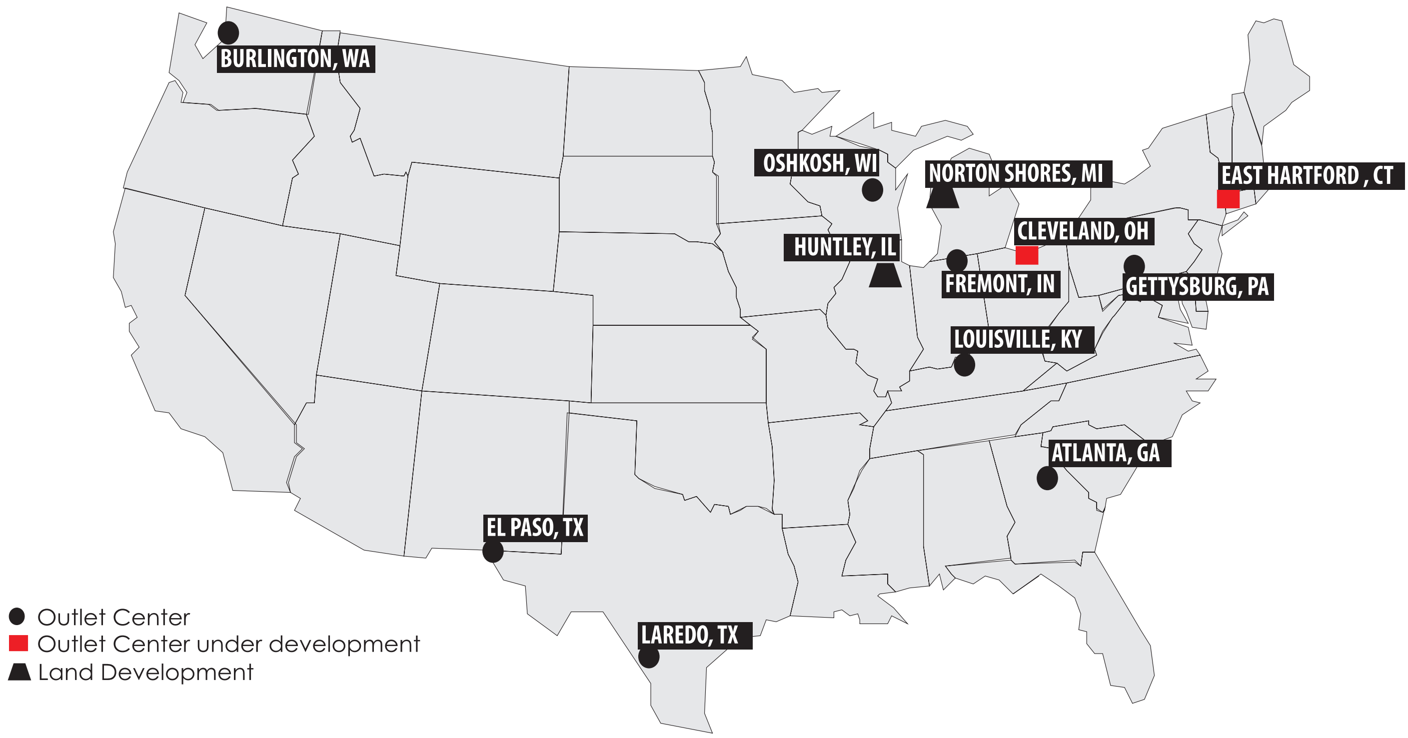
HGP
Horizon Group Properties
2017

Horizon Group Properties

Portfolio



Horizon Group Properties, Inc.
Based in Rosemont, IL, Horizon Group Properties, Inc. is an owner and developer of outlet shopping centers in seven states, developer of a master planned community in Suburban Chicago, and owner and developer of Horizon Village Outlets, a 400,000 square foot outlet shopping center in Kuala Lumpur, Malaysia.

COVER - THE OUTLET SHOPPES AT LAREDO GRAND OPENING

Dear Stockholder,

Calendar year 2016 was a year of achievement for Horizon Group Properties, Inc. amidst a year of continued turmoil in the retail world. The Company exchanged stock for partnership interests it did not already own in two outlet centers, sold one of the outlet centers developed by the Company, opened a new outlet center, opened a fourth Johnny Rockets store, and saw solid sales gains in a couple of centers.

The turmoil in the retail world resulted in additional tenant bankruptcies and tenants slowing their plans for expansion. Over the past several years, the following tenants have gone bankrupt and left or restructured the terms of their leases at our centers: Aeropostale, The Limited, Wet Seal, Pac Sun, Gymboree, rue21, BCBG, Hartstrings, Naartjie and Love Culture. Retailers that have closed all or most of their stores include: Kenneth Cole, Nine West, Easy Spirit, and Jos. A. Bank. Still others have not closed stores but have scaled back on their new deployments and/or are struggling.

However, I believe that retailer bankruptcies and difficulties are not the result of changing consumer preferences towards outlet shopping. Our business continues to thrive. Rather, the changing tastes of millennials, the growth of fast fashion, clothing price deflation and online retail have all contributed to the difficulties confronting retailers. In fact, often times retailers expand their outlet presence when they are experiencing sales declines to address the backlog of unsold goods or because of the fact that outlets are so profitable to many retailers. Recently, a major handbag retailer announced it was closing 120 stores. Shortly thereafter, they contacted us looking to open more outlet stores and we are in the process of negotiating leases with them at two of our centers.

The pace of outlet development is slowing after a surge of new development that began in 2011. Fewer viable retailers mean that there are fewer tenants to occupy space in new centers. New outlet centers have opened with lower occupancy levels than had been typical in the past, and centers currently being developed are smaller than those that opened in recent years. The latter is the case with our Outlets Shoppes at Rentschler Field which, as described below, had originally been planned for 350,000 square feet but is currently being developed to contain 282,000 square feet.

Sites available for new development are scarcer, and the decision by some developers to build in clearly inferior locations means that retailers look at all new sites with extra caution. A couple of prominent outlet shopping center developers have left the outlet business because of the scarcity of new store deployments by retailers or as a result of having built centers that are performing poorly.

I continue to feel optimistic about the properties that the Company has developed or purchased over the last few years. Some of the properties that we purchased have been more severely affected by tenant failures. These centers are still good centers, but since they are not among the top performers in the country, vacancies are more challenging to fill when they occur. In sum, my optimism about the business, given the current climate, is a bit more guarded than I have expressed in my last several annual reports.

NEW DEVELOPMENT

On March 16, 2017 the Company opened The Outlet Shoppes at Laredo. It is the culmination of a 12-year effort that overcame many obstacles. These obstacles included the violent drug war that created havoc across the Rio Grande, the recession, and the rejection by retailers of our original plan for the redevelopment of the existing mall on the site. All of this was compounded by the fact that two other competing centers were proposed in the market, which slowed our leasing momentum.

After overcoming these obstacles, we thought smooth sailing was ahead. Instead, the grand opening occurred in a time of fierce headwinds. While the center will serve the residents of, and visitors to Laredo, its primary customer lives in Mexico. The value of the Mexican peso has been declining against the dollar for a couple of years and the election of President Trump resulted in a further decline. Misinformation in Mexico regarding immigration policy has also resulted in reduced border crossings. In spite of these challenges, the grand opening and the Easter week saw large numbers of Mexican shoppers at the center and terrific sales as a result. The peso is at the highest level it has been at in over a year and the political controversy seems to have dissipated, so we hope the traffic from Mexico will continue to increase.

The weak peso had a direct impact on pre-opening leasing as retailers that were experiencing declining sales at their stores in other border locations were hesitant to open at the center. It was the first center that the Company opened with less than 90% occupancy. As of this writing, the center is approximately 84% occupied.

When fully leased, the center will contain approximately 80 stores with 358,507 square feet of leasable area, five hundred parking spaces on its first level, and room for an additional 100,000 square feet of future retail. The Company's partnership with the City of Laredo provides the center with an additional seventeen hundred public parking spaces, and also includes a sales tax rebate to compensate us for the additional costs of developing this site, and to provide adequate marketing funds for the center. It is located steps from a pedestrian bridge to Mexico and a few blocks from the I-35 vehicular bridge to Mexico. Over 4.2 million pedestrians and 4.5 million vehicles cross these bridges each year.

CBL & Associates Properties is again our partner on this project. We formed our joint venture with CBL on May 10, 2016 and closed on a construction loan for the project shortly thereafter.

The Company's next development project is The Outlet Shoppes at Rentschler Field in East Hartford, CT. The Hartford metropolitan area is home to over two million people and is close to Springfield, MA. The project site is located in the heart of the market, minutes from downtown

Hartford, and in very close proximity to middle and upper middle income residents. The center will be part of United Technologies' (UT) Pratt and Whitney complex. The site is adjacent to a Cabela's outdoor recreational store, and is in close proximity to the 40,000-seat University of Connecticut football stadium and 9,000 employees at UT.

Hartford is a very expensive market in which to build a shopping center and this site has some extraordinary costs. As a result, the project required substantial financial subsidies from the State of Connecticut and the Town of East Hartford. The subsidies total $24.5 million and come in the form of a State grant and Town real estate tax abatement. The project will be developed on land owned by UT and will be subject to a ground lease. It will be the only time we have developed a center on property to which we did not have fee simple title.

We began construction in December 2015 based on certain assumptions about the timing of the subsidies and the completion of the land lease. Unfortunately, procuring the subsidies and signing the ground lease took far longer than anticipated. We were forced to suspend construction pending their completion and we had planned to continue construction in January 2017. Again we encountered difficulty with meeting all of the predevelopment conditions to start construction. The delays required us to amend the leases with our tenants to extend the delivery dates of their spaces.

At the same time, the worsening retail environment led to our decision to reduce the size of the project from 348,710 square feet to 282,000 to acknowledge the reality that fewer retailers are seeking new stores. This in turn required that we redesign and rebid the project. We believe that the new configuration, containing approximately 70 retail tenants, will provide enough critical mass for our shoppers to enjoy. The center will be able to accommodate 420,000 square feet of expansion in several phases.

At this writing, the start of construction is imminent, pending the resolution of several new issues with the landowner. There is no guarantee that we will be able to build this center, but assuming these issues are satisfactorily resolved, the center will open in November 2018.

The Company is very excited about our newest site in downtown Cleveland, near the Rock & Roll Hall of Fame, the Huntington Convention Center of Cleveland, and Burke Lakefront Airport. It is a short distance from many of the new and redeveloped hotels in downtown, professional sports venues and other tourist attractions. It is also not far from the famed Cleveland Clinic and Case Western University. Over 2.2 million people live within 30 miles of the site, including an ever-increasing number of downtown dwellers.

We are proposing a two-level center containing approximately 300,000 square feet of rentable area. We are in the early stages of the design phase and are working to determine costs. However, there is no question that the site will be more costly to develop than our typical site and will thus require some type of public-private partnership. We are also very encouraged by the positive reception of the project from retailers. Our discussions to date with city and county officials have been very positive but we have a number of tasks to complete before we can begin.

PROPERTY OPERATIONS

Strong sales are the primary driver of success at our centers. We strive to offer an appealing tenant mix, a physical environment with amenities that induce shoppers to prolong their visits and marketing that attracts as many customers as possible. While we think we do a good job in all of these areas, we are subject to factors beyond our control.

Weak exchange rates of the Canadian dollar and the Mexican peso have negatively affected sales at The Outlet Shoppes at Burlington ("Burlington") and The Outlet Shoppes at El Paso ("El Paso"). It is hard to imagine that the exchange rates will not have an impact in Laredo as well. At Burlington and El Paso we have re-directed marketing efforts to maximize visits by US residents to make up for the decline in cross-border shoppers. During the end of the first quarter and the beginning of the second quarter of 2017, sales declines have subsided. Same store sales in Burlington are actually up slightly over the last twelve months. In El Paso, we were fortunate that the decrease in Mexican shoppers was not nearly as dramatic as that experienced by other retail centers that are located in areas when they are primarily reliant on Mexican shoppers.

From May 2016 through May 2017, sales at The Outlet Shoppes at Atlanta ("Atlanta") increased by 7% and are improving for the third straight year. The Outlet Shoppes of the Bluegrass ("Louisville") continues to have strong and growing sales. The Company has directed its marketing at overcoming the perception that the center is a long drive from Louisville when in fact it is only 15 to 20 minutes from the primary regional malls in the market. Sales at The Outlet Shoppes at Gettysburg ("Gettysburg") and The Outlet Shoppes at Oshkosh ("Oshkosh") are flat to slightly down.

While marketing is an important factor in helping generate sales at our centers, tenant mix and the overall physical environment at the centers are the most important ingredients. To that end, we have made some significant strides this past year. At Louisville, Bath and Body Works recently opened a store and Tory Burch, Le Creuset and Calvin Klein are about to open stores. These quality additions to a center that already includes Gucci, Kate Spade, and a dozen other premier brands will further enhance the center as a prime shopping destination.

In El Paso, we are adding an Under Armour store and Lucchese Boot store. Under Armour has moved to a larger space in Gettysburg and will open a larger store in Oshkosh in July. The results in Gettysburg have been very good and we are optimistic that the addition of Under Armour hunting apparel will be well received in Wisconsin. Their store will also include an expanded children's selection. In Atlanta, Eddie Bauer opened in phase two of the center, and Spencer Gifts and Francesca's opened in phase one. We recently completed a deal with Ralph Lauren Polo to convert its existing men's store into a full line store. The current store is 4,712 square feet and was initially opened as one of four experimental Chaps stores, all of which failed to meet sales expectations. The new store will add 3,351 square feet to the existing space for a total store size of 8,063 square feet.

Shopping centers are organic. They require maintenance and upgrades to remain fresh and enticing to shoppers. We think we operate our centers very efficiently and thus at a low cost without compromising cleanliness, safety or the favorable experience a shopper enjoys at our centers.

At The Outlet Shoppes at Fremont, new facades and gutters were added to phases two and three of the center. A prominent new monument sign with key anchor-tenant names was erected in Gettysburg. Burlington is undergoing a complete repainting that will be completed in August. The high traffic volume in Atlanta has resulted in the need to make some adjustments to the entrances, including adding a new lane to improve traffic movement.

In our continuing effort to improve the customer experience at Louisville, we added the "Unbridled Experience" to the center. This is a permanent, interactive outdoor display, featuring five life-size custom painted horse sculptures, each adorned with an iconic image such as The Kentucky Horse Farm and the Bourbon Trail. In addition, there is a children's derby horse-themed carousel and a vintage photo cut out display for families to enjoy.

We are ever vigilant with respect to the property taxes assessed on our centers, as the taxes have a significant impact on our bottom line. Over the years, we have successfully appealed a number of assessments that we believed were unfair. The Company achieved a very successful result in a two year battle with the El Paso Tax Authority over what we believed were grossly excessive assessments. We negotiated an assessed value of $70 million for years 2015 and 2016 compared to the $101 million assessment the Authority had proposed.

PROPERTY DISPOSITIONS

When I wrote last year, we had recently signed a letter of intent to sell The Outlet Shoppes at El Paso and The Outlet Shoppes at Oklahoma City. We subsequently signed a sales contract that included a financing contingency. The buyer failed to meet its obligation to find the necessary financing and the contract lapsed. In March 2017, we executed an agreement with the same buyer for the purchase of The Outlet Shoppes of Oklahoma City alone. The buyer had determined that the financial markets were too uncertain about the value of the peso and the general climate near the border to be willing to lend at the high leverage level required by the buyer to be able to purchase the El Paso property.

In April, 2017 the Company and CBL closed on the sale of the property for a total purchase price of $130 million. Horizon received net proceeds of approximately $19 million. You may recall that we leased and built this project during the depths of the recession. We had so much invested in money and time that we decided to commence construction of the project without a construction loan or all the necessary equity. We did so because we were so very confident of the market, had achieved significant leasing and felt that at that point in our Company's history, a failure to move forward with the development would probably preclude any future opportunities for development. This sale and the income derived during our ownership was an extremely profitable venture for the Company.

Horizon and CBL sold a 9,600 square foot strip center that we had developed adjacent to The Outlet Shoppes at Atlanta. The sale closed in December 2016 for $5 million. After paying off the mortgage, Horizon netted approximately $450,000 from the transaction.

LAND DEVELOPMENT

Interest in our land in Huntley, which we hold for sale, remains high since the completion of the four-way interchange in November 2013 and the end of the recession. New development has significantly increased in the area, including on land that we previously sold. Unfortunately, the increased activity has not translated into new sales of the approximately 375 acres of land we own. We continue to evaluate the best means to market this land. Last December, we received $2.48 million from the expiring TIF district bringing our total receipts from the TIF to $4.66 million.

As a requirement of the land acquisition for the development of The Outlet Shoppes at Atlanta, the Company's joint venture with CBL made a loan to the owners of 120 acres ("the Ridgewalk land") that included the 40-acre outlet site. Ultimately, the loan and land-owning joint venture were restructured so that the Company's joint venture now has a priority on cash distributions and is entitled to receive a substantial portion of the proceeds from any land sales. A 16-acre parcel of the land is under contract to, and about to be purchased, by Costco which plans to build a new warehouse store across the road from our center. We believe that this Costco will further add to the ever-increasing sales at our outlet center. It will enhance the area as a retail destination and the demographics of a Costco shopper are similar to those we desire at our upscale outlet centers.

CBL recognized the value of the new store but wanted to avoid the development risk associated with it, as well as the work required on the remainder of the land. The work is significant and all of the proceeds from the Costco sale will be spent on site work. We reached an agreement with CBL pursuant to which we will manage the development and incur all of the development costs for the entire 80-acre parcel. In return, CBL has transferred its interest in the land-owning joint venture to the company in exchange for a payment of $1 million if and when a 12- acre parcel of land is sold. We are days away from closing with Costco and beginning the site work. We also have contracts in place for the sale of two other parcels of land and the buyers are performing their due diligence activities.

FINANCING

In April 2017, we restructured a $2.46 million loan with Brand Bank secured by the Ridgewalk land. It has a term of two years and carries an interest rate of LIBOR plus 4.5%. We are hopeful that the sale of the eight acres of land currently under contract will close this year and allow us to retire this loan.

We are in the process of working with CBL to find replacement financing for The Outlet Shoppes at El Paso. The $61.85 million securitized loan matures in December 2017. The current loan carries an interest rate of 7.06% and requires an unusually large leasing reserve to be funded. We are working diligently to obtain a replacement loan a more favorable interest rate and in an amount that permits a distribution of the excess loan proceeds. Since the loan matures around the same time that many of our leases mature, our leasing team is actively working on renewing leases; a task made more difficult by the cloud hanging over border retail.

As I described in my letter last year, in early 2016 we both obtained construction financing for Laredo and refinanced the existing loan on the Huntley land. Both loans have terms that work well for the Company.

JOHNNY ROCKETS

In March, we opened our fourth Johnny Rockets restaurant at The Outlet Shoppes at Laredo. The grand opening and the first few weeks saw the best business of any of the four stores we have opened. Since then sales have slowed. We are optimistic that the store will be successful but it's unclear what the seasonality of the store will be. In the meantime we are aggressively going after the lunchtime business in downtown Laredo.

Since opening our first Johnny Rockets at The Outlet Shoppes at Oshkosh in May 2014, we have learned a great deal about the business and how it operates in an outlet environment. Each of our four stores is different. Oshkosh has a free standing location in an old Stuckey's restaurant on an outparcel. Atlanta's operation is in the food court at the center. Louisville is located inline at an end cap at the center. Laredo is inline by one of the entrances to the center but unlike Louisville, it is on a city street.

During the first year or so, Oshkosh and Atlanta were not profitable, as the cost of labor and cost of goods sold were significantly above industry norms. Because of a concerted effort by our restaurant team, these costs are now in line with industry norms. Despite this fact, we have yet to make a profit at the stores and are focused on increasing revenue to address this deficiency. We are close in Atlanta but still have work to do in Oshkosh. There is no question that the stores have added a much-needed amenity to both centers. Our goal is for every store to be profitable, and I am encouraged by the progress being made to achieve this goal. It is worth noting that on a consolidated basis, the stores are currently making a profit.

In November 2018, we plan to open another Johnny Rockets in The Outlet Shoppes at Rentschler Field. This restaurant will benefit from the close proximity to 9,000 employees at Pratt & Whitney's offices across the street as well as from the shoppers at the center.

INTERNATIONAL

In past letters, I have written of the great opportunity of developing an outlet in Kuala Lumpur, Malaysia, a retail and tourist-intense city of six million. The site for the 350,000 square foot center has terrific access and visibility. It is also adjacent to the new Xiamen University which, when fully operational, will have an enrollment of 10,000 international students, including many Chinese nationals.

As I wrote last year, we have reached an agreement with one of the largest licensees of brands in Malaysia to bring 17 brands to the center, which would occupy 42,000 square feet. Each brand has great market awareness and appeal. This group will also make an investment in the venture and we anticipate that its involvement will be a strong inducement to other groups to join the project. We are currently in negotiations with a couple of other significant groups in the market which could make the project a reality.

Meanwhile our partner has completed most of the site work for the project and commenced putting in pilings. Our negotiations for financing the project continue apace. I believe that the viability of the project is in question if all of the required elements for construction commencement are not complete by year end. At this writing we are optimistic that they will be met.

We continue to evaluate opportunities in China that do not require us to invest significant capital in the country at this time. In my view, the potential risks associated with China dictate that we pursue opportunities in which we will earn fees rather than make large equity investments. We are currently working with a Chinese group, which we like, on several projects, but continue our activities with a cautious approach as we move forward.

CONCLUSION

The watchword for 2017 and 2018 will be: caution. Not to say that we will be sitting back, watching and waiting but rather it means that we will increase our level of due diligence before taking on new projects, cognizant of the fact that turmoil in the retail community may not allow us to pursue projects that are as large as we have developed in the past. Doing smaller projects requires that we analyze the viability of each project differently than we have in the past. We need to be confident that the size and tenant mix of new developments will create desirable retail destinations for our shoppers.

We are now operating in a changing financing environment. Lenders are increasingly leery of retail projects. While the outlet sector is performing better than the overall retail market, outlets will be negatively affected if lenders move to reduce their lending to retail properties in general.

In the coming year, we plan to devote significant time and energy enhancing and improving our existing projects. They are challenged by the same retailer dynamic that is confronting new development. I see opportunities to improve the performance of these centers by adding tenants that enhance the store mix, by refining and re-focusing our marketing programs and by upgrading the quality of the physical environment of our centers.

Everyone at the Company is committed to work hard, smart and tirelessly. We appreciate your support of our efforts.

Sincerely,

Gary J Skoien

President and CEO

Chairman of the Board

Consolidated Financial Statements

Horizon Group Properties, Inc.

For the years ended December 31, 2016 and 2015

Horizon Group Properties, Inc.

Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

Contents

TO THE BOARD OF DIRECTORS
HORIZON GROUP PROPERTIES, INC.

Independent Auditors' Report

We have audited the accompanying consolidated financial statements of Horizon Group Properties, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Horizon Group Properties, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cohen & Company Ltd.

June 23, 2017
Cleveland, Ohio

HORIZON GROUP PROPERTIES, INC.

Consolidated Balance Sheets

	December 31, 2016	December 31, 2015
	(In thousands)	
ASSETS		
Real estate		
Land	$ 11,764	$ 18,334
Buildings and improvements	43,748	58,040
Less accumulated depreciation	-	(18,300)
	55,512	58,074
Construction in progress	35	5,241
Land held for investment	22,300	18,253
Total net real estate	77,847	81,568
Investment in and advances to joint ventures	105,537	5,207
Cash and cash equivalents	7,623	4,326
Restricted cash	1,985	2,344
Tenant and other accounts receivable, net	994	1,325
Deferred costs (net of accumulated amortization of $192 in 2015)	261	292
Other assets	9,817	4,787
Total assets	$ 204,064	$ 99,849
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgages and other debt, net	$ 63,562	$ 66,557
Accounts payable and other accrued expenses	15,393	5,459
Prepaid rents and other tenant liabilities	335	450
Total liabilities	79,290	72,466
Commitments and contingencies		
Stockholders' equity:		
Common shares ($.01 par value, 50,000 shares authorized, 8,605 and 4,672 issued and outstanding, respectively)	86	47
Additional paid-in capital	81,271	37,058
Accumulated deficit	-	(20,476)
Total stockholders' equity attributable to the controlling interest	81,357	16,629
Noncontrolling interests in consolidated subsidiaries	43,417	10,754
Total stockholders' equity	124,774	27,383
Total liabilities and stockholders' equity	$ 204,064	$ 99,849

The accompanying notes are an integral part of these consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.

Consolidated Statements of Operations

	Year ended December 31, 2016	Year ended December 31, 2015
	(In thousands)	
REVENUE		
Base rent	$ 8,405	$ 8,566
Percentage rent	335	415
Expense recoveries	952	1,034
Restaurant revenue	3,159	2,238
Other	7,688	4,845
Total revenue	20,539	17,098
EXPENSES		
Property operating	2,859	2,782
Real estate taxes	1,216	1,291
Other operating	771	685
Depreciation and amortization	2,455	2,600
General and administrative	8,328	8,158
Restaurant operating	3,074	2,194
Interest	3,254	3,331
Total expenses	21,957	21,041
Income from investment in joint ventures	6,215	6,448
Consolidated net income before gain on sale of real estate, gain on deconsolidation of subsidiary, and loss on extinguishment of debt	4,797	2,505
Gain on deconsolidation of subsidiary	1,858	-
Gain on sale of real estate	-	2,311
Loss on extinguishment of debt	-	(1,761)
Consolidated net income	6,655	3,055
Less net income attributed to the noncontrolling interests	(3,863)	(1,983)
Net income attributable to the Company	$ 2,792	$ 1,072

The accompanying notes are an integral part of these consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Consolidated Statements of Stockholders' Equity
(In thousands)

	Common Shares	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity Attributable to the Controlling Interest	Noncontrolling Interests in Consolidated Subsidiaries	Total Stockholders' Equity
Balance, January 1, 2016	$ 47	$ 37,058	$ (20,476)	$ 16,629	$ 10,754	$ 27,383
Net income	-	-	2,792	2,792	3,863	6,655
Stock issued to related parties	3	552	-	555	-	555
Stock issued for purchase of noncontrolling interests in consolidated entities	36	1,616	-	1,652	(1,652)	-
Distributions to noncontrolling interests	-	-	-	-	(3,867)	(3,867)
Step up in value due to change in control (see Note 1)	-	42,045	17,684	59,729	34,319	94,048
Balance, December 31, 2016	$ 86	$ 81,271	$ (0)	$ 81,357	$ 43,417	$ 124,774

	Common Shares	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity Attributable to the Controlling Interest	Noncontrolling Interests in Consolidated Subsidiaries	Total Stockholders' Equity
Balance, January 1, 2015	$ 47	$ 37,046	$ (21,548)	$ 15,545	$ 11,866	$ 27,411
Net income	-	-	1,072	1,072	1,983	3,055
Stock issued	-	12	-	12	-	12
Distributions to noncontrolling interests	-	-	-	-	(7,076)	(7,076)
Contributions from noncontrolling interests	-	-	-	-	3,981	3,981
Balance, December 31, 2015	$ 47	$ 37,058	$ (20,476)	$ 16,629	$ 10,754	$ 27,383

The accompanying notes are an integral part of these consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.

Consolidated Statements of Cash Flows

	Year Ended December 31, 2016	Year Ended December 31, 2015
Cash flows provided by operating activities:	*(In thousands)*	
Net income attributable to the Company	$ 2,792	$ 1,072
Adjustments to reconcile net income attributable to the Company to net cash provided by operating activities:		
Gain on deconsolidation of subsidiary	(1,858)	-
Gain from sale of real estate		(2,311)
Loss on extinguishment of debt	-	1,761
Loss on abandonment of assets	-	425
Distributions from joint ventures included in income	5,714	6,398
Net income attributable to the noncontrolling interests	3,863	1,983
Income from investment in joint ventures	(6,215)	(6,448)
Depreciation	2,381	2,540
Amortization	74	60
Interest expense from deferred finance costs	179	215
Changes in assets and liabilities:		
Restricted cash	359	9
Tenant and other accounts receivable	331	(210)
Deferred costs and other assets	(449)	91
Accounts payable and other accrued liabilities	(846)	1,024
Prepaid rents and other tenant liabilities	(115)	50
Net cash provided by operating activities	6,210	6,659
Cash flows used in investing activities:		
Investments in joint ventures	-	(139)
Net proceeds from sale of real estate	-	2,370
Investment in future developments	(2,123)	(3,348)
Distributions from joint ventures not included in income	3,345	341
Expenditures for buildings and improvements	(2,929)	(4,871)
Net cash used in investing activities	(1,707)	(5,647)
Cash flows provided by (used in) financing activities:		
Distributions to noncontrolling interests	(3,867)	(7,076)
Contributions from noncontrolling interests	-	3,981
Principal payments on mortgages and other debt	(234)	(5,020)
Deferred financing costs	(91)	(1,266)
Proceeds from borrowings	2,581	9,765
Stock issued	405	-
Net cash provided by (used in) financing activities	(1,206)	384
Net increase in cash and cash equivalents	3,297	1,396
Cash and cash equivalents:		
Beginning of year	4,326	2,930
End of year	$ 7,623	$ 4,326

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows, continued

Supplemental Information	Year ended December 31, 2016	Year ended December 31, 2015
	(In thousands)	
Noncash financing activity		
Refinance of long-term debt	$ 6,900	$ 46,331
Noncash activity related to the disposal of fully depreciated or amortized assets		
Building and improvements	$783	$283
Deferred costs	62	335
	$845	$618

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

Land	$ 7,214
Building	1,931
Construction in progress	7,400
Mortgages and other debt	(5,280)
Gain from deconsolidation of subsidiary	1,858
Investment in joint venture	$13,123

Noncash activity related to the conversion of debt to equity:

Mortgages and other debt	$ 150
Common shares	(1)
Additional paid in capital	(149)
	$ -

Noncash activity related to the stock issued for the purchase of noncontrolling interests in consolidated entities:

Noncontrolling interests in consolidated subsidiaries	$1,652
Common shares	(36)
Additional paid in capital	(1616)
	$ -

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 – Organization and Principles of Consolidation

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 December 31, 2016 and 2015, HGPI owned approximately 79.8% and 78.7% 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 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 cost or equity methods. 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 (See Note 10).

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:

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

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

Additional paid-in capital	$42,045
Accumulated deficit	17,684
Noncontrolling interests	34,319
	$94,048

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 is electing the fair value option with respect to the accounting for certain investments in joint ventures. This election will result in a change in accounting prospectively for certain investments in 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

Principles of Consolidation

The 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and accompanying notes. Actual results could differ from those estimates.

Investment in Real Estate

The Company allocates the purchase price of properties to net tangible and intangible assets acquired based on their fair values in accordance with the provisions of GAAP. In making estimates of fair values for purposes of allocating purchase price, the Company utilizes a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property and other market data. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing, and leasing activities, in estimating the fair value of the tangible and intangible assets acquired.

The Company allocates a portion of the purchase price to above-market and below-market lease values for acquired properties based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between: (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over the remaining non-cancelable term of the lease. In the case of below market leases, the Company considers the remaining contractual lease period and renewal periods, taking into consideration the likelihood of the tenant exercising its renewal options. The capitalized above/below-market lease values (included in Deferred Costs or Prepaid Rents and Other Tenant Liabilities on the consolidated balance sheets) are amortized as either a reduction of, or addition to, rental income over the remaining noncancelable terms of the respective leases. Should a tenant terminate its lease prior to its scheduled expiration, the unamortized portion of the related lease intangibles would be added to income or charged to expense, as applicable.

The Company allocates a portion of the purchase price to the value of leases acquired based on the difference between: (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued as if vacant. The Company utilizes independent appraisals or its internally developed estimates to determine the respective in-place lease values. The Company's estimates of fair value are made using methods similar to those used by independent appraisers. Factors management considers in its analysis include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases including leasing commissions, legal and other related expenses.

The value of in-place leases (included in Buildings and Improvements on the consolidated balance sheets) is amortized over the remaining initial terms of the respective leases. Should a tenant terminate its lease prior to its scheduled expiration, the unamortized portion would be charged to expense.

Real Estate and Depreciation

Costs incurred for the acquisition, development, construction and improvement of properties, as well as significant renovations and betterments to the properties, are capitalized. Maintenance and repairs are charged to expense as incurred. Interest costs incurred with respect to qualified expenditures relating to the construction of assets are capitalized during the construction period.

Amounts included under Buildings and Improvements on the consolidated balance sheets include the following types of assets which are depreciated on the straight-line method over estimated useful lives, which are:

Buildings and improvements	31.5 years
Tenant improvements / origination costs	10 years or lease term, if less
Furniture, fixtures and equipment	3 - 7 years

In accordance with GAAP, the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated over their expected holding periods are less than the carrying amounts of those assets. For assets held in the portfolio, impairment losses are measured as the difference between carrying value and fair value. For assets to be sold, impairment is measured as the difference between carrying value and fair value, less cost to dispose. Fair value is based upon estimated cash flows discounted at a risk-adjusted rate of interest, comparable or anticipated sales in the marketplace, or estimated replacement cost, as adjusted to consider the costs of retenanting and repositioning those properties which have significant vacancy issues, depending on the facts and circumstances of each property. No impairment loss was recorded for the years ended December 31, 2016 and 2015.

Restaurant Operations

Costs incurred for the acquisition, development, construction and improvement of restaurants are capitalized. Inventory is included in other assets.

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 these costs are determined to be non-recoverable.

At December 31, 2016, predevelopment costs classified as Other Assets and Construction in Progress included projects in Hartford, Connecticut, and Malaysia and totaled $6.0 million and $35,000, respectively. At December 31, 2015, predevelopment costs classified as Other Assets and Construction in Progress included projects in Hartford, Connecticut, Laredo, Texas and Malaysia and totaled $4.3 million and $5.2 million, respectively. During 2015, costs related to a development in Tulsa, Oklahoma, totaling $425,000, were written off to general and administrative expense, as management believes that it is unlikely that this development will be completed. No such amounts were written off during 2016.

Reclassifications

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

Cash Equivalents

The Company considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company's cash is held in accounts with balances, which at times, exceed federally insured limits. The Company has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Restricted Cash

Restricted Cash consists of amounts deposited (i) in accounts with the Company's primary lenders in connection with certain loans (see Note 9), and (ii) in escrow accounts for infrastructure and interest payments in Huntley. At December 31, 2016 and 2015, the escrow accounts related to the Company's primary lenders included approximately $469,000 and $363,000 in capital improvement and tenant allowance reserves, respectively, $718,000 and $571,000 in real estate tax and insurance escrows, respectively, and approximately $755,000 and $769,000 for cash collateral accounts, respectively. At December 31, 2016 and 2015, the Huntley interest, infrastructure and expense escrow accounts totaled $43,000 and $641,000, respectively.

Tenant Accounts Receivable

Management regularly reviews accounts receivable and estimates the necessary amounts to be recorded as an allowance for uncollectability. These reserves are established on a tenant-specific basis and are based upon, among other factors, the period of time an amount is past due and the financial condition of the obligor. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance.

At December 31, 2016 and 2015, total tenant accounts receivable is reflected net of reserves of $0 and $91,000, respectively. The provision for doubtful accounts was $59,000 and $23,000 for the years ended December 31, 2016 and 2015, respectively. This charge is included in the line items entitled "Other operating" and "General and administrative" in the consolidated statements of operations.

Deferred Costs

Deferred costs consist of fees and direct internal costs incurred to initiate and renew operating leases.

Restaurant Revenue and Operating Expense

The Company owns three Johnny Rockets restaurants at the outlet malls in Oshkosh WI, Atlanta GA, and Louisville KY. 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. As a result of recording rental revenue on a straight-line basis, tenant accounts receivable include $269,000 and $255,000 as of December 31, 2016 and 2015, respectively, which is expected to be collected over the remaining lives of the leases. Rents which represent basic occupancy costs, including fixed amounts and amounts computed as a function of sales, are classified as base rent. Amounts which may become payable in addition to base rent and which are computed as a function of sales in excess of certain thresholds are classified as percentage rents and are accrued after the reported tenant sales exceed the applicable thresholds. Expense recoveries based on common area maintenance expenses and certain other expenses are accrued in the period in which the related expense is incurred.

Other Revenue

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

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 December 31, 2016 and 2015, and for the years 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 consolidated statements of operations. During 2016 and 2015, the Company did not incur any interest or penalties.

Subsequent Events

Management has evaluated events through June 23, 2017, the date the consolidated financial statements were available to be issued.

Note 3 - Investment in Real Estate and Restaurants

The following table contains information on the operating properties, restaurants, 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 December 31, 2016.

Property Name	Location	Property Type	Gross Leasable Area (Sq. Ft.)	Net Carrying Value (in thousands)	Ownership Percentage
The Outlet Shoppes at Burlington	Burlington, WA	Outlet Retail	174,660	$10,347	51.0%
The Outlet Shoppes at Fremont	Fremont, IN	Outlet Retail	228,932	8,775	51.0%
The Outlet Shoppes at Oshkosh	Oshkosh, WI	Outlet Retail	270,512	31,396	51.0%
Village Green Center	Huntley, IL	Retail	22,204	3,534	100.0%
Johnny Rockets	Oshkosh, WI	Restaurant	-	423	100.0%
Johnny Rockets	Woodstock, GA	Restaurant	-	371	100.0%
Johnny Rockets	Louisville, KY	Restaurant	-	578	100.0%
Corporate Assets	Chicago, IL	Various	-	88	100.0%
	Total		696,308	$55,512	

			Acres		
Land Held for Investment	Fruitport, MI	Land	14	$ 300	100.0%
Laredo Phase II Land	Laredo, TX	Land	2	2,000	60.8%
Land Held for Investment	Huntley, IL	Land	375	20,000	100.0%
	Total		391	$ 22,300	

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 consolidated statements of operations and such parties' portion of the net equity in such subsidiaries is reported on the Company's 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 December 31, 2016. In addition, the joint ventures' own out parcels and other land for development.

Property Name	Location	Property Type	Leasable Area (Sq. Ft.)	Ownership Percentage
The Outlet Shoppes at El Paso	El Paso, TX	Outlet Retail	433,045	24.41%
The Outlet Shoppes at Oklahoma City	Oklahoma City, OK	Outlet Retail	394,661	33.76%
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	428,060	30.78%
The Outlet Shoppes at Laredo	Laredo, TX	Outlet Retail	357,866	21.30%
Total			**2,277,538**	

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 December 31, 2016 and 2015, 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 30 year loan from NATIXIS Commercial Mortgage Funding, LLC which had a principal balance of $62.4 million and $63.5 million at December 31, 2016 and 2015, respectively, bears interest at 7.06%, and is due December 5, 2017.

During 2014, additional retail space owned by El Paso Outlet Center II Expansion, LLC, was developed at the Outlet Shoppes at El Paso. El Paso Outlet Center II Expansion is 100% owned by El Paso Outlet Center II, LLC, which is owned 25% by Horizon El Paso and 75% by CBL & Associates Properties, Inc. ("CBL"). The construction was financed by a 48 month construction loan with an interest rate of LIBOR plus 2.75%. The principal balance was $6.7 million and $6.8 million at December 31, 2016 and 2015, respectively.

The Company received management, leasing and similar fees from El Paso Center that totaled $933,000 and $807,000 during the years ended December 31, 2016 and 2015, respectively.

Distributions in excess of the Company's net investments in entities accounted for using the equity method are recognized as income if the Company is not obligated to make future contributions to those entities or budgeted capital contributions that would require the return of such excess distributions. Such distributions are included in Income from Investment in Joint Ventures on the consolidated statements of operations. During the years ended December 31, 2016, and 2015, income recognized from distributions in excess of equity investments in the El Paso Entities totaled $233,000 and $994,000, respectively.

Summary financial information (stated at 100%) for the El Paso Entities as of December 31, 2016 and 2015, and for the years ended December 31, 2016 and 2015, are as follows (in thousands):

	As of December 31, 2016	As of December 31, 2015
Assets		
Real estate - net	$ 97,099	$ 100,559
Cash and cash equivalents	964	1,069
Restricted cash	6,386	5,058
Other assets	2,465	2,582
Total assets	$ 106,914	$ 109,268
Liabilities and members' equity		
Mortgages and other debt	$ 69,100	$ 70,335
Other liabilities	4,246	3,839
Members' equity	33,568	35,094
Total liabilities and members' equity	$ 106,914	$ 109,268

	Year ended December 31, 2016	Year ended December 31, 2015
Statements of Operations		
Revenue	$ 16,410	$ 16,403
Operating expenses	6,690	6,141
General and administrative expenses	991	1,181
Depreciation and amortization expense	4,218	4,473
Interest expense	5,052	5,108
Total expenses	16,951	16,903
Gain on sale of land	502	425
Net loss	$ (39)	$ (75)

Oklahoma City Entities

In October 2010, the Company formed OKC JV, LLC (the “OKC Joint Venture”) with an affiliate of CBL to develop The Outlet Shoppes at Oklahoma City. The Company formed a subsidiary entity (“Horizon OKC”) to be CBL’s partner in the OKC Joint Venture. Horizon OKC owns 25% of OKC Joint Venture. The Company leases and manages The Outlet Shoppes at Oklahoma City, which opened in August 2011.

In December 2011, the OKC Joint Venture obtained a $60.0 million loan from an affiliate of Goldman Sachs (the “OKC Loan”) with a term of 10 years maturing March 2021, bearing interest at 5.73% and an amortization of 25 years. The OKC Loan is secured by a mortgage on The Outlet Shoppes at Oklahoma City and is generally non-recourse. The Company and an affiliate of CBL have entered into guaranties to the lender with respect to certain environmental issues and customary “bad-boy” acts. The majority of the proceeds of the OKC Loan were used to repay the construction loan from US Bank related to the project. The loan had a principal balance of $53.9 million and $55.3 million at December 31, 2016 and 2015, respectively.

During 2012, additional retail space, which is owned by OK City Outlets II, LLC (OKC II), was developed at The Outlet Shoppes at Oklahoma City. OKC II, which is owned by OKC Joint Venture, secures a mortgage loan from US Bank with a principal balance of $5.6 million and $5.7 million at December 31, 2016 and 2015, respectively. The loan term is five years, plus two one-year extension options and bears interest at LIBOR plus 2.75%.

During 2014, an additional retail space, which is owned by OK City Outlets III, LLC (OKC III) was developed at The Outlet Shoppes at Oklahoma City. OKC III is owned by OKC Joint Venture. OKC III secures a construction loan with a principal balance of $2.7 million and $2.9 million at December 31, 2016 and 2015, respectively. The loan term is five years, plus two one year extension options, and the loan bears interest at LIBOR plus 2.75%.

The Company has voting control over Horizon OKC and owns, directly and indirectly, approximately 95% and 34% of the preferred interests in Horizon OKC as of December 31, 2016 and 2015, respectively. The Company also granted common interests in Horizon OKC (the “OKC Net Profits Interests”) to Gary Skoien, Thomas Rumptz and Andrew Pelmoter, all officers of the Company. Holders of the OKC Net Profits Interests are not entitled to any distributions until the holders of the preferred interests have received a return of their capital plus interest thereon calculated at an annual rate of 12.0%, compounded quarterly. The Company consolidates the results of operations and the assets and liabilities of Horizon OKC which uses the equity method to account for its investment in the OKC Joint Venture.

During 2016, the Horizon OKC met the return of investment and internal rate of return criteria stipulated in the joint venture agreement with CBL; therefore, the Company’s share of future distributions from the OKC Joint Venture increased from 25% to 30%.

The Company received development, leasing, management and similar fees from the OKC Joint Venture that totaled $600,000 and $854,000 during the years ended December 31, 2016 and 2015, respectively.

Distributions in excess of the Company’s net investments in entities accounted for using the equity method are recognized as income if the Company is not obligated to make future contributions to those entities or budgeted capital contributions that would require the return of such excess distributions. Such distributions are included in Income from Investment in Joint Ventures on the consolidated statements of operations. During the years ended December 31, 2016 and 2015, income recognized from distributions in excess of equity investments in the Oklahoma City Entities totaled $1.0 million and $1.6 million, respectively.

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

	As of December 31, 2016	As of December 31, 2015
Assets		
Real estate - net	$ 48,520	$ 52,004
Cash and cash equivalents	942	1,321
Restricted cash	782	657
Other assets	3,912	3,486
Total assets	$ 54,156	$ 57,468
Liabilities and members' deficit		
Mortgages and other debt	$ 62,208	$ 63,875
Other liabilities	751	991
Members' deficit	(8,803)	(7,398)
Total liabilities and members' equity	$ 54,156	$ 57,468

	Year ended December 31, 2016	Year ended December 31, 2015
Statements of Operations		
Revenue	$ 14,186	$ 13,230
Operating expenses	3,415	3,383
General and administrative expenses	534	518
Depreciation and amortization expense	4,627	6,882
Interest expense	3,500	3,600
Total expenses	12,076	14,383
Gain on sale of land	-	906
Net income (loss)	$ 2,110	$ (247)

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.

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

The members of the Gettysburg entities accrue a 10% preferred return on capital invested. Cash distributions go first to CBL and PL Skoien, then to the Company and Bright Horizons.

The Company received management, leasing, and similar fees from the Gettysburg Entities that totaled $252,000 and 359,000 during the years ended December 31, 2016 and 2015, respectively.

Summary financial information (stated at 100%) of the Gettysburg entities as of December 31, 2016 and 2015, and for the years ended December 31, 2016 and 2015, are as follows (in thousands):

	As of December 31, 2016	As of December 31, 2015
Assets		
Real estate - net	$ 41,779	$ 42,728
Cash and cash equivalents	785	867
Restricted cash	1,148	1,118
Other assets	1,165	1,247
Total assets	$ 44,877	$ 45,960
Liabilities and members' equity		
Mortgages and other debt	$ 38,450	$ 38,450
Other liabilities	683	1,375
Members' equity	5,744	6,135
Total liabilities and members' equity	$ 44,877	$ 45,960

	Year ended December 31, 2016	Year ended December 31, 2015
Statements of Operations		
Revenue	$ 6,645	$ 7,059
Operating expenses	2,494	2,514
General and administrative expenses	305	360
Depreciation and amortization expense	1,512	1,561
Interest expense	1,866	2,231
Total expenses	6,177	6,666
Loss on sale of land	-	(44)
Net income	$ 468	$ 349

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 an affiliate of CBL own 25% and 75%, respectively of Woodstock GA Investments (WGI). WGI lent RPI $6.0 million, which was contributed to Holding and, together with the proceeds from the sale of the parcel to Atlanta JV, were used to retire a loan secured by the land owned by Holding. In connection with its loan to RPI, WGI acquired an equity interest in RPI that is entitled to 30% of the economic interest in Holding. After the sale of the parcel to Atlanta JV, Holding owns approximately 123 acres of vacant land near The Outlet Shoppes at Atlanta.

On October 11, 2013, the Atlanta JV obtained an $80.0 million loan from an affiliate of Goldman Sachs (the “Atlanta Loan”). The 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 and had a balance of $76.1 million and $77.4 million at December 31, 2016 and 2015, respectively.

On May 13, 2015, the Atlanta JV closed on a $6,200,000 construction loan for Atlanta Outlet Shoppes Phase II. The loan carries an initial interest rate of LIBOR plus 2.5%, and matures on December 19, 2019. The loan balance was $4.8 million and $4.0 million at December 31, 2016 and 2015, respectively.

In December of 2013, the Horizon Atlanta met the 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 Atlanta JV increased from 25% to 35%.

The Company received development, management, leasing, and similar fees from Atlanta JV that totaled $485,000 and $825,000 for the years ended December 31, 2016 and 2015, respectively.

Distributions in excess of net investments in entities accounted for using the equity method are recognized as income if the Company is not obligated to make future contributions to those entities or budgeted capital contributions that would require the return of such excess distributions. Such distributions are included in Income from Investment in Joint Ventures on the consolidated statements of operations. During the years ended December 31, 2016 and 2015, income recognized from distributions in excess of equity investments in the Atlanta Entities totaled $1.7 million and $1.4 million, respectively.

Summary financial information (stated at 100%) of the Atlanta entities as of December 31, 2016 and 2015, for the years ended December 31, 2016, and 2015 are as follows (in thousands):

	As of December 31, 2016	As of December 31, 2015
Assets		
Real estate - net	$ 58,230	$ 64,657
Cash and cash equivalents	911	1,678
Restricted cash	285	481
Other assets	10,348	9,777
Total assets	$ 69,774	$ 76,593
Liabilities and members' deficit		
Mortgages and other debt	$ 80,937	$ 83,246
Other liabilities	871	912
Members' deficit	(12,034)	(7,565)
Total liabilities and members' equity	$ 69,774	$ 76,593

	Year ended December 31, 2016	Year ended December 31, 2015
Statements of Operations		
Revenue	$ 15,048	$ 14,350
Operating expenses	3,501	3,237
General and administrative expenses	544	567
Depreciation and amortization expense	5,591	4,862
Interest expense	4,045	3,970
Total expenses	13,681	12,636
Gain on sale of land	1,636	-
Net income	$ 3,003	$ 1,714

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 $74.7 million and $76.1 million at December 31, 2016 and 2015, respectively.

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 interest rate of LIBOR plus 2.35%. At December 31, 2016 and 2015, the loan balance was $10.1 million.

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 development, management, leasing, and similar fees from the Louisville JV that totaled $373,000 and $1.0 million for the years ended December 31, 2016 and 2015, respectively.

Distributions in excess of the Company's net investments in entities accounted for using the equity method are recognized as income if the Company is not obligated to make future contributions to those entities or budgeted capital contributions that would require the return of such excess distributions. Such distributions are included in Income from Investment in Joint Ventures on the consolidated statements of operations. During the years ended December 31, 2016 and 2015, income recognized from distributions in excess of equity investments of the Louisville Entities totaled $2.5 million and $2.2, respectively.

Summary financial information (stated at 100%) of the Bluegrass entities as of December 31, 2016 and 2015, and for the years ended December 31, 2016 and 2015, is as follows (in thousands):

	As of December 31, 2016	As of December 31, 2015
Assets		
Real estate - net	$ 70,386	$ 72,782
Cash and cash equivalents	1,037	3,288
Restricted cash	830	893
Other assets	5,152	4,977
Total assets	$ 77,405	$ 81,940
Liabilities and members' deficit		
Mortgages and other debt	$ 84,837	$ 86,222
Other liabilities	855	1,193
Members' deficit	(8,287)	(5,475)
Total liabilities and members' equity	$ 77,405	$ 81,940

	Year ended December 31, 2016	Year ended December 31, 2015
Statements of Operations		
Revenue	$ 14,152	$ 12,784
Operating expenses	2,928	2,594
General and administrative expenses	555	471
Depreciation and amortization expense	5,052	4,418
Interest expense	3,456	3,203
Total expenses	11,991	10,686
Loss on sale of land	0	(19)
Net income	$ 2,161	$ 2,079

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 December 31, 2016, the loan balance was $39.3 million.

The Company received management, leasing development and similar fees from the Laredo JV that totaled $3.7 million for the year ended December 31, 2016.

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.

There is no significant operating activity for the Laredo JV for the year ended December 31, 2016. Summary financial information (stated at 100%) of the Laredo JV as of December 31, 2016, is as follows (in thousands):

	As of December 31, 2016
Assets	
Construction in progress	$ 72,382
Cash and cash equivalents	1,852
Total assets	$ 74,234
Liabilities and members' equity	
Construction loan	$ 39,346
Other liabilities	4,355
Members' equity	30,533
Total liabilities and members' equity	$ 74,234

Note 5 – Income Taxes

HGPI is taxable as a corporation under the provisions of Subchapter C of the Internal Revenue Code. The net provision for income taxes after the change in the valuation reserve for the years ended December 31, 2016 and 2015, consisted of the following (in thousands):

	2016	2015
Federal	$ -	$ -
State	-	-
Net provision	$ -	$ -

For federal income tax purposes, HGPI had net operating loss carryforwards ("NOLs") of approximately $73.6 million and $76.0 million at December 31, 2016 and 2015, respectively. The NOLs expire from 2021 to 2033.

Deferred income tax liabilities and assets are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities. The components of the Company's gross deferred tax assets and liabilities are as follows as of December 31, 2016 and 2015 (in thousands):

Deferred Tax Assets:	**2016**	**2015**
NOL carryforwards – federal and state	$27,285	$28,120
Tax basis of assets in excess of book basis:		
Fixed/intangible assets	-	255
Other	18	16
Book basis of liabilities in excess of tax basis:		
Prepaid rental revenue	54	65
Profits interest	12	40
Gross deferred tax assets	27,369	28,496
Less: valuation allowance	(3,163)	(27,497)
Gross deferred tax assets	24,206	(999)
Deferred Tax Liabilities:		
Fixed/intangible assets	(2,153)	-
Investments in and advances to joint ventures	(21,240)	(974)
Other	(813)	(25)
Gross deferred tax liabilities	(24,206)	(999)
Net deferred tax asset	$ -	$ -

The valuation allowance related to the net deferred tax assets decreased by approximately $24 million and $107,000 in 2016 and 2015, respectively.

Note 6 – Leases

Space in the Company's centers is leased to various tenants under operating leases, which are generally for one to ten year periods. Some leases contain renewal options and may also provide for the payment of a tenant's share of certain operating expenses. Leases may also obligate a tenant to pay rent based on a percentage of sales in excess of certain thresholds. Minimum future rentals to be received under non-cancelable leases are summarized as follows (in thousands):

2017	$ 6,187
2018	5,062
2019	3,996
2020	3,250
2021	2,020
Thereafter	3,021
	$23,536

The above scheduled rentals are subject to the usual business risks associated with collection.

Note 7 - Long Term Stock Incentive Plan, Grants of Common Units and Grants of Common Shares

During 2014, the Board of Directors granted common shares of stock to the board members, excluding Howard Amster and Gary Skoien (Non-Executive Members) as compensation for service. The three Non-Executive Members were each granted 4,000 shares of common stock with vesting of 1,334 shares on September 9, 2015, 1,333 shares on September 9, 2016 and 1,334 shares on September 9, 2017. The amount of compensation as a result of shares vesting during 2016 and 2015 is considered immaterial.

Note 8 - 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 December 31, 2016, in the amount of $6.9 million, which are not reflected on the consolidated balance sheet as of December 31, 2016. These capital expenditures are expected to be paid during 2017, and are anticipated to be funded from capital improvement escrows, construction financing, equity contributions and additional borrowings.

Note 9 – Mortgages and Other Debt

	Principal Balance as of:	
	December 31, 2016	December 31, 2015
Mortgage loan to Village Green Associates, LLC, from First Personal Bank with an interest rate of 6.5%, a maturity date of March 1, 2019, secured by the shopping center in Huntley, Illinois and guaranteed by the Company. The loan will be paid through 59 monthly payments of $23,633 and one balloon payment of $1,789,000.	$ 2,105	$ 2,247
Mortgage loan to BFO Factory Shoppes LLC, from Starwood Mortgage Capital, LLC with an interest rate of 4.509%. Monthly payments of interest only through March 6, 2017. Starting on April 6, 2017, principal and interest payments of $277,300 are due each month, and a balloon payment is due at maturity on March 6, 2025. The loan is secured by The Outlet Shoppes at Burlington and Oshkosh, and Phases II and III of the Outlet Shoppes at Fremont.	54,675	54,675
Mortgage loan to Huntley Development Limited Partnership, from US Bank bearing interest at LIBOR plus 4.5%. This loan was refinanced during 2016.	-	6,903

Mortgage loan to Huntley Development Limited Partnership, from Heartland Bank and Trust bearing interest at prime plus 1.5% and maturing 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.	6,973	-
Capital lease between BFO Factory Shoppes LLC and First Bank & Trust, bearing interest at 17.5%. This lease was paid off during 2016.	-	4
Convertible promissory note to HGP LP, from newAX, Inc., in the amount of $150,000, bearing interest at 5.0%. This loan was converted to equity in the Company during 2016. See Note 10.	-	150
Term loan to Johnny Rockets Oshkosh, LLC, from Bank First National as of May 23, 2014, in the amount of $470,000 bearing interest at 4.25% per annum, guaranteed by the Company and secured by substantially all of the assets of Johnny Rockets Oshkosh, LLC. Subsequent to year end, this term loan was refinanced through February 2022 under substantially similar terms.	350	411
Working Capital loan for the development of an outlet center in Laredo, Texas from Mortgage Holdings, LLC, an affiliate of CBL, bearing interest at 7%. This note was deconsolidated as part of the Laredo JV (See Note 4).	-	3,096
Working Capital loan for the development of an outlet center in Hartford, Connecticut from Mortgage Holdings, LLC, an affiliate of CBL, bearing interest at 7% and with a maturity date of July 13, 2017. The loan is secured by HGP's interest in Horizon Louisville.	300	-
	64,403	67,486
Debt issuance cost	(841)	(929)
	$63,562	$66,557

In 2016, the Company retrospectively adopted the requirements of ASU 2015-03 Simplifying the Presentation of Debt Issuance Costs, to present the debt issuance costs as a reduction of the carrying amount of mortgages and other debt rather than as deferred costs. Mortgages and other debt as of December 31, 2015, was previously reported on the balance sheet as $67,486 with associated $929 unamortized debt issuance costs included in other assets.

Cash interest payments for the years ended December 31, 2016 and 2015, totaled $2.9 million and $3.1 million, respectively.

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 378 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. For the years ended December 31, 2016 and 2015, respectively, a liability of $42,000 and $166,000 was recorded to reflect the estimated current fair value of the Skoien Net Profits Interests.

In 1993, the Village of Huntley (the "Village") created a Tax Increment Financing District (the "TIF District"). In 1995, the Village sold $7.0 million of Series A TIF bonds and $14.0 million of Series B TIF bonds and issued to HDLP Series C TIF bonds with a principal amount of $24.4 million. In May 2009, the Village sold $14.3 million of Series 2009 TIF Bonds (the "Series 2009 TIF Bonds"), the proceeds of which were used to retire the Series A and B TIF bonds.

In connection with the issuance of the Series 2009 TIF Bonds, HDLP assigned a portion of the tax increment allocable to the Series C TIF bonds to the Village. The assignment agreement provides that payments made with respect to the Series C TIF bonds will be distributed in the following order of priority: (i) HDLP will receive the first $204,285 annually until it has received a total of $1.43 million; (ii) the next $3.04 million will be allocated 75% to HDLP and 25% to the Village; and (iii) amounts in excess of those in (i) and (ii) will be allocated 25% to HDLP and 75% to the Village. The Series C bonds are subordinate to the Series 2009 TIF Bonds. Currently, no portion of the tax increment is available to the Series C TIF bonds and no value has been ascribed to them by the Company. On June 15, 2015, HDLP received a payment of $840,000 from the Series C TIF bonds, which is recorded as other income. The funds were used to make a principal payment to U S Bank on the Huntley debt. On June 3, 2016, HDLP received payment of $663,000 from the Series C TIF bonds, which is recorded as other income. 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 has been recorded as part of other assets as of December 31, 2016.

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

Debt Maturities

Debt maturities and principal payments due subsequent to December 31, 2016, are as follows (in thousands):

Due in:		
2017		$ 2,872
2018		1,735
2019		7,534
2020		952
2021		1,003
Thereafter		50,307
	Total	$64,403

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 expects to pay the remaining scheduled principal payments in the normal course of business during 2017.

Note 10 - Related Party Transactions

At December 31, 2015, 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 December 31, 2016 and 2015, 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 December 31, 2016 and 2015, 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 December 31, 2015, 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 December 31, 2016 and 2015, Amster Skoien L.P owned jointly by Howard Amster and Gary Skoien owned 14.7% of Horizon El Portal, LLC.

At December 31, 2016 and 2015, David Tinkham, an officer of the Company, owned 1.27% of Horizon Atlanta, and 3.24% of Horizon Louisville.

At December 31, 2016 and 2015, Andrew Pelmoter, an officer of the Company, owned 4.955% of Horizon OKC, 2.12% of Horizon Atlanta, and 4.31% of Horizon Louisville, in addition to the Net Profits Interests discussed below.

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% 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.

The Company incurred interest expense on unsecured loans from newAX, Inc. in the amount of $9,000 for the years ended December 31, 2016 and 2015, respectively. newAX, Inc. is an affiliate of Howard Amster.

In 2016, the Company granted 20,000 common shares of Horizon Group Properties, Inc. to Gary Skoien. The shares will vest over a three year period with 6,667 shares vesting in March 2016. The amount of compensation as a result of shares vesting during 2016 is considered immaterial.

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

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.

Note 11 – Subsequent Events

On March 29, 2017, CBL sold their 75% interest in Woodstock GA Investments to the Company for a $1.0 million seller financed note. The debt is payable when the south parcel of the Ridgewalk Holding, LLC land is sold. After the purchase, the Company owns 100% of Woodstock GA Investments.

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%.

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Former Governor
of the State of Illinois

Margaret A. Gilliam
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Chairman, President and
Chief Executive Officer
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E. Thomas Thilman
Consultant to and former Chairman
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Chairman, President and
Chief Executive Officer

David R. Tinkham
Chief Financial Officer
and Secretary

Andrew F. Pelmoter
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Company's web site:
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STOCK TRADING

The Company's common stock trades in the
over the counter market under the symbol
"HGPI.PK".

HGP
Horizon Group Properties

HGP

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