) before gain on sale of real estate	328	(1,891)
Gain on sale of real estate	<u>842</u>	<u>-</u>
Consolidated net income/(loss)	1,170	(1,891)
Less net loss/(income) attributable to the noncontrolling interests	<u>(990)</u>	<u>662</u>
Net income/(loss) attributable to the Company	<u>\$ 180</u>	<u>\$(1,229)</u>

*See accompanying notes to condensed consolidated financial statements.*

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

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	<i>(In thousands)</i>	
<b>REVENUE</b>		
Base rent	\$ 8,702	\$ 9,019
Percentage rent	190	152
Expense recoveries	2,276	2,468
Other	3,558	1,182
Interest	<u>347</u>	<u>292</u>
Total revenue	<u>15,073</u>	<u>13,113</u>
<b>EXPENSES</b>		
Property operating	3,153	3,477
Real estate taxes	1,346	1,260
Other operating	57	601
Depreciation and amortization	4,313	4,996
General and administrative	2,516	3,287
Interest	6,401	6,268
Gain on marketable securities	<u>(141)</u>	<u>(272)</u>
Total expenses	<u>17,645</u>	<u>19,617</u>
Income from investment in joint ventures	<u>205</u>	<u>677</u>
Consolidated net loss from continuing operations	(2,367)	(5,827)
Loss from discontinued operations	<u>-</u>	<u>(399)</u>
Consolidated net loss before gain on sale of real estate	(2,367)	(6,226)
Gain on sale of real estate	<u>842</u>	<u>-</u>
Consolidated net loss	(1,525)	(6,226)
Less net loss attributable to the noncontrolling interests	<u>60</u>	<u>2,106</u>
Net loss attributable to the Company	<u><u>\$(1,465)</u></u>	<u><u>\$(4,120)</u></u>

*See accompanying notes to condensed consolidated financial statements.*

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

	<u>Nine months ended</u> <u>September 30, 2010</u>	<u>Nine months ended</u> <u>September 30, 2009</u>
<i>(In thousands)</i>		
<b>Cash flows from operating activities:</b>		
Net loss attributable to the Company	\$(1,465)	\$(4,120)
(Gain)/loss on sale of assets, including amounts in discontinued operations	(842)	138
Adjustments to reconcile net loss attributable to the Company to net cash used in operating activities:		
Net loss attributable to the noncontrolling interests	(60)	(2,106)
Income from investment in joint ventures	(205)	(677)
Depreciation	4,201	4,926
Amortization, including deferred financing costs	1,046	909
Gain on marketable securities	(141)	(272)
HGPI stock grants	9	(25)
Changes in assets and liabilities:		
Restricted cash	(680)	70
Tenant and other accounts receivable	30	950
Real estate held for sale	-	90
Deferred costs and other assets	(2,870)	(583)
Accounts payable and other accrued expenses	604	(1,570)
Prepaid rents and other tenant liabilities	<u>(77)</u>	<u>(8)</u>
<b>Net cash used in operating activities</b>	<u>(450)</u>	<u>(2,278)</u>
<b>Cash flows from investing activities:</b>		
Net marketable securities activity	7,468	5,114
Distribution from joint venture	150	678
Repayment of notes receivable	14	126
Expenditures for buildings and improvements	(3,788)	(1,092)
Expenditures for land held for investment	-	(7)
Net proceeds from sale of real estate	1,688	2,519
TIF Bond Collateral Account proceeds (see Note 6)	<u>-</u>	<u>4,000</u>
<b>Net cash provided by investing activities</b>	<u>5,532</u>	<u>11,338</u>
<b>Cash flows from financing activities:</b>		
Net contributions from/(distributions to) noncontrolling interests	393	(417)
Net proceeds from sale of ownership interests	1,350	-
Principal payments on mortgages and other debt	(9,778)	(12,697)
Proceeds from borrowings	3,350	4,597
HGPI stock buy back and retirement	-	(27)
Debt issue costs	(258)	(512)
Payment of participation interests	<u>-</u>	<u>(164)</u>
<b>Net cash used in financing activities</b>	<u>(4,943)</u>	<u>(9,220)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	139	(160)
<b>Cash and cash equivalents:</b>		
<b>Beginning of period</b>	<u>1,406</u>	<u>755</u>
<b>End of period</b>	<u>\$ 1,545</u>	<u>\$ 595</u>

*See accompanying notes to condensed consolidated financial statements.*

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

	Nine Months Ended <u>September 30, 2010</u>	Nine Months Ended <u>September 30, 2009</u>
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*(in thousands)*

**Supplemental Information -**

During the nine months ended September 30, 2010 and 2009, the Company sold the following assets:

Land held for investment	\$ 842	\$ -
Accumulated depreciation	-	(72)
Real estate held for sale	-	2,825
Deferred costs	-	(18)
Accounts payable and other accrued expenses	<u>158</u>	<u>203</u>
Net assets sold	1,000	2,938
Gross proceeds from sale of real estate	<u>1,842</u>	<u>2,800</u>
Gain/(loss) on sale of real estate	<u>\$ 842</u>	<u>\$ (138)</u>

The following represents the supplemental disclosure of significant cash activity from the gross proceeds from the sale of real estate (above) to arrive at the net proceeds from the sale of real estate as shown on the condensed consolidated statement of cash flows for the nine months ended September 30, 2010 and 2009:

Gross proceeds from sale of real estate	\$1,842	\$2,800
Accounts payable and other accrued expenses – closing costs	(154)	(257)
Prepaid rents and other tenant liabilities	<u>-</u>	<u>(24)</u>
Net proceeds from sale of real estate	<u>\$1,688</u>	<u>\$2,519</u>

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

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

The following represents the supplemental disclosure of noncash activity for the disposal of fully depreciated/amortized assets during the nine months ended September 30, 2010 and 2009:

Buildings and improvements	\$851	\$ 804
Deferred costs	<u>(21)</u>	<u>281</u>
	<u>\$830</u>	<u>\$1,085</u>

*See accompanying notes to condensed consolidated financial statements.*

HORIZON GROUP PROPERTIES, INC.  
**Condensed Consolidated Statements of Stockholders' Equity**  
 Nine Months Ended September 30, 2010 and 2009  
*(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, 2010	\$28	\$36,008	\$(24,284)	\$11,752	\$12,787	\$24,539
Net loss	-	-	(1,465)	(1,465)	(60)	(1,525)
Stock grant to officers	1	8	-	9	-	9
Sale of interests in consolidated subsidiaries (see Notes 3 and 8)	-	(1,605)	-	(1,605)	2,955	1,350
Net contributions from noncontrolling interests	-	-	-	-	393	393
Balance, September 30, 2010	<u>\$29</u>	<u>\$34,411</u>	<u>\$(25,749)</u>	<u>\$ 8,691</u>	<u>\$16,075</u>	<u>\$24,766</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, 2009	\$29	\$37,514	\$(19,953)	\$17,590	\$12,966	\$30,556
Net loss	-	-	(4,120)	(4,120)	(2,106)	(6,226)
Stock grant to officers	-	29	-	29	-	29
Stock buyback and retirement	(1)	(80)	-	(81)	-	(81)
Net distributions to noncontrolling interests	-	-	-	-	(417)	(417)
Balance, September 30, 2009	<u>\$28</u>	<u>\$37,463</u>	<u>\$(24,073)</u>	<u>\$13,418</u>	<u>\$10,443</u>	<u>\$23,861</u>

*See accompanying notes to condensed consolidated financial statements.*



HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2010 and 2009  
(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 September 30, 2010 and December 31, 2009, HGPI owned approximately 68.4% and 68.3%, 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 September 30, 2010 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, 2009.

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 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 and 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.

Reclassifications

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

HORIZON GROUP PROPERTIES, INC.  
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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 September 30, 2010, pre-development costs classified as Other Assets and Construction in Progress were \$687,000 and \$6.4 million, respectively. At December 31, 2009, pre-development costs classified as Other Assets and Construction in Progress were \$700,000 and \$3.5 million respectively.

Discontinued Operations

In accordance with GAAP, assets held for sale are valued at the lower of carrying value or fair value less costs to dispose. GAAP 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 September 30, 2010 and December 31, 2009 no assets were classified as held for sale. Results of operations of the shopping center located in Holland, Michigan, which was sold on July 20, 2009, are included in the discontinued operations line items on the condensed consolidated statements of operations. GAAP 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.

Fair Value Measurements

The various inputs that may be used to determine 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 risks, etc.)
- Level 3 – Significant unobservable inputs (including the Company's own assumptions used to determine value)

At September 30, 2010 and December 31, 2009, the Company held marketable securities that total approximately \$4.1 million and \$11.4 million, respectively, and are considered to have Level 2 fair value inputs. The Company did not hold any Level 3 assets during the period ended September 30, 2010 or the year ended December 31, 2009.

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

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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 September 30, 2010 and December 31, 2009 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 September 30, 2010 and 2009, 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 2007.

Recent Financial Accounting Standards

ASC 810 "Consolidation" contains guidance modifying how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. These provisions of ASC 810 clarify 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. These provisions of ASC 810 require an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity ("VIE"), and also require additional disclosures about a company's involvement in VIE's, including any significant changes in risk exposure due to that involvement. These provisions of ASC 810 are effective for fiscal years beginning after November 15, 2009, and did not have an impact on the Company's condensed consolidated financial statements.

Subsequent Events

The Company has evaluated subsequent events through November 24, 2010, the date the condensed consolidated 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.

HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2010 and 2009  
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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 September 30, 2010.

<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	\$ 10,931,000	51.0%
El Portal Center	Laredo, TX	Retail	345,106	11,254,000	38.0%
The Outlet Shoppes at Fremont	Fremont, IN	Outlet Retail	228,925	11,320,000	51.0%
The Outlet Shoppes at Gettysburg	Gettysburg, PA	Outlet Retail/ Adjacent Land	249,927	52,949,000	51.0%
The Outlet Shoppes at Oshkosh	Oshkosh, WI	Outlet Retail	270,512	27,877,000	51.0%
Village Green Shopping Center	Huntley, IL	Retail	22,204	2,818,000	100.0%
5000 Hakes Drive	Norton Shores, MI	Office	28,863	1,702,000	51.1%
Corporate Assets	Norton Shores, MI	Miscellaneous	-	68,000	100.0%
<b>Total</b>			<u>1,319,797</u>	<u>\$118,919,000</u>	
			<u>Acres</u>		
Land Held for Investment	Fruitport Township, MI	Land	46	\$ 769,000	100.0%
Land Held for Investment	Huntley, IL	Land	400	<u>18,684,000</u>	100.0%
<b>Total</b>			<u>446</u>	<u>\$ 19,453,000</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 was classified as held for sale prior to its sale on July 20, 2009 (see Notes 2, 9 and 10).

In December 2009, the Company sold noncontrolling interests in the entities that own five of its outlet centers to Bright Horizons of South Florida, LLC ("Bright Horizons"). The centers subject to the transaction are located in

HORIZON GROUP PROPERTIES, INC.  
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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, Texas, in which it acquired a 19.6% preferred interest and a 17.8% common interest). The total price for the acquired ownership interests was \$1.35 million. No gain or loss was recognized on this transaction. In May 2010, Bright Horizons acquired an additional 26.5% interest in entities that own the outlet centers (excluding the entity that owns the center in El Paso, Texas, in which it acquired an additional 23.6% preferred interest and an additional 21.8% common interest) for additional consideration of \$1.35 million. Bright Horizons is controlled by Somerset Outlet Center, L.P. ("Somerset, L.P."), of which Howard Amster, a director and significant stockholder of the Company ("Howard Amster") owns a controlling interest and Gary Skoien Chairman, President and CEO of the Company ("Gary Skoien") owns a non-controlling interest.

Pre-Development Projects

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 September 30, 2010 and December 31, 2009, the Company had incurred pre-development costs of \$687,000 and \$700,000, respectively, for this project which are classified in Other Assets on the condensed consolidated balance sheet (See Note 2) and at September 30, 2010 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 \$1.4 million.

The Company is developing The Outlet Shoppes at Oklahoma City, a planned 323,000 square foot outlet shopping center at the intersection of Interstate 40 and Council Road in Oklahoma City, Oklahoma. The Company began construction of the center in the second quarter of 2010. At September 30, 2010 and December 31, 2009, the Company has incurred pre-development costs of \$5.7 million and \$2.8 million, respectively, for this project which are classified as Construction in Progress on the condensed consolidated balance sheet (see Note 2) and at September 30, 2010 had outstanding commitments for construction costs and capital expenditures on leases signed (which amounts become payable when the spaces are delivered to tenants) in the amount of \$4.7 million and \$11.3 million, respectively. In October 2010, the Company formed a joint venture with CBL & Associates, Inc. (see Note 11), which purchased the land for the project and reimbursed Cousins Properties, Inc. for the contributions they made pursuant to a Preformation Agreement.

Note 4 - Investment in Joint Ventures

El Paso Entities

As of September 30, 2010 and December 31, 2009, the Company owned 45.0% and 68.6%, respectively, of the preferred interests and 41.2% and 63.0%, respectively, 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 Howard Amster directly owns 5.9% of the preferred and common interests and Gary Skoien directly owns 5.9% of the preferred interests and 7.2% of the common interests of Horizon El Paso. As of September 30, 2010 and December 31, 2009, Bright Horizons owned 43.2% and 19.6%, respectively, of the preferred interests and 39.6% and 17.8%, respectively, of the common interests in Horizon El Paso (see Note 8). The Company maintains control over Horizon El Paso with a 50.1% voting unit ownership position at September 30, 2010. The Company consolidates the results of operations and the assets and liabilities of Horizon El Paso. The Company uses the equity method to account for its investment in El Paso Center and TOSEP.

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(unaudited)

Summary financial information (stated at 100%) of El Paso Center and TOSEP as of September 30, 2010 and December 31, 2009 and for the three and nine months ended September 30, 2010 and 2009 are as follows (in thousands):

	As of <u>September 30, 2010</u>	As of <u>December 31, 2009</u>
<b>Assets</b>		
Real estate	\$52,584	\$55,111
Cash and cash equivalents	769	1,007
Restricted cash	4,850	5,177
Other assets	<u>4,389</u>	<u>4,622</u>
Total assets	<u>\$62,592</u>	<u>\$65,917</u>
<b>Liabilities and members' deficit</b>		
Mortgages and other debt	\$77,665	\$78,204
Other liabilities	2,527	2,992
Members' deficit	<u>(17,600)</u>	<u>(15,279)</u>
Total liabilities and members' deficit	<u>\$62,592</u>	<u>\$65,917</u>

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
<b>Statements of Operations</b>				
Revenue	<u>\$3,431</u>	<u>\$3,519</u>	<u>\$ 9,646</u>	<u>\$ 9,595</u>
Operating expenses	1,093	920	2,713	2,417
Depreciation and amortization	1,090	1,039	3,247	3,250
General and administrative expenses	247	229	700	992
Interest expense	<u>1,683</u>	<u>1,697</u>	<u>5,007</u>	<u>5,047</u>
Total expenses	<u>4,113</u>	<u>3,885</u>	<u>11,667</u>	<u>11,706</u>
Gain on sale of real estate	<u>-</u>	<u>-</u>	<u>-</u>	<u>415</u>
Net loss	<u>\$ (682)</u>	<u>\$ (366)</u>	<u>\$(2,021)</u>	<u>\$(1,696)</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 \$68.2 million and \$68.7 million at September 30, 2010 and December 31, 2009, respectively, bears interest at 7.06%, requires principal payments over a 30-year amortization schedule and is due December 5, 2017. In November 2007, Dominion Capital Asset Company A, LLC made a preferred equity investment in El Paso Center in the amount of \$9.5 million, bearing interest at 15.0% and due October 27, 2010. In the event of a default, the preferred equity partner has an option to purchase the ownership interest for an amount equal to 10% of the amount the Company would receive if the property was sold at its fair market value. The Company has not received a notice of default and is currently in negotiations with the holder of the preferred equity interest with respect to an extension of the maturity date of the preferred equity. The preferred equity investment is classified as debt on the balance sheet of El Paso Center.

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The Company received management and similar fees from El Paso Center that totaled \$208,000 and \$211,000 during the three months ended September 30, 2010 and 2009, respectively, and \$603,000 and \$804,000 during the nine months ended September 30, 2010 and 2009, respectively.

There was no significant operating activity for TOSEP for the nine months ended September 30, 2010 and 2009.

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 \$205,000 and \$679,000 for the nine months ended September 30, 2010 and 2009, 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 September 30, 2010 and 2009.

Note 5 – Commitments

The Company has outstanding commitments for construction costs and tenant allowances on leases signed (which amounts become payable when the spaces are delivered to the tenants) at September 30, 2010 in the amount of \$4.7 million and \$13.5 million, respectively, which are not reflected on the balance sheet as of September 30, 2010. These amounts include the commitments for the pre-development projects (See Note 3). These capital expenditures are expected to be paid during 2010 and 2011 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 \$136.0 million and \$142.4 million at September 30, 2010 and December 31, 2009, respectively. Cash paid for interest for the three months ended September 30, 2010 and 2009 was \$1.8 million and \$1.6 million, respectively, and for both the nine months ended September 30, 2010 and 2009 was \$5.2 million. Interest advanced on loans or reserve accounts tied to loans for the three months ended September 30, 2010 and 2009 was \$114,000 and \$314,000, respectively, and for the nine months ended September 30, 2010 and 2009 was \$747,000 and \$717,000, respectively. The Company capitalized interest totaling \$105,000 and \$60,000 for the three months ended September 30, 2010 and 2009, respectively, and \$165,000 and \$186,000 for the nine months ended September 30, 2010 and 2009, respectively.

The Company's ability to secure new loans is limited by the fact that most of the Company's real estate assets are currently pledged as collateral for its current loans. The Company will pay the scheduled principal amortization in the normal course of business during 2010 and is in the process of or anticipates refinancing or extending the maturities of the remainder of the \$39.7 million of obligations due prior to September 30, 2011.

In June 2009, US Bank amended the terms of its loan to the Company by extending the maturity date to September 30, 2010 and increasing the interest rate to the 30-day LIBOR rate plus 4.5% with a floor of 5.5%. The Company also pledged 25 acres of vacant land in Huntley, Illinois as additional collateral and deposited \$900,000 into an interest reserve. In July 2009, the Company utilized a portion of the net proceeds from the sale of its center in Holland, Michigan (see Note 10) to repay \$691,000 for principal and deposit an additional \$600,000 into the interest reserve. In April 2010, US Bank amended the loan by requiring the Company to begin the payment of interest out of pocket commencing with the payment due for April 2010. In July 2010, US Bank amended the terms of the loan by extending the maturity of the loan to January 31, 2011 and requiring the Company to pledge its interest in the Huntley Series C TIF bonds (see below) as additional collateral. The Company also agreed to make principal payments of \$10,000 each in August and September 2010 and \$20,000 each month thereafter. In September 2010, the Company sold 8.4 acres of investment land in Huntley (see Note 9) and utilized \$1.6 million of the proceeds to pay down the loan from US Bank.

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In September 2009, the Company paid off a loan from First Bank of Beverly Hills (“FBBH”) which had an outstanding balance of \$250,000 at December 31, 2008 and was secured by approximately 46 acres of land that the Company holds for investment purposes (the “FBBH Loan”). The FBBH Loan was repaid from the proceeds of a \$300,000 loan from Somerset Outlet Center, L.P. which is secured by the same 46 acres of land held for investment purposes (the “Somerset Loan”). The Somerset Loan bears interest at a rate of 9.5% and matures on December 1, 2013. Howard Amster and Gary Skoien and other unrelated parties own Somerset Outlet Center, L.P.

The Company is currently negotiating with the servicer of the mortgage loan to 5000 Hakes Drive LLC with respect to modifying the terms of that loan. The Company has requested a portion of the funds in the loan’s releasing reserve be utilized to pay a portion of the monthly debt service starting with the payment due February 1, 2010. The Company has not yet reached an agreement with the servicer and has not paid its monthly debt service payment since January 2010.

MB Financial, the lender on the mortgage loan to Village Green Associates, LLC with a maturity date of May 15, 2010, has extended the maturity to February 15, 2011. The loan bears interest at a rate of 7.5% and is guaranteed by the Company.

In July 2007, the Company entered into a guaranty agreement in connection with the \$6.0 million mezzanine loan to Gettysburg Outlet Center Holding, LLC, as borrower, from CW Capital LLC, as lender. The guaranty contains covenants (the “Guaranty Covenants”) requiring the company to maintain net worth of at least \$25.0 million and liquidity of \$5.0 million each of which is to be reasonably determined by CW Capital. Although an uncertainty exists as CW Capital has not provided definitions with respect to the terms contained in the Guaranty Covenants, the Company believes it is in compliance with the Guaranty Covenants and has received no notice of default with respect to its compliance with the Guaranty Covenants.

The Company has exercised its option to extend the maturity of the loan from Cathay Bank to El Portal Center, LLC to September 1, 2010. This extension required a \$250,000 principal repayment to be paid in five monthly installments of \$50,000 beginning April 2010. Cathay Bank has agreed to extend the maturity date through January 1, 2011, requiring monthly payments of interest only. The Company is currently negotiating with Cathay Bank with respect to an extension of the maturity date of the loan beyond January 1, 2011 (see Note 9).

*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 Huntley Development Limited Partnership (“HDLP”), an entity which owns approximately 400 acres of land in a master planned community in Huntley, Illinois (the “Huntley Project”), which obligation the Company assumed in connection with the purchase of the Huntley Project from Prime Group. The Skoien Net Profits Interest consists of a 9.675% participation in the Net Cash Flow (as defined in Mr. Skoien’s Net Profits Agreement) distributed to the Company (excluding distributions of all amounts contributed or advanced by the Company to the Huntley Project plus interest per the terms of the agreement) from the Huntley Project. The Company has recorded a liability for the Skoien Net Profits Interest in the amount of \$1.1 million as of September 30, 2010 and December 31, 2009, 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



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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 \$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. HDLP received \$1.1 million from the TIF Bond Collateral Account in February 2009 after development criteria were met by a particular land owner. 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

At September 30, 2010 and December 31, 2009 an affiliate of Howard Amster owned approximately 44% of Magnolia Bluff Factory Shops Limited Partnership ("Magnolia Bluff") an entity that owns a portfolio of marketable securities and 49% of the entity that owns the office building in Norton Shores, Michigan. His affiliate also owns 31.3% 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 September 30, 2010 and December 31, 2009 is an unsecured note receivable from Howard Amster which has a balance of \$1.42 million which bears interest at 5.0%.

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At September 30, 2010 and December 31, 2009, Gary Skoien owned 7.8% of Horizon El Portal LLC, 5.3% of Magnolia Bluff and 5.9% of the preferred interests and 7.2% of the common interests in Horizon El Paso, LLC.

Common interests in Horizon El Paso (the “El Paso Net Profits Interests”) were granted in May 2007 to certain officers of the Company, Gary Skoien, Thomas Rumpitz and Andrew Pelmoter, representing 1.3%, 2.6% and 3.5%, respectively, of the total common interests in Horizon El Paso, LLC. Holders of the El Paso Net Profits Interests are not entitled to any distributions until the holders of the preferred interests have received a return of their capital plus interest thereon calculated at an annual rate of 12%, compounded quarterly. The El Paso Net Profits Interests are accounted for as a profit sharing arrangement with compensation expense being recognized for payments related to such interests. The Company recognized compensation expense for the El Paso Net Profits Interests of \$33,000 during the nine months ended September 30, 2009. There was no similar expense for the three months ended September 30, 2009 and the three and nine months ended September 30, 2010.

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

The Company incurred interest expense on the margin account between Magnolia Bluff and Ramat Securities Ltd in the amount of \$13,000 and \$65,000 for the three and nine months ended September 30, 2010, respectively. There was no similar expense in the three and nine months ended September 30, 2009. Ramat Securities Ltd is an affiliate of Howard Amster.

The Company incurred interest expense on the loan from Somerset, L.P., which is secured by approximately 46 acres of vacant land in Fruitport Township, Michigan in the amount of \$3,800 and \$12,700 for the three and nine months ended September 30, 2010, respectively. There was no similar expense in the three and nine months ended September 30, 2009. The loan from Somerset, L.P. matures in December 2013, has a balance of \$300,000 and bears interest at a rate of 5.0%, payable monthly. Somerset, L.P. also has a 50% interest in the net profits from the sale of the land over certain thresholds. Howard Amster owns a controlling interest and Gary Skoien owns a non-controlling interest in Somerset, L.P.

During the three and nine months ended September 30, 2010, the Company incurred interest expense of \$10,000 related to a loan from Magnolia Bluff to the Company to fund development costs for the construction of an outlet center in Oklahoma City, Oklahoma (the “Magnolia Bluff Loan”). There was no similar expense in the three and nine months ended September 30, 2009. The loan was in the maximum principal amount of \$1.0 million with an annual interest rate of 6.5%. The loan was advanced in the third quarter of 2010 and was repaid in October 2010 in connection with the formation of Horizon OKC (see Note 11).

During the three and nine months ended September 30, 2010, the Company incurred interest expense of \$18,900 related to loans from Somerset, L.P. to the Company to fund development costs for the construction of an outlet center in Oklahoma City, Oklahoma (the “Somerset Loans”). The loans were in the aggregate maximum principal amount of \$2.65 million with an annual interest rate of 6.5%. The loans were advanced in September 2010 and were repaid in October 2010 in connection with the formation of Horizon OKC (see Note 11).

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

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total price for the acquired ownership interests was \$1.35 million. No gain or loss was recognized on this transaction. In May 2010, Bright Horizons acquired an additional 26.5% interest in entities that own the outlet centers (excluding the entity that owns the center in El Paso, Texas, in which it acquired an additional 23.6% preferred interest and an additional 21.8% common interest) for additional consideration of \$1.35 million. Bright Horizons is controlled by Somerset, L.P.

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 \$286,000 and \$264,000 during the three months ended September 30, 2010 and 2009, respectively, and \$373,000 and \$462,000 during the nine months ended September 30, 2010 and 2009, respectively, on insurance policies placed by consolidated entities.

Note 9 – Recent Developments

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 was recognized on the transaction. The results of operations for this center are included in loss from discontinued operations for the period ending September 30, 2009, on the Company's statements of operations.

In January 2010, the Company formed a joint venture with a partner from the People's Republic of China that will lease, manage and provide development services with respect to the design, construction and operation of outlet shopping centers in mainland China. The Company's partner is an affiliate of a publicly traded real estate firm that is working on the development of eight outlet shopping centers in China. The Company recognized income from this agreement totaling \$50,000 and \$240,000 for the three and nine months ended September 30, 2010, respectively.

In May 2010, the Company sold additional noncontrolling interests in the entities that own five of its outlet centers to Bright Horizons for \$1.35 million. No gain or loss was recorded on this transaction (see Notes 3 and 8).

In July 2010, the El Portal Center in Laredo, Texas was damaged as a result of Hurricane Alex. The majority of the damage was caused by the water entering the buildings from the Rio Grande River. The Company has two flood insurance policies in place on this property. It has agreed to a settlement with one insurer for a total claim of \$2.5 million (the policy limit). The second insurer has asserted that the settlement with the first carrier exceeds the value of the damage for which it is liable. The Company is contesting that assertion. The Company incurred cleaning costs of approximately \$600,000 in connection with the flooding and the remaining \$1.9 million of insurance proceeds will be utilized to partially repay the loan from Cathay Bank which had a balance of \$5.9 million prior to the repayment (see Note 6). Any additional insurance proceeds which the Company may receive are required to be applied to the principal balance of the Cathay Bank loan. There can be no assurance that any additional proceeds will be received. The Company is currently negotiating with Cathay Bank with respect to an extension of the maturity date of the loan beyond January 1, 2011. The net insurance proceeds of \$1.9 million are reflected in the condensed consolidated statements of operations for the period ended September 30, 2010 as Other Income and the receivable for the final payments from the first insurer are included in Other Assets on the condensed consolidated balance sheet at September 30, 2010 since they were received in October 2010.

In September 2010, the Company sold approximately 8.4 acres of unimproved land in Huntley, Illinois for \$1.84 million. Approximately \$1.6 million of the net proceeds was used to pay down the principal balance of the mortgage loan from US Bank. A gain of approximately \$842,000 was recognized on the transaction.

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Note 10 – Discontinued Operations

In accordance with GAAP, 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”.

The following table is a summary of the results of operations of the property classified as discontinued operations and sold in July 2009, in thousands (see Note 2):

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Total revenue	<u>\$ 35</u>	<u>\$ 283</u>
Operating expenses	58	443
General and administrative expenses	5	10
Depreciation and amortization expense	<u>-</u>	<u>91</u>
Total expense	<u>63</u>	<u>544</u>
Loss on sale of real estate	<u>(138)</u>	<u>(138)</u>
Loss from discontinued operations	<u>\$(166)</u>	<u>\$(399)</u>
Loss from discontinued operations attributable to the noncontrolling interests	<u>\$(109)</u>	<u>\$(259)</u>
Loss from discontinued operations attributable to the Company	<u>\$ (57)</u>	<u>\$(140)</u>

Note 11 – Subsequent Events

In October 2010, the Company formed a joint venture (the “OKC Joint Venture”) with an affiliate of CBL & Associates, Inc. (“CBL”) to develop The Outlet Shoppes at Oklahoma City (see Note 3). The Company contributed all of its rights and interests in leases, contracts and construction in progress related to the project. The Company formed a subsidiary entity (“Horizon OKC”) to be CBL’s partner in the OKC Joint Venture. The total equity commitment from CBL and Horizon OKC is \$21.0 million, of which Horizon OKC is obligated for \$5.25 million. Horizon OKC will own 25% of the OKC Joint Venture and CBL will own 75%. At formation, the OKC Joint Venture purchased the land for the project and made other payments, resulting in an initial equity capitalization of \$16.2 million of which Horizon OKC’s 25% share was \$4.05 million. As of the date of formation of the OKC Joint Venture, the Company had incurred \$8.05 million of costs, \$4.35 million of which had been funded with the proceeds of loans from affiliates (see Note 8). The Company received a distribution of \$4.0 million representing excess capital contributions at closing and used a portion of this distribution to repay a portion of the loans from affiliates. The Company is obligated to fund an additional \$1.2 million of future capital contributions, which are expected to be made in the fourth quarter of 2010.

The OKC Joint Venture has received a loan commitment from US Bank with respect to a \$48.85 million loan for the project. CBL has agreed to guarantee the loan and will receive an annual fee of 1.0% of the maximum loan amount

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for providing such guarantee. The Company will lease and manage The Outlet Shoppes at Oklahoma City and will act as the co-developer of the project, which is scheduled to open in August 2011.

The Company has voting control over Horizon OKC and will own, directly and indirectly, approximately 34% of the preferred interests in Horizon OKC. The other preferred members include Magnolia Bluff and Somerset, L.P. (see Note 8) and Andrew Pelmoter. 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.