

Condensed Consolidated Financial Statements

Horizon Group Properties, Inc.

For the nine months ended September 30, 2017 and 2016

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

Contents

Condensed Consolidated Balance Sheets at September 30, 2017 and December 31, 2016.....	3
Condensed Consolidated Statements of Operations for the Three Months Ended September 30, 2017 and September 30, 2016 .....	4
Condensed Consolidated Statements of Operations for the Nine Months Ended September 30, 2017 and September 30, 2016 .....	5
Condensed Consolidated Statements of Stockholders' Equity for the Nine Months Ended September 30, 2017 and September 30, 2016 .....	6
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2017 and September 30, 2016 .....	7
Notes to Condensed Consolidated Financial Statements .....	9

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

	September 30, 2017	December 31, 2016
	<i>(In thousands)</i>	
<b>ASSETS</b>		
Real estate		
Land	\$ 16,780	\$ 11,764
Buildings and improvements	45,389	43,748
Less accumulated depreciation	(2,443)	-
	59,726	55,512
Construction in progress	252	35
Land held for investment	22,501	22,300
Total net real estate	82,479	77,847
Investment in and advances to joint ventures (at fair value)	80,717	105,537
Cash and cash equivalents	21,910	7,623
Restricted cash	8,619	1,985
Tenant and other accounts receivable, net	975	994
Deferred costs (net of accumulated amortization of \$43 at September 30, 2017)	280	261
Other assets	8,599	9,817
Total assets	\$ 203,579	\$ 204,064
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Mortgages and other debt	\$ 64,746	\$ 63,562
Accounts payable and other accrued expenses	16,559	15,393
Prepaid rents and other tenant liabilities	401	335
Total liabilities	81,706	79,290
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Common shares (\$.01 par value, 50,000 shares authorized, 8,732 and 8,605 issued and outstanding, respectively)	87	86
Additional paid-in capital	82,658	81,271
Accumulated deficit	(2,687)	0
Total stockholders' equity attributable to the controlling interest	80,058	81,357
Noncontrolling interests in consolidated subsidiaries	41,815	43,417
Total stockholders' equity	121,873	124,774
Total liabilities and stockholders' equity	\$ 203,579	\$ 204,064

*See accompanying notes to condensed consolidated financial statements.*

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

	Three months ended September 30, 2017	Three months ended September 30, 2016
	<i>(In thousands)</i>	
<b>REVENUE</b>		
Base rent	\$ 2,091	\$ 2,141
Percentage rent	110	154
Expense recoveries	204	235
Restaurant revenue	1,045	897
Other	751	3,984
Interest	27	285
Total revenue	4,228	7,696
<b>EXPENSES</b>		
Property operating	685	715
Real estate taxes	331	296
Other operating	260	301
Depreciation and amortization	720	617
General and administrative	2,250	2,141
Restaurant operating	940	873
Interest	808	803
Total expenses	5,994	5,746
Income from investment in joint ventures	95	1,341
Consolidated net income (loss) before loss on sale of real estate and marketable securities	(1,671)	3,291
Loss on sale of real estate	(2,001)	-
Consolidated net income (loss)	(3,672)	3,291
Less net loss (income) attributable to the noncontrolling interests	1,716	(1,106)
Net income (loss) attributable to the Company	\$ (1,956)	\$ 2,185

*See accompanying notes to condensed consolidated financial statements.*

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

	<u>Nine Months</u> <u>September 30, 2017</u>	<u>Nine Months</u> <u>September 30, 2016</u>
	<i>(In thousands)</i>	
<b>REVENUE</b>		
Base rent	\$ 6,072	\$ 6,269
Percentage rent	241	355
Expense recoveries	620	732
Restaurant revenue	2,659	2,399
Other	4,912	5,179
Interest	129	948
Total revenue	<u>14,633</u>	<u>15,882</u>
<b>EXPENSES</b>		
Property operating	2,198	2,167
Real estate taxes	944	916
Other operating	559	556
Depreciation and amortization	2,445	1,863
General and administrative	6,637	6,565
Restaurant operating	2,759	2,300
Interest	2,333	2,572
Total expenses	<u>17,875</u>	<u>16,939</u>
Income from investment in joint ventures	<u>858</u>	<u>4,171</u>
Consolidated net income (loss) before gain on sale of real estate	(2,384)	3,114
Gain (loss) on sale of real estate	<u>(2,001)</u>	<u>1,855</u>
Consolidated net income (loss)	(4,385)	4,969
Less net loss (income) attributable to the noncontrolling interests	<u>1,698</u>	<u>(3,030)</u>
Net income (loss) attributable to the Company	<u>\$ (2,687)</u>	<u>\$ 1,939</u>

*See accompanying notes to condensed consolidated financial statements.*

HORIZON GROUP PROPERTIES, INC.  
**Condensed Consolidated Statements of Stockholders' Equity**  
 Nine Months Ended September 30, 2017 and 2016  
*(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, 2017	\$ 86	\$ 81,271	\$ -	\$ 81,357	\$ 43,417	\$ 124,774
Net loss	-	-	(2,687)	(2,687)	(1,698)	(4,385)
Stock issued to related parties	1	387	-	388	-	388
Distributions to noncontrolling interests	-	-	-	-	(1,835)	(1,835)
Consolidation of Woodstock GA Investments	-	1,000	-	1,000	1,931	2,931
Balance, September 30, 2017	<u>\$ 87</u>	<u>\$ 82,658</u>	<u>\$ (2,687)</u>	<u>\$ 80,058</u>	<u>\$ 41,815</u>	<u>\$ 121,873</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, 2016	\$ 47	\$ 37,058	\$ (20,476)	\$ 16,629	\$ 10,754	\$ 27,383
Net income	-	-	1,939	1,939	3,030	4,969
Stock granted to or purchased by officer	3	537	-	540	-	540
Distributions to noncontrolling interests	-	-	-	-	(3,863)	(3,863)
Balance, September 30, 2016	<u>\$ 50</u>	<u>\$ 37,595</u>	<u>\$ (18,537)</u>	<u>\$ 19,108</u>	<u>\$ 9,921</u>	<u>\$ 29,029</u>

*See accompanying notes to condensed consolidated financial statements.*

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

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
<b>Cash flows used in operating activities:</b>	<i>(In thousands)</i>	
Net income attributable to the Company	\$ (2,687)	\$ 1,939
Adjustments to reconcile net income attributable to the Company to net cash provided by (used in) operating activities:		
Gain from deconsolidation of subsidiary	-	(1,855)
Loss on sale of real estate	2,001	
Distributions from joint ventures included in income	1,873	4,232
Net income (loss) attributable to the noncontrolling interests	(1,698)	3,030
Income from investment in joint ventures	(858)	(4,171)
Depreciation	2,402	1,807
Amortization	43	204
Interest expense from deferred finance costs	267	-
Changes in assets and liabilities:		
Restricted cash	(6,634)	684
Tenant and other accounts receivable	19	161
Deferred costs and other assets	(491)	(373)
Accounts payable and other accrued liabilities	811	(1,594)
Prepaid rents and other tenant liabilities	66	(173)
<b>Net cash provided by (used in) operating activities</b>	<b>(4,886)</b>	<b>3,891</b>
<b>Cash flows provided by (used in) investing activities:</b>		
Investment in future developments	(1,853)	(1,503)
Net proceeds from sale of real estate	3,901	-
Distributions from joint ventures not included in income	22,078	2,434
Expenditures for buildings and improvements	(977)	(2,769)
<b>Net cash used in investing activities</b>	<b>23,149</b>	<b>(1,838)</b>
<b>Cash flows provided by (used in) financing activities:</b>		
Distributions to noncontrolling interests	(1,835)	(3,863)
Principal payments on mortgages and other debt	(2,529)	(183)
Proceeds from borrowings	-	2,581
Stock issued	388	390
<b>Net cash used in financing activities</b>	<b>(3,976)</b>	<b>(1,075)</b>
<b>Net increase in cash and cash equivalents</b>	<b>14,287</b>	<b>978</b>
<b>Cash and cash equivalents:</b>		
Beginning of year	7,623	4,326
End of year	<b>\$ 21,910</b>	<b>\$ 5,304</b>

*See accompanying notes to condensed consolidated financial statements.*

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

**September 30, 2017**      **September 30, 2016**

*(In thousands)*

Noncash activity related to the disposal of fully depreciated or amortized assets		
Building and improvements	\$41	\$790
Deferred costs	<u>0</u>	<u>186</u>
	<u>\$41</u>	<u>\$976</u>

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

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

Noncash activity related to the conversion of debt to equity

Mortgages and other debt		\$150
Common shares		(1)
Additional paid in capital		<u>(149)</u>
		<u>\$ -</u>

The following represents supplemental disclosure of noncash activity for the purchase of the membership interest and consolidation of the assets and liabilities of Woodstock GA Investments (WGI) and Ridgewalk Property Investments, LLC (RPI) on March 29, 2017, by Horizon Atlanta (see Note 4):

Land		\$ 7,418
Construction in progress		1,041
Mortgage and other debt		(3,446)
Accounts payable and other accrued expenses		(862)
Investment in joint venture		(1,220)
Non-controlling interest		<u>(1,931)</u>
Purchase of membership interest		<u>\$ 1,000</u>

Seller financed note included in Mortgage and other debt      \$ 1,000

*See accompanying notes to condensed consolidated financial statements.*



HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2017 and 2016  
(*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, 2017 and December 31, 2016, HGPI owned approximately 87% of the partnership interests (the “Common Units”) of HGP LP, respectively. 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, 2017 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, 2016.

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

Change in Control

Howard Amster (Amster) is a shareholder of HGPI and a member of the Board of Directors (the Board). Under the charter of HGPI, Amster is allowed to own up to 29.9% of HGPI shares. The charter grants the Board authority to allow higher ownership limits. In 2005, the Board granted Amster an exception to own up to 49% on a temporary basis, subject to a requirement for Amster to dispose of his ownership over 29.9% under certain conditions, as defined.

In October 2016, the Board voted to allow Amster to increase his temporary ownership from 49% to 80%. In conjunction with this temporary increase, Amster increased his ownership to approximately 65% through a contribution of interest in certain entities in exchange for HGPI shares.

Effective December 31, 2016, the Board voted to remove restrictions on Amster’s ownership limit of 80% allowing Amster to own the shares without the requirement to dispose under certain conditions. This removal of the temporary restriction and disposition condition created a change in control as of December 31, 2016. The Company elected to apply FASB Accounting Standards Codification (ASC) 805 “Business Combinations” and pushdown accounting to value assets and liabilities at fair value at the date of change of control. As a result of the election, the net assets of the Company as of December 31, 2016 have increased by \$94,048 as follows:

	(in thousands)
Real estate	\$12,277
Investments in and advances to joint ventures	90,051
Other assets	2,500
Accounts payable and other accrued expenses	<u>(10,780)</u>
	<u>\$94,048</u>

HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2017 and 2016  
(unaudited)

A corresponding pushdown accounting adjustment was recorded through stockholders' equity as follows:

	(in thousands)
Additional paid-in capital	\$42,045
Accumulated deficit	17,684
Noncontrolling interests	<u>34,319</u>
	<u>\$94,048</u>

The fair value of the other assets and liabilities approximates their carrying value prior to the change in control.

As part of the push down accounting adjustment, deferred tax liabilities increased by \$23,294 and the valuation allowance decreased by \$23,294.

Effective December 31, 2016, in connection with the change in control, the Company elected the fair value option with respect to the accounting for the Outlet Shoppes at Atlanta and Louisville. This election will result in a change to the accounting prospectively for the investment in these joint ventures. As of and for the year ended December 31, 2016, there was no effect on the consolidated balance sheet or statement of operations related to this election.

Note 2 - Summary of Significant Accounting Policies

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

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

Principles of Consolidation

The condensed consolidated financial statements include the accounts of HGPI and all subsidiaries that HGPI controls, including HGP LP. The Company considers itself to control an entity if it is the majority owner of or has voting control over such entity. All significant intercompany balances and transactions have been eliminated in consolidation. In accordance with GAAP, the Company also consolidates variable interest entities if it is that entity's primary beneficiary.

Pre-Development Costs

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

At September 30, 2017, pre-development costs classified as Other Assets and Construction in Progress for projects in Hartford, CT, Cleveland, OH, and Malaysia totaled \$8.2 million and \$252,000, respectively. At December 31, 2016, pre-development costs classified as Other Assets and Construction in Progress for projects in Hartford, CT, Cleveland, OH, and Malaysia totaled \$6.0 million and \$35,000, respectively.

HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2017 and 2016  
(*unaudited*)

Restaurant Revenue and Operating Expense

The Company owns four Johnny Rockets restaurants at the outlet malls in Oshkosh WI, Atlanta GA, Louisville KY and Laredo, TX. Revenue is derived from sales of various food products, and operating expenses are primarily from cost of sales, supplies, payroll, franchise fees, and rent.

Revenue Recognition

Leases with tenants are accounted for as operating leases. Minimum annual rentals are recognized on a straight-line basis over the terms of the respective leases. Rents which represent basic occupancy costs, including fixed amounts and amounts computed as a function of sales, are classified as base rent. Amounts which may become payable in addition to base rent and which are computed as a function of sales in excess of certain thresholds are classified as percentage rents and are accrued after the reported tenant sales exceed the applicable thresholds. Expense recoveries based on common area maintenance expenses and certain other expenses are accrued in the period in which the related expense is incurred.

Other Revenue

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

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 September 30, 2017 and December 31, 2016 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, 2017 and 2016 the Company did not incur any interest or penalties.

Investments in Joint Ventures

The Company uses the equity method of accounting for its investments in Joint Ventures, as the Company is able to significantly influence the operations of the underlying investment, but does not have the ability to control the underlying investment. The investments are recorded at initial cost and adjusted for the Company's proportionate share of income or loss. Contributions and distributions are treated as additions or reductions of investments cost basis.

As a result of the change in control event discussed in Note 1, the Company elected the fair value option for its investment in the Outlet Shoppes in Atlanta and Louisville. Due to the nature of these investments, the Company elected the fair value option in order to more accurately present the Company's portion of the value and changes thereof in the underlying investments. Changes in the fair value of the joint ventures are recorded as a component of income from investment in joint ventures on the condensed consolidated statement of operations.

HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2017 and 2016  
(unaudited)

At December 31, 2016, the cost basis of the investments in joint ventures was adjusted to fair value, in accordance with the change in control event. This adjustment created a difference between the carrying value of the Company's investment in joint venture and its underlying equity as reflected in the joint ventures' financial statements.

Investments in joint ventures are assessed for impairment if current events or circumstances, such as significant adverse changes in general market conditions, decreases in property net operating income, or reductions in expected future cash flows, indicate that the carrying value may not be recoverable. The Company assesses investment in joint ventures for other than temporary impairment by comparing the fair value of the investments to their carrying value. No impairment was recorded for the nine months ended September 30, 2017 and 2016.

For presentation of distributions received from investment in joint ventures on the condensed consolidated statement of cash flows, the Company utilizes the "look-through" approach. Distributions are reported in cash flows from operations unless the facts and circumstances of a specific distribution clearly indicate that it is a return of capital, which would then be presented as cash flows from investing activities.

Subsequent Events

The Company has evaluated subsequent events through January 27, 2017, the date the condensed consolidated financial statements were available to be issued.

Note 3 – Investment in Real Estate

The following table contains information on the operating properties and land held for investment owned by the Company and for which the Company consolidates the results of operations and the assets and liabilities as of September 30, 2017 (in thousands):

<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Gross Leasable Area (Sq. Ft.)</u>	<u>Net Carrying Value (in thousands)</u>	<u>Ownership Percentage</u>
The Outlet Shoppes at Burlington	Burlington, WA	Outlet Retail	174,660	\$ 9,906	51.0%
The Outlet Shoppes at Fremont	Fremont, IN	Outlet Retail	228,932	8,378	51.0%
The Outlet Shoppes at Oshkosh	Oshkosh, WI	Outlet Retail	270,512	31,056	51.0%
Village Green Shopping Center	Huntley, IL	Retail	22,204	3,473	100.0%
Johnny Rockets	Oshkosh, WI	Restaurant	N/A	320	100.0%
Johnny Rockets	Woodstock, GA	Restaurant	N/A	328	100.0%
Johnny Rockets	Louisville, KY	Restaurant	N/A	522	100.0%
Johnny Rockets	Laredo, TX	Restaurant	N/A	658	100.0%
Ridgewalk	Woodstock, GA	Development	N/A	5,016	100.0%
Corporate Assets	Norton Shores, MI	Miscellaneous	<u>N/A</u>	<u>69</u>	100.0%
	<b>Total</b>		<b><u>696,308</u></b>	<b><u>\$59,726</u></b>	

HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2017 and 2016  
(unaudited)

			<u>Acres</u>		
Land Held for Investment	Fruitport, MI	Land	14	\$ 399	100.0%
Laredo Phase II Land	Laredo, TX	Land	2	2,000	100.0%
Land Held for Investment	Huntley, IL	Land	<u>375</u>	<u>20,102</u>	100.0%
<b>Total</b>			<b><u>391</u></b>	<b><u>\$ 22,501</u></b>	

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.

Note 4 - Investment in Joint Ventures

The following table contains information and the effective ownership percentage attributable to the Company for the joint venture outlet centers in operation or development as of September 30, 2017. In addition, the joint ventures' own out parcels and other land for development.

<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Leasable Area (Sq. Ft.)</u>	<u>Ownership Percentage</u>
The Outlet Shoppes at Laredo	Laredo, TX	Outlet Retail	357,866	21.30%
The Outlet Shoppes at El Paso	El Paso, TX	Outlet Retail	433,045	24.41%
The Outlet Shoppes at Gettysburg	Gettysburg, PA	Outlet Retail	249,937	19.06%
The Outlet Shoppes at Atlanta	Woodstock, GA	Outlet Retail	413,969	22.07%
The Outlet Shoppes of the Bluegrass	Louisville, KY	Outlet Retail	<u>428,060</u>	30.78%
<b>Total</b>			<b><u>1,882,877</u></b>	

El Paso Entities

The Company owned 97.4% and 45.0% of the preferred interests and 92.8% and 41.2% of the common interests at September 30, 2017 and December 31, 2016, respectively in Horizon El Paso, LLC ("Horizon El Paso"), which owns a 25% joint venture interest in El Paso Outlet Center Holding, LLC ("El Paso Holding"). El Paso Holding owns an entity that owns the outlet shopping center in El Paso, TX (the "El Paso Center"). Horizon El Paso owns a 25% joint venture interest in El Paso Outlet Center II, LLC, which owns expansion land for the shopping center (the "Expansion Land"). Horizon El Paso owns a 50% joint venture interest in El Paso Outlet Outparcels, LLC which owns several outparcels and ancillary land adjacent to the shopping center (the "Outparcels").

The shopping center owned by El Paso Center secures a loan by NATIXIS Commercial Mortgage Funding, LLC which had a principal balance of \$61.6 million and \$62.4 million at September 30, 2017 and December 31, 2016, respectively, bears interest at 7.06%, and is due December 5, 2017.

During August 2014, El Paso Outlet Center II Expansion, LLC, was opened. El Paso Outlet Center II Expansion is 100% owned by El Paso Outlet Center II, LLC, which is owned 25% by Horizon El Paso and 75% by CBL & Associates Properties, Inc. ("CBL"). The construction was financed by a 48 month construction loan with an interest

HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2017 and 2016  
*(unaudited)*

rate of LIBOR plus 2.75%. The loan balance was \$6.6 and \$6.8 million at September 30, 2017 and December 31, 2016, respectively.

On September 5, 2017, the loan on phase I of the Outlet Shoppes at El Paso was refinanced by Mortgage Holdings, LLC, an affiliate of CBL. The new loan, in the amount of \$61.5 million, bears interest at 7.05% per year. Payments in the amount of \$468,500 per month are based on a 30 year amortization schedule. The new loan matures on June 5, 2018.

The Company received management, leasing and similar fees from El Paso Center that totaled \$229,000 and \$668,000 during the three and nine months ended September 30, 2017 and \$311,000 and \$667,000 during the three and nine months September 30, 2016.

As of September 30, 2017 and December 31, 2016, the Company's investment in the entities that own the El Paso Center, the Outparcels, and the Expansion Land exceeded its equity investment by approximately \$17.2 million and \$18.1 million, respectively.

Summary financial information (stated at 100%) for the entities that own the El Paso Center, the Outparcels and the Expansion Land as of September 30, 2017 and December 31, 2016 and for the three and nine months ended September 30, 2017 and 2016 are as follows (in thousands):

	As of September 30, 2017	As of December 31, 2016
<b>Assets</b>		
Real estate - net	\$ 94,268	\$ 97,099
Cash and cash equivalents	4,146	964
Restricted cash	501	6,386
Other assets	1,203	2,465
Total assets	<u>\$ 100,118</u>	<u>\$ 106,914</u>
<b>Liabilities and members' equity</b>		
Mortgages and other debt	\$ 68,207	\$ 69,100
Other liabilities	3,434	4,246
Members' equity	28,477	33,568
Total liabilities and members' equity	<u>\$ 100,118</u>	<u>\$ 106,914</u>

HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2017 and 2016  
(*unaudited*)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
<b>Statements of Operations</b>				
Revenue	\$ 2,900	\$ 4,250	\$ 10,660	\$ 12,204
Operating expenses	52	1,843	2,253	4,996
General and administrative expenses	242	259	754	739
Depreciation and amortization expense	1,028	1,045	3,216	3,163
Interest expense	1,285	1,274	3,922	3,795
Total expenses	<u>2,607</u>	<u>4,421</u>	<u>10,145</u>	<u>12,693</u>
Gain (loss) on sale of land	<u>-</u>	<u>(7)</u>	<u>-</u>	<u>502</u>
Net income (loss)	<u>\$ 293</u>	<u>\$ (178)</u>	<u>\$ 515</u>	<u>\$ 13</u>

Gettysburg Entities

An affiliate of CBL and PL Skoien, an affiliate of Howard Amster and Gary Skoien, own 62.63% of Gettysburg Outlet Center Holding, LLC and Gettysburg Outlet Center LLC (the Gettysburg entities). Howard Amster is a significant shareholder and director of the Company. Gary Skoien is Chairman of the Board, Chief Executive Officer, President, and a shareholder of the Company. The Company owns 19.06% of the Gettysburg entities and Bright Horizons of South Florida, LLC (“Bright Horizons”), an affiliate of Howard Amster, owns the remaining 18.31% interest in the Gettysburg entities. Gettysburg Outlet Center Holding, LLC, owns Gettysburg Outlet Center, LP, which owns the shopping center. Gettysburg Outlet Center LLC owns vacant land around the shopping center.

The mortgage loan for Gettysburg Outlet Center, LP is secured by the shopping center, had an initial balance of \$38.5 million, bears interest at 4.8% and matures in 2025. The mortgage balance was \$38.5 million at both September 30, 2017 and December 31, 2016.

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

The Company received management, leasing and similar fees from Gettysburg that totaled \$46,000 and \$141,000 during the three and nine months ended September 30, 2017 and \$50,000 and \$202,000 during the three and nine months ended September 30, 2016.

Summary financial information (stated at 100%) of the Gettysburg entities as of September 30, 2017 and December 31, 2016 and for the three and nine months ended September 30, 2017 and 2016 is as follows (in thousands):

HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2017 and 2016  
(unaudited)

	As of September 30, 2017	As of December 31, 2016
<b>Assets</b>		
Real estate - net	\$ 41,996	\$ 41,779
Cash and cash equivalents	323	785
Restricted cash	896	1,148
Other assets	1,363	1,165
Total assets	\$ 44,578	\$ 44,877
<b>Liabilities and members' equity</b>		
Mortgages and other debt	\$ 38,450	\$ 38,450
Other liabilities	355	683
Members' equity	5,773	5,744
Total liabilities and members' equity	\$ 44,578	\$ 44,877

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
<b>Statements of Operations</b>				
Revenue	\$ 1,612	\$ 1,699	\$ 4,812	\$ 4,975
Operating expenses	493	621	1,765	1,767
General and administrative expenses	92	70	233	228
Depreciation and amortization expense	385	370	1,138	1,144
Interest expense	474	474	1,411	1,400
Total expenses	1,444	1,535	4,547	4,539
Net income	\$ 168	\$ 164	\$ 265	\$ 436

Atlanta Entities

On May 11, 2012, the Company entered into a joint venture (the "Atlanta JV") with an affiliate of CBL and began the development of an outlet center in Woodstock, Georgia to be named The Outlet Shoppes at Atlanta. The Company formed a subsidiary entity, Horizon Atlanta Outlet Shoppes, LLC (Horizon Atlanta) to be CBL's partner in Atlanta JV. The Company owns 48.3% of the preferred interests and 44.3% of the common interests in Horizon Atlanta, but maintains voting control over Horizon Atlanta. The Atlanta JV is owned 25% by Horizon Atlanta and 75% by CBL. The Company and CBL are co-developers of the project; the Company is responsible for the leasing and management of the center.

The Atlanta JV Purchased approximately 50 acres of land for the project from Ridgewalk Holding, LLC ("Holding"). Ridgewalk Property Investments, LLC ("RPI") is the managing member of Holding. The Company and CBL then formed Woodstock GA Investments ("WGI"), owned 25% by the Company and 75% by CBL, which lent RPI \$6.0 million. RPI then contributed \$6.0 million to Holding and, together with the proceeds from the sale of the parcel to Atlanta JV, were used to retire a loan secured by the land owned by Holding. In connection with its loan to RPI, WGI acquired an equity interest in RPI that is entitled to 30% of the economic interest in Holding.



HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2017 and 2016  
*(unaudited)*

During 2015, WGI purchased an additional direct interest in Holding and became the managing member of Holding. It was then determined that WGI controlled Holding. On March 29, 2017, CBL sold their 75% interest in WGI to the Company for a \$1.0 million seller financed note. The note is payable when the south parcel of the Holdings land is sold. After the purchase of CBL's interest, the Company owns 100% of WGI. Holdings owns approximately 123 acres of vacant land near The Outlet Shoppes at Atlanta that the Company is currently developing. The Company previously accounted for its interest in WGI using the equity method of accounting, see additional discussion in Note 3. This acquisition has been recorded as an asset acquisition in accordance with Accounting Standards Update 2017-01, Business Combinations - *Clarifying the Definition of a Business*.

On October 11, 2013, the Atlanta JV obtained an \$80.0 million loan from an affiliate of Goldman Sachs (the "Atlanta Loan"). The proceeds from the Atlanta Loan were used to repay the construction loan. The Atlanta Loan has a term of 10 years and bears interest at 4.9%. Payments are based on a 30 year amortization. The Atlanta Loan is secured by a mortgage on The Outlet Shoppes at Atlanta. The loan balance was \$75.0 million and \$77.4 million at September 30, 2017 and December 31, 2016 respectively.

On May 13, 2015 the Atlanta JV closed on a \$6,200,000 construction loan for Atlanta Outlet Shoppes Phase II. The loan carries an initial interest rate of LIBOR plus 2.5%, and matures on December 19, 2019. This loan was cross-defaulted and cross-collateralized with the Outparcel 5 loan which closed on December 19, 2014. Proceeds were used to construct Atlanta Outlet Shoppes Phase II. The loan balance was \$4.7 million and \$4.0 million at September 30, 2017 and December 31, 2016, respectively.

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

The Company received management, leasing and similar fees from the Atlanta JV that totaled \$112,000 and \$199,000 during the three and nine months ended September 30, 2017 and \$152,000 and \$264,000 during the three and nine months ended September 30, 2016.

As of September 30, 2017 and December 31, 2016, the Company's investment in the entities that own the Atlanta JV exceeded its equity investment by approximately \$20.1 and \$20.7, respectively.

Summary financial information (stated at 100%) of the Atlanta JV and Woodstock GA Investments as of September 30, 2017 and December 31, 2016 and for the three and nine months ended September 30, 2017 and 2016 is as follows (in thousands):

HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2017 and 2016  
(unaudited)

	As of September 30, 2017	As of December 31, 2016
<b>Assets</b>		
Real estate - net	\$ 55,317	\$ 58,230
Cash and cash equivalents	1,134	911
Restricted cash	744	285
Other assets	5,224	10,348
Total assets	\$ 62,419	\$ 69,774
<b>Liabilities and members' deficit</b>		
Mortgages and other debt	\$ 79,796	\$ 80,937
Other liabilities	855	871
Members' deficit	(18,232)	(12,034)
Total liabilities and members' deficit	\$ 62,419	\$ 69,774

	Three Months Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Three Months Ended September 30, 2017	Nine Months Ended September 30, 2016
<b>Statements of Operations</b>				
Revenue	\$ 3,603	\$ 3,996	\$ 10,684	\$ 11,290
Operating expenses	911	809	2,592	2,475
General and administrative expenses	134	156	404	409
Depreciation and amortization expense	1,130	1,165	3,600	4,299
Interest expense	998	1,014	3,023	3,044
Total expenses	3,173	3,144	9,619	10,227
Gain on sale of land	-	-	-	15
Net income	\$ 430	\$ 852	\$ 1,065	\$ 1,078

Bluegrass Entities

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

On November 24, 2014, the Louisville JV obtained a \$77.5 million loan from JP Morgan (the "Louisville Loan"). The proceeds from the Louisville Loan were used to repay the construction loan. The Louisville Loan has a term of 10 years and bears interest at 4.045%. Payments are based on a 30 year amortization. The Louisville Loan is secured by a mortgage on The Outlet Shoppes of the Bluegrass. The loan balance was \$73.6 million and \$74.7 million at September 30, 2017 and December 31, 2016, respectively.

HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2017 and 2016  
*(unaudited)*

On July 15, 2015, the Louisville JV established Bluegrass Outlet Shoppes II, LLC and closed on an \$11,320,000 construction loan to develop additional retail space at the Outlet Shoppes of the Bluegrass. The loan has a term of 60 months and an initial interest rate of LIBOR plus 2.5%. When the project reaches 90% occupancy, the interest rate is reduced to LIBOR plus 2.35%. The loan balance was \$9.8 million at September 30, 2017 and December 31, 2016, respectively.

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

The Company received management, leasing and similar fees from the Louisville JV that totaled \$100,000 and 387,000 during the three and nine months ended September 30, 2017 and \$89,000 and \$170,000 during the three and nine months ended September 30, 2016.

As of September 30, 2017 and December 31, 2016, the Company's investment in the entities that own the Louisville JV exceeded its equity investment by approximately \$27.2 and \$28.2, respectively.

Summary financial information (stated at 100%) of the Louisville JV as of September 30, 2017 and December 31, 2016 and for the three and nine months ended September 30, 2017 and 2016 is as follows (in thousands):

	As of September 30, 2017	As of December 31, 2016
<b>Assets</b>		
Real estate - net	\$ 67,106	\$ 70,386
Cash and cash equivalents	1,726	1,037
Restricted cash	1,313	830
Other assets	4,938	5,152
Total assets	<u>\$ 75,083</u>	<u>\$ 77,405</u>
<b>Liabilities and members' deficit</b>		
Mortgages and other debt	\$ 83,422	\$ 84,837
Other liabilities	1,305	855
Members' deficit	(9,644)	(8,287)
Total liabilities and members' deficit	<u>\$ 75,083</u>	<u>\$ 77,405</u>

HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2017 and 2016  
(unaudited)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months September 30, 2017	Nine Months September 30, 2016
<b>Statements of Operations</b>				
Revenue	\$ 3,441	\$ 3,797	\$ 10,167	\$ 10,610
Operating expenses	706	738	2,082	2,129
General and administrative expenses	143	153	404	416
Depreciation and amortization expense	1,258	1,273	4,289	3,780
Interest expense	889	862	2,692	2,596
Total expenses	<u>2,996</u>	<u>3,026</u>	<u>9,467</u>	<u>8,921</u>
Loss on sale of land	-	-	15	-
Net income	<u>\$ 445</u>	<u>\$ 771</u>	<u>\$ 715</u>	<u>\$ 1,689</u>

Laredo Outlet Shoppes

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

On May 13, 2016, Laredo JV closed on a construction loan to finance the construction of the center. The loan has a maximum principal balance of \$91.3 million, a 36 month term and one 24 month extension option. Interest will accrue on the loan at LIBOR plus 2.5% until the development reaches 90% occupancy, at which time the interest rate will drop to LIBOR plus 2.25%. At September 30, 2017 and December 31, 2016, the loan balance was \$68.0 million and \$39.3 million, respectively.

The Company received management, leasing development and similar fees from the Laredo JV that totaled \$100,000 and \$1.8 million for the three and nine months ended September 30, 2017.

Prior to the formation of the Laredo JV, the Company consolidated the results of operations and the assets and liabilities of the Laredo JV. For periods after the formation, May 10, 2016, the Company uses the equity method of accounting with respect to the Laredo JV.

Summary financial information (stated at 100%) of the Laredo JV as of September 30, 2017 and December 31, 2016 and for the three and nine months ended September 30, 2017 is as follows (in thousands): There is no significant operating activity for the Laredo JV for the nine months ended September 30, 2016.

HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2017 and 2016  
(*unaudited*)

	<u>As of</u> <u>September 30, 2017</u>	<u>As of</u> <u>December 31, 2016</u>
<b>Assets</b>		
Real estate - net	\$ 104,072	\$ 72,382
Cash and cash equivalents	120	1,852
Restricted cash	229	
Other assets	<u>3,416</u>	<u>-</u>
Total assets	<u>\$ 107,837</u>	<u>\$ 74,234</u>
<b>Liabilities and members' equity</b>		
Mortgages and other debt	\$ 68,445	\$ 39,346
Other liabilities	9,849	4,355
Members' equity	<u>29,543</u>	<u>30,533</u>
Total liabilities and members' equity	<u>\$ 107,837</u>	<u>\$ 74,234</u>
	<u>Three Months Ended</u> <u>September 30, 2017</u>	<u>Nine Months Ended</u> <u>September 30, 2017</u>
<b>Statement of Operations</b>		
Revenue	<u>\$2,261</u>	<u>\$4,908</u>
Operating expenses	1,031	2,207
Depreciation and amortization	1,159	2,147
Interest expense	<u>819</u>	<u>1,544</u>
Total expenses	<u>3,009</u>	<u>5,898</u>
Net loss	<u>\$(748)</u>	<u>\$(990)</u>

Note 5 – Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access
- Level 2 Other significant observable inputs including: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means
- Level 3 Inputs are significant and unobservable (including the Company's own assumptions used to determine value)

The assets' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2017 and 2016  
(unaudited)

In estimating the fair value of the investments in joint ventures, the Company considers significant unobservable inputs such as capitalization and discount rates. The methodology utilized by the Company to estimate fair value may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the report date.

Assets measured at fair value by level, in thousands, within the fair value hierarchy, are comprised of the following at September 30, 2017:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments in and advances to Joint Ventures	_____	_____	\$ 48,837
	\$ _____	\$ _____	\$ 48,837

Following is a reconciliation of activity, in thousands, for the nine months ended September 30, 2017 for the fair value of the Company's Level 3 assets:

Balance, beginning of period	\$ 48,837
Unrealized and realized gains	-
Unrealized and realized losses	-
Contributions	-
Distributions	-
Balance, end of period	<u>\$ 48,837</u>

Quantitative information about the Company's Level 3 inputs is as follows:

<u>Valuation Technique</u>	<u>Significant Unobservable Input</u>
Income approach	Capitalization rate – 6.74% - 7%

#### Note 6– 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, 2017 in the amount of \$63.7 million and \$9.8 million, respectively, which are not reflected on the condensed consolidated balance sheet as of September 30, 2017. These amounts include the commitments for the pre-development projects (see Note 3). These capital expenditures are expected to be paid during 2017 and 2018, and are anticipated to be funded from capital improvement escrows, construction financing, equity contributions and additional borrowings.

#### Note 7– Mortgages and Other Debt

Total secured indebtedness was \$65.4 million and \$64.4 million at September 30, 2017 and December 31, 2016, respectively. Cash paid for interest for the nine months ended September 30, 2017 and 2016 was \$2.3 million and \$2.6 million, respectively. The mortgages and other debt is presented net of debt issuance cost on the condensed consolidated balance sheet of \$746,000 and \$841,000 at September 30, 2017 and December 31, 2016, respectively.

In 2016, the Company refinanced the mortgage loan to Huntley Development Limited Partnership. The new mortgage from Heartland Bank and Trust bears interest at prime plus 1.5% and matures on July 1, 2019. Payments consist of 35 monthly interest payments beginning on August 1, 2016, principal payments of \$750,000 on January 31, 2017, annual principal payments of \$700,000 starting on June 30, 2017 and a balloon payment on July 1, 2019. This loan is guaranteed by the Company.

HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2017 and 2016  
(unaudited)

Huntley Net Profits Interests and TIF Bonds

Gary J. Skoien was formerly the Executive Vice President and Chief Operating Officer of The Prime Group, Inc. (“Prime Group”). In connection with his employment with Prime Group, Mr. Skoien was previously granted an interest (the “Skoien Net Profits Interest”) in the net profits generated by HDLP, an entity which owns approximately 400 acres of land in a master planned community in Huntley, Illinois (the “Huntley Project”), which obligation the Company assumed in connection with the purchase of the Huntley Project from Prime Group. The Skoien Net Profits Interest consists of a 9.675% participation in the Net Cash Flow (as defined in Mr. Skoien’s Net Profits Agreement) distributed to the Company (excluding distributions of all amounts contributed or advanced by the Company to the Huntley Project plus interest per the terms of the agreement) from the Huntley Project. At June 30, 2017, a liability of \$42,000 was recorded to reflect the estimated current fair value of the Skoien Net Profits Interests. At September 30, 2016, the estimated fair value of the Skoien Net Profits Interests was \$166,000.

In 1993, the Village of Huntley (the “Village”) created a Tax Increment Financing District (the “TIF District”). On June 3, 2016, HDLP received payment of \$663,000 from the Series C TIF bonds, which is recorded as other income. On January 5, 2017, HDLP received the final payment of \$2.5 million from the Series C TIF bonds. In connection with the push down accounting related to the change in control, this was recorded as part of other assets as of December 31, 2016.

Note 8 - Related Party Transactions

At September 30 and December 31, 2016, an affiliate of Howard Amster, PLA LP, owned the following interests: (1) 5.9% of the preferred and common interests in Horizon El Paso, LLC; and (2) 7.88% of the preferred and common interests in Horizon OKC. During 2016, these ownership interests were exchanged for shares of the Company.

At September 30, 2017 and December 31, 2016, another affiliate of Howard Amster, Bright Horizons, owns 49% of the interests owned by the Company in the entities that own the outlet centers and related assets in Burlington, WA; Fremont, IN; Gettysburg, PA and Oshkosh, WI. During 2015, Bright Horizons owned 43.2% of Horizon El Paso, LLC. During 2016, the ownership interest in Horizon El Paso was exchanged for shares of the Company.

At September 30, 2017 and December 31, 2016, Somerset Outlet Center, L.P. (“Somerset L.P.”), another affiliate of Howard Amster, owns (1) 12.6% of the interests in the entities that own the outlet center and related assets in Gettysburg, PA, (2) 46.4% of Horizon Atlanta, and (3) 47.54% of Horizon Louisville.

At September 30 and December 31, 2016, Gary Skoien owned the following interests (excluding the Net Profits Interests discussed below): (1) 5.9% of Horizon El Paso, LLC; (2) 0.95% of Horizon OKC. During 2016, these ownership interests were exchanged for shares of the Company.

At September 30, 2017 and December 31, 2016, Amster Skoien L.P owned jointly by Howard Amster and Gary Skoien owned 14.7% of Horizon El Portal, LLC.

At September 30, 2017 and December 31, 2016, David Tinkham, an officer of the Company, owned 1.27% of Horizon Atlanta, and 3.24% of Horizon Louisville.

At September 30, 2017 and December 31, 2016, Andrew Pelmoter, an officer of the Company, owned 4.955% of Horizon OKC, 2.12% of Horizon Atlanta, and 4.31% of Horizon Louisville, in addition to the Net Profits Interests discussed below.

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

HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2017 and 2016  
*(unaudited)*

to Gary Skoien, Tom Rumptz and Andrew Pelmoter, respectively; (3) Horizon Atlanta, - 1.25%, 1.25%, 1.25% and .0375% to Messers Skoien, Rumptz, Pelmoter and James Harris, respectively, (4) Horizon Louisville, - 1.25%, 1.25%, 1.25% and .0375% to Messers Skoien, Rumptz, Pelmoter and Harris, respectively, and (5) Horizon El Portal, - 1.52%, 1.52%, 1.22% and .61% to Messers Skoien, Pelmoter, Rumptz and Harris, respectively.

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

On October 1, 2016, Howard Amster, Gary Skoien, and certain affiliates of Howard Amster and Gary Skoien, exchanged their membership interest in Horizon El Paso and Horizon OKC for 3,520,000 shares of stock in Horizon Group Properties, Inc.

On July 31, 2017, Gary Skoien exercised his option to purchase 100,000 shares of stock in Horizon Group Properties, Inc.

Note 9 – Recent Events

On April 28, 2017, OKC JV, LLC sold the OKC Joint Venture for approximately \$130 million. The portion allocated to the Company approximated the carrying value of the Company's investment in OKC JV, LLC. Prior to the sale and subsequent to year end Horizon OKC met the return of investment and internal rate of return criteria stipulated in the joint venture agreement with CBL, increasing the Company's share of distributions from the OKC Joint Venture increased from 30% to 35%.