



The Outlet Shoppes of The Bluegrass

HGP 
Horizon Group Properties
2019 Annual Report

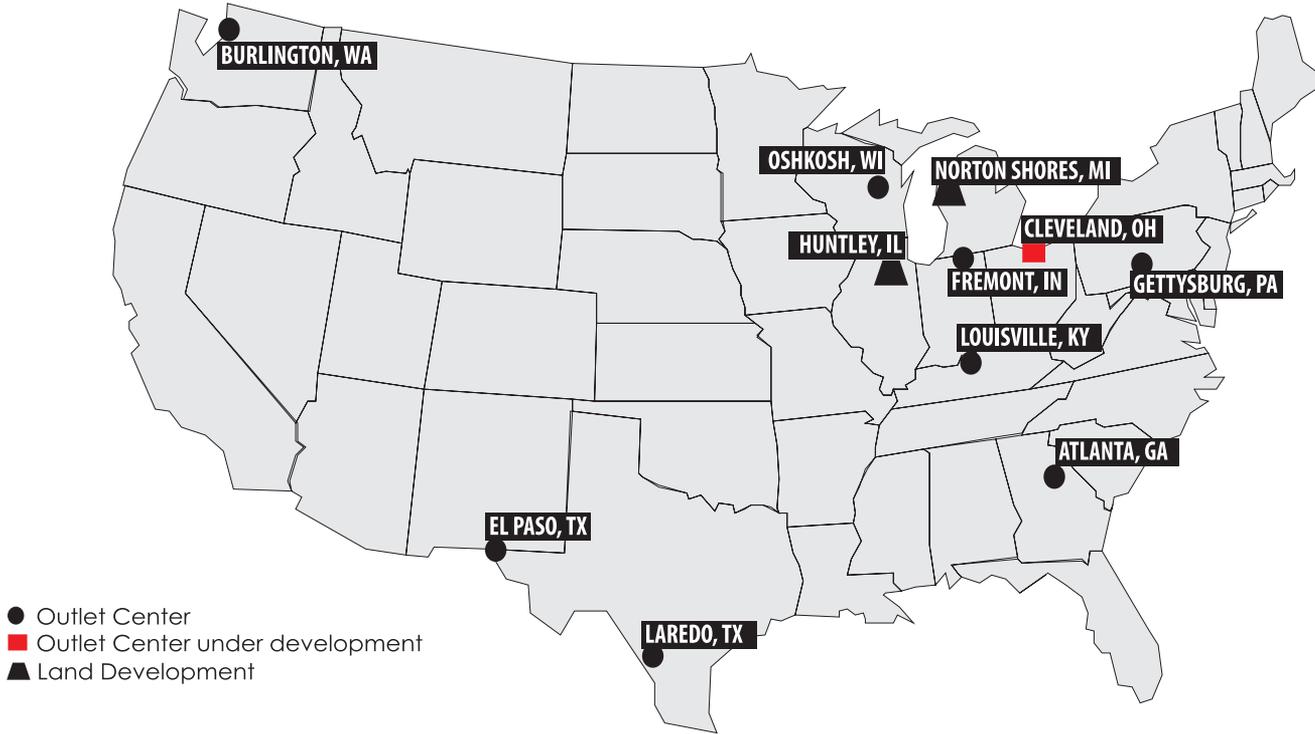


The Outlet Shoppes at Atlanta



The Outlet Shoppes at Cleveland

Portfolio



Horizon Group Properties, Inc.
Based in Rosemont, IL, Horizon Group Properties, Inc. is a developer, owner and manager of outlet shopping centers in seven states and developer of a master planned community in Suburban Chicago.

Dear Stockholder,

The trends in the retail sector about which I have been writing over the last few years continued during calendar year 2018. There is no evidence they will change, that they are slowing or that the direction will be reversed. Their cumulative impact provides ongoing challenges for Horizon Group Properties.

In this introduction, I can only repeat verbatim what I have written before. Over the past five years or so, we have been in the midst of a sea change in the retail world caused by clothing price deflation, increased online shopping, a rapidly deteriorating department store environment and excess retail space. Consumer preferences have also changed, particularly among millennials, who have shifted from spending on purchases of consumer goods to experiential spending on food, travel and entertainment.

As a developer and owner of outlet centers, we find ourselves in a very unusual position. The national economy has taken off in the last couple of years after many years of slow growth. Unemployment is at historic lows. Same-store sales at the centers we developed and own continue to improve, in some instances markedly. However, this positive sales momentum is not present at several of the centers we acquired in smaller markets.

Fewer tenants are operating today due to bankruptcies or reductions in their brick-and-mortar presence. Since the beginning of 2018, A'GACI, Charlotte Russe, Claire's, Gymboree and Nine West have declared bankruptcy. Except in the case of Claire's, we have lost those tenants in our centers. Without tenant demand for space, we are unable to take advantage of the growing economy which historically would have permitted us to profitably develop new outlet centers for our portfolio.

This does not mean that great opportunities for value creation do not exist. New tenants continue to enter the business, although not in numbers that make up for the tenants that have exited the business. Tenants with great performance continue to seek to expand at our centers. However, improving our existing centers will take more effort, ingenuity and more time than ever before. It also means that new development will require far greater diligence, the incorporation of non-outlet uses in the tenant mix and an acceptance of good, but reduced, investment returns compared to the returns we had previously achieved.

New Development

The turmoil in the retail sector has brought outlet development to a virtual standstill nationally. Only one new center opened in 2018 and only three viable centers are currently in the planning phase. One of these is our site in downtown Cleveland, near the Rock & Roll Hall of Fame, the Huntington Convention Center of Cleveland and Burke Lakefront Airport. The site is a short distance from many of the new and redeveloped downtown hotels, 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 residents.

We are proposing the development of a two-level center containing approximately 350,000 square feet of rentable area. We are in the early stages of design and cost estimating. There is no question that the project will be more costly to develop than our typical project and will thus require some

type of public-private partnership. 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 development.

The site is also located in an Opportunity Zone. Opportunity Zones were added to the federal tax law in 2017 to encourage development in areas designated as economically challenged. Investors in Opportunity Zones can defer previously recognized capital gains and eliminate future capital gains when the new investment in the Opportunity Zone is sold. Nationally, the demand for investments in Opportunity Zones is very high. We think this will be a significant aid to our effort to raise the capital required to develop this project.

The proximity of the center to downtown Cleveland and its tourist population allows for a larger food and entertainment component than we have included in our centers. We anticipate that at least a third of the space in the center will be dedicated to these uses. We hope to add our center to the already vibrant food and entertainment offerings in downtown Cleveland. The location of the center allows us to create dining spaces with vistas of the lakefront. There are surprisingly few existing dining options with views of the lakefront. We have engaged the Cleveland office of a national brokerage firm to assist us in leasing the food and entertainment concepts in the center.

We have also started negotiating letters of intent with outlet retailers. We are encouraged by the positive reception of the project from retailers who recognize the absence of strong outlet options in this market. Perhaps the biggest challenge is the need to negotiate lease rates that are at the higher end of the spectrum because of the cost of the project. We believe this is achievable because of the strength of the market and the anticipated sales to be generated by the center.

Property Operations

We have always prided ourselves on the effective and efficient management of the properties we own. We believe the cleanliness, safety and aesthetics of our centers rival those of the best in the industry. At the same time, the operational expenses at our properties are well below those of most of our competitors.

Property management encompasses far more than just cleaning common areas and parking lots and keeping the lights on; property management in this context also involves leasing. While we strive to maximize occupancy at all of our centers, merely filling space is not the only goal. We also want to attract tenants that are desirable to our shoppers and create a mix of tenants that provides for a variety of shopping choices and price points.

The outlet business continues to evolve. Gone are the days when centers were located in rural, low-density areas 60 miles from a large city. The increased density of the population near our centers gives us the opportunity to incorporate more food and entertainment offerings. Consumer preferences continue to change and shoppers are now seeking experiences as much as merchandise during a shopping outing. Food and entertainment help to meet this need and we are focused on including these uses in our centers.

I have written before that I think there is no better outlet leasing team in the industry than ours. Led by Andrew Pelmoter, our team has successfully leased all of our new centers even in times of strong economic headwinds. Our team has also maintained occupancy at centers that have been challenged. At the same time, we need to recognize the changing tenant mix at our centers. I have asked James Harris to lead our effort to bring food and entertainment concepts to our centers. The early results of his efforts are encouraging. They include the addition of a Children's Museum at

The Outlet Shoppes at Burlington and Atomic Dog at The Outlet Shoppes at Gettysburg (described below). In addition, we are hiring local brokers to attract non-outlet retailers to centers where occupancy is challenged.

Marketing is the final piece of our management expertise. We continually strive to inform our customers of sales, special events and activities at our centers. We use radio, television, print ads, and direct mail, digital and social media. Our team has decades of experience with traditional media and we are challenged to keep up with the ever-changing world of digital media. We strive to stay current, fresh and on the cutting edge of today's social/digital media platforms. While it is a challenge for us to maintain an edge in social media, we believe we are succeeding in these efforts.

The Outlet Shoppes at Atlanta is a great outlet shopping center. It continues to produce impressive sales growth. Without exception, sales at the center have improved each year since its opening. Same-store sales for the center were up 4.6% during calendar year 2018 over calendar year 2017. We believe that there is still the opportunity to improve the tenant mix and the experience at the center that will further enhance its sales momentum.

In spite of the ever-improving performance at the center, its occupancy has never exceeded 94%. As of this writing, the center is 92% occupied. We have added tenants to the center including Torrid, West & Peach - a local boutique - and a cellular phone store. A temporary Aerie store will open shortly. Aerie is a very hot brand right now and we hope that it will become a permanent tenant at the center.

At the national leasing conference in Las Vegas in May 2019, we had discussions with several high-profile retailers that we believe will move to or expand in the center. It is a bit premature to announce these tenants, but we have great confidence that, owing to the strong sales and the quality of the center, we will make these deals. The new tenants and expansion would bring the occupancy to over 97% and improve the net operating income of the center.

The food and entertainment concepts at the center continue to improve as well. De Allende Mexican Kitchen and Tequila Bar opened last summer. It offers a quality sit-down dining experience with outdoor patio seating. Fresco Fresh - a fresh food concept - recently opened in the food court. Taqueria Tsunami, which has been at the center since opening, recently added an outdoor bar which is generating great traffic. We recently signed a lease with Barrel and Vine Woodstock, which will open shortly.

Adding to the theme of food and drink, last year we received government approval to allow customers to have open alcoholic beverages at the center. "Sip and Shop" has already proven to be a winner with customers. When the wine bar opens, it will further add to the Sip and Shop experience.

Our property team has made great improvements to the ambience of the center. A program to increase both the quantity and quality of the landscaping at the center has produced some truly stunning results. The team also added a substantial number of new comfortable chairs, umbrellas and tables throughout the center. The ability to purchase and consume alcohol, the improved seating and ambience and increased food offerings all encourage longer stays at the center and should translate into higher sales.

The Outlet Shoppes at El Paso has rebounded nicely from the traffic and sales declines that occurred during 2016 and 2017 because of the weak Mexican peso, and major road construction

on the interstate highway on which the center is located. Sales at the center were up 4.9% in calendar year 2018 over 2017. Currently, the stabilization of the peso, the completion of the most disruptive portion of the construction, and the commercial and residential development around the center are clearly helping drive traffic to the center. When the center opened, we were relatively isolated at the northern edge of the city; we are now surrounded by a vibrant community.

Over the past year, Steve Madden and Aerie have opened stores in the center, and a 7 For All Mankind store will be open by Labor Day. With these additions, occupancy at the center will be at 99%. We are also focused on food and entertainment tenants for the center. We hired a local brokerage firm with extensive experience with restaurants in the market to assist in this effort. We are currently in discussion with several potential operators who we believe would be great additions to the center.

The Outlet Shoppes of the Bluegrass has one of the best tenant mixes of all of our centers. It includes Gucci, Tory Burch, Calvin Klein and Kate Spade to name but a few. 50 East Shoes, which has a great store at The Outlet Shoppes at Atlanta, opened this past year as well as a new cell phone store. Occupancy at the center remains above 95%.

We are working to improve our food and entertainment offerings to increase the time shoppers spend at the center. This was an issue that was raised by the professional focus groups we conducted recently. We know that more food offerings will increase the dwell times at the center and likely the sales along with it. We are close to concluding a deal that will bring Nathan's Famous Hot Dogs to the center.

While sales at the center overall are very strong, the issue we are confronting is the dichotomy between sales at the top-brand stores and those at the more moderate stores with the former having terrific sales and continuing to ramp up and the latter being stagnant. We continue to review our marketing efforts to see if we can change the focus and draw more shoppers to the center - particularly on weekdays.

We have some strong retail - although not outlet - competitors in Louisville and Lexington; accordingly are working to inform our consumers that we have tenants at our center that are exclusive in the market. The market is very strong and we remain convinced that this center's performance will improve as we increase customer awareness of the shopping experience offered at the center.

The reduced number of retailers opening outlet stores has had an impact on all of our centers. At The Outlet Shoppes at Burlington (WA), we have been in the midst of a perfect storm: the Canadian dollar remains weak, two large successful outlets opened up in the Vancouver market and a competing center to the south of our center added a large and successful new phase.

The Company has decided that the best way to counter these challenges is to create a blend of outlet and non-outlet retail, dining and entertainment to create a center primarily aimed at the local market. This effort is off to a great start. In March 2019, the Children's Museum of Skagit County moved from a nearby enclosed mall to our center. The Museum is drawing more visitors than it did in its former location and is driving traffic to the center. A high-end pet store and a massage training school have opened in the center and are paying market rents. Other potential deals are currently in the works. While there is more to do, we are encouraged by the results to date.

The Outlet Shoppes at Gettysburg has been fairly stable but the opening in 2016 of a large high-quality outlet center in Clarksburg, Maryland 49 miles from our center has resulted in some sales

erosion. Sales in 2018 were 1.2% below 2017 sales. The minimal impact of the new outlet confirmed our long-held view that our center really served a local market and tourists. It essentially serves as a regional mall for the area.

The most significant problem at the center was the tenant default and subsequent closure of the ten-screen cinema in 2018. Revenue from its lease was substantial and it drew traffic to the center. I am very pleased to report that we have leased the cinema building to Atomic Dog – a full service restaurant, event space, cider making facility and bar. The owner is also the producer of Jack's Hard Cider, a popular regional beverage with a loyal following. We believe that this addition will be a game changer for the center, providing a draw to the center as well as an amenity for our shoppers.

The Outlet Shoppes at Oshkosh is in need of improvements to really make it competitive in its market. The greater Fox Valley, in which it is located, has a population of over one million people and a very strong economy. Since we acquired the center, we have added some really great tenants. But the center is dated and in need of a new look with different colors, better lighting, improved parking areas, and seating and landscaping to attract customers for longer stays. We recently completed improvements to the parking lot lighting and have a capital improvement plan that we hope to begin to implement early next year to complete over the next eighteen months.

The Outlet Shoppes at Fremont was developed in three phases over a number of years by a former owner. When the property was refinanced in 2015, Phase I of the center was not included in the collateral for the loan. This phase is poorly located and had lost most of its tenants. It required substantial capital improvements to continue operating as a shopping center. On the other hand, Phases II and III had great tenants, a better location and high occupancy. The Company has successfully relocated Carter's, Van Heusen, Kitchen Collection, Hanes and the Pickle Factory to Phases II and III, increasing the occupancy and net operating income.

The Company initiated an accelerated marketing program for Phase I several months ago. Last month we closed on a sale with net proceeds of \$641,000. In addition to these proceeds, we will be able to reduce operating costs that were associated with its operation.

The Outlet Shoppes at Laredo opened in March of 2017. It could not have opened at a worse time with peso instability, border-crossing issues, Mexican indignation based on the comments and policies of President Trump and disruptions at the border caused by the caravans from Central America. Due to these issues prior to opening, it was the first center that we have developed that was less than 90% leased at opening. The center has been further affected by retailer bankruptcies. Since opening, Nine West, Toys R Us, A'GACI and The Limited have all closed their stores in the center because of bankruptcies.

The Company has devoted substantial time and energy to both our marketing and leasing efforts. We are seeing some of the results from these efforts as sales and traffic are beginning to show signs of improvement. We have recently added some great brands to the center including True Religion, Aerie, our pizza concept Stone & Stein and a local hair stylist, jeweler and western-wear store. In the next few months, we will open 7 for All Mankind, Nautica and Coach stores. Many of the tenants that are doing well at the center serve the same customers as these new tenants. We think these strong additions will further increase traffic and sales.

The Company is working on a plan to add a large Ferris wheel to the project. The wheel will be 15 stories tall and provide views of up to 15 miles into Mexico and the surrounding area. It will

be located on the Phase II expansion land directly adjacent to the center and be highly visible to the millions of people that annually cross the bridges from Mexico. We believe it will be an iconic symbol for Laredo that will both draw attention and traffic to the center as well as help revitalize the downtown shopping area. No other city on the Mexican border would feature such a dramatic attraction.

Because of the benefits that will accrue to the community, we have proposed a public-private partnership pursuant to which the government would provide 50% of the cost of the project but the Company would operate and assume liability for the operation. We have initiated discussions with both the city and county regarding potential funding for the project. We are also presenting sponsorship opportunities to local businesses.

At the same time we consider the development of the wheel, we are also looking at options to develop the Phase II land which is 100% owned by Horizon and its affiliates. The site is approximately 50,000 square feet. If the wheel is developed, we will have 27,750 square feet of remaining land to develop. We are focusing our attention on food, grocery, entertainment and non-outlet retail for this site. We recently engaged the Texas office of a national brokerage firm to market this site for these uses.

Finally, we realized several months ago that people crossing the borders saw the center and a large “Outlet Shoppes” sign but were not clear on the tenants located there. We have started a project to paint large logos for 21 key tenants on the side of the building facing the Rio Grande. We think improving awareness of the great brands located in the center will further encourage shoppers to visit.

Land Development and Property Dispositions

The Company still owns 355 acres of land in Huntley, IL. Interest in the land is far higher than it was during the several years following the recession, but we have not converted this interest into sales contracts. The last sale occurred in 2015. We continually review and analyze the best and highest use for the land. Industrial activity in this segment of the market remains strong and therefore are currently seeking the rezoning of 130 acres to allow industrial uses. We are confident we will obtain approval for this zoning change, but negotiations with the Village of Huntley have taken longer than we anticipated. We are in preliminary discussion with a potential buyer of 47 acres for an industrial use.

In connection with 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 land adjacent to the outlet site. Ultimately, the loan was restructured so that it now has a priority and is entitled to receive a substantial portion of the proceeds from land sales. We subsequently acquired CBL’s position in the joint venture that holds the loan; the Company is obligated to pay CBL \$1 million when a specific eight-acre parcel owned by the joint venture is sold.

Horizon entered into a contract in July 2017 to sell the eight-acre parcel to Fiat Chrysler (“FCA”) as the site for a new car dealership. Unfortunately, FCA was unwilling to design its store to be in compliance with the current zoning. Included in the sales contract was a one million dollar breakup fee if they failed to close on the sale. Recently, FCA terminated the contract and we have sent a demand for the payment of this fee.

Horizon sold 16.4 acres of land across the street from The Outlet Shoppes at Atlanta to Costco in 2017, completed the site work required as part of the sale and turned it over to Costco in March 2018. Costco opened its new 150,600 square foot store in August 2018. The site work completed for Costco also made available several other parcels for sale.

We currently have an executed contract with Meritage Homes, a residential developer, for the sale of 16.5 acres for a town-house development. The sale is anticipated to close within the next sixty days. We are also in negotiation with a strip-center developer for a two-acre parcel. Successfully closing these two sales will allow us to repay the \$2.2 million loan secured by the land.

Finally, we have 33 acres of excess land adjacent to The Outlet Shoppes at El Paso and 20 acres of excess land adjacent to The Outlet Shoppes of Gettysburg. We are aggressively marketing this land for sale.

Financing

In September 2018, we successfully completed the refinancing of the loans on The Outlet Shoppes at El Paso with a new \$75 million loan originated by Deutsche Bank. Prior to this loan, there had been two separate loans totaling \$66.9 million secured by the center. The first loan was secured by Phase I of the center, which opened in 2007, and the other was secured by Phase II of the center, which opened in August 2014. The new loan bears interest at 5.103% compared with a combined interest rate of 6.85% on the two loans it replaced. The new loan has a ten-year term and a 30-year amortization schedule.

Restaurant Operations

Venturing into the restaurant business was as much to provide an amenity for our centers as it was to start a profitable business. We had found that many national restaurant chains utilize population, income and other metrics to determine the location of their stores. These metrics are not met by most of our outlet centers. At the same time, we saw a desperate need to provide something other than food courts to our customers. The first four restaurants we opened were Johnny Rockets, with the most recent being in The Outlet Shoppes at Laredo.

In terms of an amenity, it is clear that we met our goal. Operating the stores has been a different story. Gross sales at the four stores declined 10.8% in 2018 compared to the prior year. To date in 2019, sales are down by 3.3% compared to the same period in 2018. We have struggled with traffic generation, wages and rising food costs. We are also very disappointed with the franchisor which has gone through a buyout and had a revolving door of management dealing with the stores. We strongly believe these issues have been detrimental to the brands and our ability for the stores to be profitable.

The four stores lost \$208,000 in 2018. Our current forecast based on five months of sales is a loss of \$89,000 for 2019. The Laredo store accounted for \$151,000 of the 2018 loss. There are encouraging signs in Laredo with sales up 5.8% over the prior year.

The best performing store in 2018 was in Oshkosh, WI which reported a profit of \$28,000. These results do not include the corporate overhead allocated to the stores nor does it include the rent we receive from these restaurants at the properties.

We recognize that these losses cannot continue and are taking action to address them. As part of this analysis, we are addressing our long-term lease commitments as well as our franchise agreements. We have commenced negotiations with our partners regarding rent concessions. As we work through this, we are taking steps to improve top-line sales. Our team has solicited input from our center managers and marketing staff and is implementing actions that will improve sales. We created a new restaurant concept that opened in Laredo in July 2018. It is a made-to-order fast-bake pizza concept named “Stone & Stein.” It is similar to concepts opening around the country utilizing high-temperature ovens. Customers choose ingredients arrayed in front of them and their pizzas are baked in five minutes. We chose Laredo for the trial launch because of the popularity of pizza with Mexican customers. Shopping centers in Mexico have extensive pizza offerings compared to centers in the US.

There are several things we liked about this restaurant concept. It is a sit-down food concept not located in a food court and it will offer alcohol for sale. The startup costs are less than 50% of restaurants similar to Johnny Rockets and there are no dominant national players. Finally, we plan to utilize one manager to oversee both of our restaurants in the Laredo center, thereby significantly reducing overhead costs.

The results for the first 11 months of operation have been disappointing. Having said that, the response to the product is very good. Local and social commentary about the restaurant are extremely positive. We believe we can improve sales. We are working on selling the pizza by the slice in other locations in the mall as well as selling the pizza on the street in Laredo. We are engaging with schools and businesses in the area to hold events and we offer specials to these groups. The store is located directly adjacent to the entrance to the planned Ferris wheel. If the wheel moves forward, we believe it will greatly improve sales. We also intend to sell Ferris wheel tickets from the store, which will reduce the cost of the Ferris wheel operation. We will continue to operate the store through the end of the year and assess the direction it is heading.

Property Valuations

The reaction to the turmoil in the retail world has had a significant effect on the valuation of retail properties and companies that own retail properties. In my view, the reaction has been beyond what reason would warrant, and perhaps more importantly it has been indiscriminate. Capitalization rates today are probably 50 to 100 basis points higher than when we sold The Outlet Shoppes at Oklahoma City in 2016. The impact on our existing assets varies, with strong centers in good markets holding their value while those weaker centers in tertiary markets being subjected to declines in value.

Value considerations aside, our best properties continue to generate strong cash flow. They are improving in terms of both sales and tenant mix. Most important, we continue to see opportunities to improve the occupancies, tenant mix and ultimately cash flow. Given that we believe it makes sense to hold and improve these centers, the fluctuation in cap rates is more academic than anything else.

Conclusion

We at the Company continue to be excited by the prospects in the outlet business. There are more challenges than we have faced in the past but we also see opportunities to increase the value of the Company. We will remain focused, diligent and cognizant of the changes in the market that could affect our results.

There is a tremendous team working on your investment. Below is a list of all full time employees with the Company. I want to thank them along with our Board of Directors for all of their dedication and hard work.

Sincerely,



Gary J. Skoien
President and CEO
Chairman of the Board

Horizon Group Properties Staff

Corporate

Jennifer Chartrand
Rachael Chemerinsky
James Dixon
Connie Dyer
James Harris
Christina Henkelman
James Hoffman
Stephanie Law
Naomi Lee
Ewelina Lewandowski
Chris Lococo
Amy Lustig
Sherilyn Moniz
David Nelson
Andrew Pelmoter
Ryan Penty
Tom Rumptz
Gina Slechta
Eric Sonberg
David Tinkham
Arturo Velazquez
Phil Waters
Maura Williams

The Outlet Shoppes at Atlanta

Margaret Amponsah
Jaren Bynes
Stephany Cruz
Nate Hendin
Mariana Hernandez
Kathryn Kibler
Christine Krainik
Charlie Loughran
Jimmy Moran
Robert Richmond
Vinny Schreiner
Michael Shirley
Ana Villasana
Carmen Villasana
Rosa Villasana

The Outlet Shoppes at Burlington

Eli Maksin
David McManus
Michael Schmidt
David Sexsmith

The Outlet Shoppes at El Paso

Norma Cazares
Grisel Debora
Mike Doblado
Greg Haney
Luz Hernandez
Romulo Hernandez
Jorge Loya
Hector Maldonado
Anthony Ortiz
Raul Pastran
Maria Rivas
Dawn Saucedo
Rosa Tinoco
Carlos Valenzuela

The Outlet Shoppes at Fremont

Joshua Mehrling
Tamra Olds

The Outlet Shoppes at Gettysburg

Lisa Adams
Michelle Benjamin
Elaine Dvorak
Jeffrey Martens
Robert Schaub
David Stringer
Linda Wellborn
Terry Young

The Outlet Shoppes at Laredo

Erica Contreras
Aurelio Crespin
Dan Davilla
Nalleli Lopez
Ignacio Lopez
Dora Meza
Maria Vidaurri

The Outlet Shoppes of the Bluegrass

Amy Duke
Debbie Griesinger
Rhonda Powell

The Outlet Shoppes at Oshkosh

Takoda Elliott
Jacob Giese
Keith Holschbach
Gregory Polley
Kile Stadel
Fern Zank

Johnny Rockets at Bluegrass

Terry McCarthy

Johnny Rockets and Stone and Stein at Laredo

Jessica Garcia
Ramiro Medellin

Johnny Rockets at Oshkosh

Arturo Salas

Johnny Rockets at Atlanta

Nicole Delmar
Tyesha Kent

Consolidated Financial Statements

Horizon Group Properties, Inc.

For the years ended December 31, 2018 and 2017

Horizon Group Properties, Inc.
Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

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Cohen & Co

Independent Auditors' Report

Board of Directors
Horizon Group Properties, Inc. and Subsidiaries

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, 2018 and 2017, 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, 2018 and 2017, 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.

Akron, Ohio
March 7, 2019

Cohen & Company Ltd.

HORIZON GROUP PROPERTIES, INC.

Consolidated Balance Sheets

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
	<i>(In thousands)</i>	
ASSETS		
Real estate		
Land	\$ 11,574	\$ 11,574
Buildings and improvements	47,006	45,680
Less accumulated depreciation	<u>(8,566)</u>	<u>(4,204)</u>
	50,014	53,050
Construction in progress	93	3,848
Land held for investment	<u>32,909</u>	<u>26,542</u>
Total net real estate	83,016	83,440
Investment in and advances to joint ventures	34,216	29,822
Investment in and advances to joint ventures, at fair value	50,449	49,237
Cash and cash equivalents	1,398	4,003
Restricted cash	2,751	7,162
Marketable securities, at fair value	-	9,312
Tenant and other accounts receivable, net	1,764	1,316
Deferred costs, (net of accumulated amortization of \$116 and \$46, respectively)	233	267
Other assets	1,374	927
Total assets	<u>\$ 175,201</u>	<u>\$ 185,486</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgages and other debt, net	\$ 62,512	\$ 64,478
Accounts payable and other accrued expenses	12,790	17,764
Prepaid rents and other tenant liabilities	<u>724</u>	<u>304</u>
Total liabilities	<u>76,026</u>	<u>82,546</u>
Commitments and contingencies		
Stockholders' equity:		
Common shares (\$.01 par value, 50,000 shares authorized, 8,742 and 8,735 issued and outstanding, respectively)	87	87
Additional paid-in capital	81,697	81,668
Accumulated deficit	<u>(24,561)</u>	<u>(18,291)</u>
Total stockholders' equity attributable to the controlling interest	57,223	63,464
Noncontrolling interests in consolidated subsidiaries	<u>41,952</u>	<u>39,476</u>
Total stockholders' equity	<u>99,175</u>	<u>102,940</u>
Total liabilities and stockholders' equity	<u>\$ 175,201</u>	<u>\$ 185,486</u>

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

HORIZON GROUP PROPERTIES, INC.
Consolidated Statements of Operations

	Year Ended December 31, 2018	Year Ended December 31, 2017
	<i>(In thousands)</i>	
REVENUE		
Base rent	\$ 7,584	\$ 8,133
Percentage rent	214	266
Expense recoveries	825	795
Restaurant revenue	3,483	3,578
Other	3,167	5,825
Total revenue	15,273	18,597
EXPENSES		
Property operating	2,858	2,908
Real estate taxes	1,240	1,194
Other operating	754	950
Depreciation and amortization	4,468	4,260
General and administrative	7,158	8,527
Restaurant operating	3,911	3,567
Interest	3,055	3,063
Total expenses	23,444	24,469
Net loss before other income and expense and income tax	(8,171)	(5,872)
OTHER INCOME AND EXPENSE		
Income from investment in joint ventures	931	1,094
Gain (loss) on sale of real estate	53	(1,312)
Loss on abandonment of assets	(351)	(14,888)
Total other income and expense	633	(15,106)
Net loss before income tax	(7,538)	(20,978)
Income tax benefit (expense)	47	(1,102)
Consolidated net loss	(7,491)	(22,080)
Less net loss attributable to the noncontrolling interests	1,221	3,789
Net loss attributable to the Company	\$ (6,270)	\$ (18,291)

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, 2018	\$ 87	\$ 81,668	\$ (18,291)	\$ 63,464	\$ 39,476	\$ 102,940
Net loss	-	-	(6,270)	(6,270)	(1,221)	(7,491)
Stock issued to related parties	-	29	-	29	-	29
Contributions from noncontrolling interests	-	-	-	-	5,174	5,174
Distributions to noncontrolling interests	-	-	-	-	(1,477)	(1,477)
Balance, December 31, 2018	<u>\$ 87</u>	<u>\$ 81,697</u>	<u>\$ (24,561)</u>	<u>\$ 57,223</u>	<u>\$ 41,952</u>	<u>\$ 99,175</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, 2017	\$ 86	\$ 81,271	\$ -	\$ 81,357	\$ 43,417	\$ 124,774
Net loss	-	-	(18,291)	(18,291)	(3,789)	(22,080)
Stock issued to related parties	1	397	-	398	-	398
Distributions to noncontrolling interests	-	-	-	-	(2,083)	(2,083)
Consolidation of Woodstock GA Investments	-	-	-	-	1,931	1,931
Balance, December 31, 2017	<u>\$ 87</u>	<u>\$ 81,668</u>	<u>\$ (18,291)</u>	<u>\$ 63,464</u>	<u>\$ 39,476</u>	<u>\$ 102,940</u>

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, 2018	Year Ended December 31, 2017
Cash flows provided by (used in) operating activities:	<i>(In thousands)</i>	
Net loss attributable to the Company	\$ (6,270)	\$ (18,291)
Adjustments to reconcile net loss attributable to the Company to net cash provided by (used in) operating activities:		
Operating distributions from joint ventures	3,936	4,156
Net loss attributable to the noncontrolling interests	(1,221)	(3,789)
Income from investment in joint ventures	(931)	(1,094)
Loss (gain) from sale of real estate	(53)	1,312
Abandonment of future development	351	14,888
Depreciation	4,398	4,214
Amortization	70	46
Interest expense from deferred finance costs	129	129
Changes in assets and liabilities:		
Restricted cash	(29)	263
Tenant and other accounts receivable	(448)	(322)
Deferred costs and other assets	281	224
Accounts payable and other accrued liabilities	(4,974)	2,007
Prepaid rents and other tenant liabilities	420	(31)
Net cash provided by (used in) operating activities	(4,341)	3,712
Cash flows provided by (used in) investing activities:		
Investment in future developments	(1,115)	(8,769)
Investment in joint ventures	(9,918)	-
Purchase of marketable securities	-	(22,530)
Proceeds from sale of marketable securities	9,312	13,218
Restricted cash	4,440	(5,440)
Net proceeds from sale of real estate	450	4,781
Distributions from joint ventures, return of capital	1,307	20,692
Expenditures for real estate	(4,371)	(4,940)
Net cash provided by (used in) investing activities	105	(2,988)
Cash flows provided by (used in) financing activities:		
Distributions to noncontrolling interests	(1,477)	(2,083)
Contributions from noncontrolling interests	5,174	-
Principal payments on mortgages and other debt	(2,095)	(2,659)
Stock issued	29	398
Net cash provided by (used in) financing activities	1,631	(4,344)
Net decrease in cash and cash equivalents	(2,605)	(3,620)
Cash and cash equivalents:		
Beginning of year	4,003	7,623
End of year	\$ 1,398	\$ 4,003

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

HORIZON GROUP PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Cash Flows, continued

Supplemental Information	<u>Year ended December 31, 2018</u>	<u>Year ended December 31, 2017</u>
	<i>(In thousands)</i>	
Noncash activity related to the disposal of fully depreciated or amortized assets		
Building and improvements	<u>\$36</u>	<u>\$10</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, LLC (WGI) and Ridgewalk Property Investments, LLC (RPI) on March 29, 2017, by Horizon Atlanta (see Note 4):

Land	\$ 6,418
Construction in progress	1,041
Mortgage and other debt	(2,446)
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 noted included in Mortgage and other debt	<u>\$ 1,000</u>

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

HORIZON GROUP PROPERTIES, INC.
NOTES TO THE 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 Company conducts operations 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, 2018 and 2017, HGPI owned approximately 87% of the partnership interests (the “Common Units”) of HGP LP. In general, Common Units are exchangeable for shares of Common Stock on a one-for-one basis (or for an equivalent cash amount at HGPI’s election).

The 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 that do not meet these criteria using the cost or equity methods. The entities referred to herein are consolidated subsidiaries of the Company excluding the entities discussed in Note 4; those entities are accounted for using the equity method of accounting or the cost method, as identified.

Note 2 - Summary of Significant Accounting Policies

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 are 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 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 from 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 makes estimates of fair value 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

HORIZON GROUP PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2018 and 2017.

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 the costs are determined to be non-recoverable.

At December 31, 2018, predevelopment costs classified as Other Assets included projects in Cleveland, OH and Woodstock, GA, and totaled \$470,000. At December 31, 2017, predevelopment costs classified as Other Assets and Construction in Progress totaled \$181,000 and \$1.5 million, respectively.

During March of 2018, the Company ceased development of projects in Hartford, CT and Malaysia. The Company recognized a loss on abandonment of \$351,000 and \$14.8 million in 2018 and 2017, respectively.

Reclassifications

Certain prior year amounts have been reclassified to conform to 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.

HORIZON GROUP PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Restricted Cash

Restricted Cash consists of amounts deposited in accounts with the Company's primary lenders in connection with certain loans and funds escrowed to be used for the development of the Ridgewalk property in Woodstock, GA (see Notes 4 & 9). At December 31, 2018 and 2017, the escrow accounts related to the Company's primary lenders included approximately \$271,000 and \$273,000 in capital improvement and tenant allowance reserves, respectively, \$863,000 and \$849,000 in real estate tax and insurance escrows, respectively, and approximately \$574,000 and \$557,000 for cash collateral accounts, respectively. At December 31, 2018 and 2017, the Huntley interest, infrastructure and expense escrow accounts totaled \$43,000. At December 31, 2018 and 2017 the Ridgewalk development escrow totaled \$1.0 million and \$5.44 million, 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, 2018 and 2017, total tenant accounts receivable is reflected net of reserves of \$238,000 and \$109,000, respectively. The bad debt expense was \$106,000 and \$109,000 for the years ended December 31, 2018 and 2017, 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 and are amortized over the life of the lease.

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. The Company also owns a Stone and Stein restaurant in Laredo TX. Revenues are from sales of 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 \$370,000 and \$371,000 as of December 31, 2018 and 2017, respectively, which is expected to be collected over the remaining lives of the leases. Rents that 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.

HORIZON GROUP PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2018 and 2017, 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 2018 and 2017, 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 can 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 the investments' cost basis.

The Company elected the fair value option for its investments in Horizon Atlanta and Horizon Louisville (see note 4). Due to the nature of these investments, the Company elected the fair value option 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 consolidated statements of operations.

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.

Marketable Securities

As of December 31, 2017, the Company held approximately \$9.3 million in marketable securities that are classified as available-for-sale and are carried at fair value. Unrealized gains and losses, net of taxes, are recorded within accumulated other comprehensive income, a component of stockholders' equity. Realized gains and losses are recorded in other income. Purchases of marketable securities for the year ended December 31, 2017, totaled approximately \$22.5 million. The cost of securities sold is based on the specific identification method. Proceeds from sales of available-for-sale securities for the years ended December 31, 2018 and 2017, were approximately \$9.3 and \$13.5 million, respectively. For the years ended December 31, 2018 and 2017, realized and unrealized gains and losses were immaterial.

Subsequent Events

Management has evaluated subsequent events through March 7, 2019, 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, 2018.

<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	\$ 8,804	51.0%
The Outlet Shoppes at Fremont	Fremont, IN	Outlet Retail	228,932	7,044	51.0%
The Outlet Shoppes at Oshkosh	Oshkosh, WI	Outlet Retail	270,512	29,193	51.0%
Village Green Center	Huntley, IL	Retail	22,204	3,261	100.0%

HORIZON GROUP PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Johnny Rockets	Oshkosh, WI	Restaurant	N/A	143	100.0%
Johnny Rockets	Woodstock, GA	Restaurant	N/A	257	100.0%
Johnny Rockets	Louisville, KY	Restaurant	N/A	413	100.0%
Johnny Rockets	Laredo, TX	Restaurant	N/A	508	100.0%
Border Dogz	Laredo, TX	Restaurant	N/A	25	100.0%
Stone & Stein	Laredo, TX	Restaurant	N/A	333	100.0%
Corporate Assets	Chicago, IL	Various	<u>N/A</u>	<u>33</u>	100.0%
	Total		<u>696,308</u>	<u>\$50,014</u>	

			<u>Acres</u>		
Laredo Phase II Land	Laredo, TX	Land	2	\$ 2,000	60.8%
Land held for Investment	Fruitport, MI	Land	6	156	100.0%
Ridgewalk Land	Woodstock, GA	Land	107	10,544	100.0%
Land Held for Investment	Huntley, IL	Land	<u>355</u>	<u>20,209</u>	100.0%
	Total		<u>470</u>	<u>\$ 32,909</u>	

The portion of the net income or loss of HGPI's subsidiaries owned by parties other than HGPI is reported as Net income or loss attributable to the noncontrolling interests on the Company's 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, 2018. 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 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	428,060	30.78%
The Outlet Shoppes at Laredo	Laredo, TX	Outlet Retail	<u>357,866</u>	21.30%
	Total		<u>1,882,877</u>	

El Paso Entities

The Company owned 97.4% of the preferred interests and 92.8% of the common interests at December 31, 2018 and 2017, 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 Phase II of the shopping center (Phase II). Horizon El Paso owns a 50% joint venture interest in El Paso Outlet Outparcels, LLC that owns several outparcels and ancillary land adjacent to the shopping center (the "Outparcels").

HORIZON GROUP PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On September 10, 2018, Deutsche Bank refinanced the loans on Phase I and II of the shopping center in the amount of \$75 million. The shopping center secures the loan. The annual interest rate is 5.103%. Payments are \$407,350 per month, based on a 30-year amortization. The loan matures on October 6, 2028. The principal balance at December 31, 2018 was \$74.8 million.

The loans for Phase I and Phase II had principal balances of \$61.3 million and \$6.6 million, respectively at December 31, 2017.

As of December 31, 2018 and 2017, the Company's investment in the entities that own the Outlet Shoppes at El Paso, the Outparcels, and Phase II exceeded its proportional share of the underlying equity as reflected in the entities financial statements by approximately \$10.3 million and \$11.2 million, respectively. Such difference is primarily related to the increased value in real estate and is being amortized over a period of 5 to 30 years.

The Company received management, leasing and similar fees from El Paso Center and El Paso Outlet Centers II, LLC that totaled \$1.0 million and \$818,000 during the years ended December 31, 2018 and 2017, respectively.

Summary financial information (stated at 100%) for the El Paso Entities as of December 31, 2018 and 2017, and for the years ended December 31, 2018 and 2017, are as follows (in thousands):

	As of December 31, 2018	As of December 31, 2017
Assets		
Real estate - net	\$ 89,976	\$ 93,154
Cash and cash equivalents	850	770
Restricted cash	2,743	3,239
Other assets	2,913	1,311
Total assets	<u>\$ 96,482</u>	<u>\$ 98,474</u>
Liabilities and members' equity		
Mortgages and other debt	\$ 74,823	\$ 67,865
Other liabilities	3,684	3,166
Members' equity	17,975	27,443
Total liabilities and members' equity	<u>\$ 96,482</u>	<u>\$ 98,474</u>
	Year Ended December 31, 2018	Year Ended December 31, 2017
Statements of Operations		
Revenue	\$ 15,155	\$ 14,796
Operating expenses	6,040	3,752
General and administrative expenses	880	955
Depreciation and amortization expense	4,010	4,231
Interest expense	4,481	5,146
Total expenses	<u>15,411</u>	<u>14,084</u>
Net income (loss)	<u>\$ (256)</u>	<u>\$ 712</u>

HORIZON GROUP PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Oklahoma City Entities

In October 2010, the Company formed OKC JV, LLC (the “OKC Joint Venture”) with an affiliate of CBL and Associates (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.

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 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 from 30% to 35%.

The Company received development, leasing, management and similar fees from the OKC Joint Venture that totaled \$974,000 for the period through April 28, 2017.

Summary financial information (stated at 100%) of the OKC Joint Venture for the period from January 1, 2017 to April 28, 2017, are as follows (in thousands):

	Period Ended April 28, 2017
Statements of Operations	
Revenue	\$ 2,708
Operating expenses	484
General and administrative expenses	384
Depreciation and amortization expense	1,048
Interest expense	1,182
Total expenses	3,098
Net loss	\$ (390)

Gettysburg Entities

Gettysburg Outlet Center Holding, LLC and Gettysburg Outlet Center LLC (the Gettysburg entities) are owned (1) 50% by an affiliate of CBL, (2) 29.8% by Pleasant Lake – Skoien Investments, LLC (PL Skoien), (3) 1.1% by other entities, and (4) 19.1% by the Company. Howard Amster and Gary Skoien own PL Skoien. 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. 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 \$37.8 and \$38.3 million at December 31, 2018 and 2017, respectively.

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 Tom Berlin.

The Company received management, leasing, and similar fees from the Gettysburg Entities that totaled \$455,000 and \$188,000 during the years ended December 31, 2018 and 2017, respectively.

HORIZON GROUP PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Summary financial information (stated at 100%) of the Gettysburg entities as of December 31, 2018 and 2017, and for the years ended December 31, 2018 and 2017, are as follows (in thousands):

	As of December 31, 2018	As of December 31, 2017
Assets		
Real estate - net	\$ 40,685	\$ 41,656
Cash and cash equivalents	261	527
Restricted cash	879	1,020
Other assets	1,217	1,221
Total assets	<u>\$ 43,042</u>	<u>\$ 44,424</u>
Liabilities and members' equity		
Mortgages and other debt	\$ 37,762	\$ 38,354
Other liabilities	922	498
Members' equity	4,358	5,572
Total liabilities and members' equity	<u>\$ 43,042</u>	<u>\$ 44,424</u>
	Year Ended December 31, 2018	Year Ended December 31, 2017
Statements of Operations		
Revenue	\$ 5,772	\$ 6,359
Operating expenses	2,870	2,443
General and administrative expenses	298	308
Depreciation and amortization expense	1,546	1,540
Interest expense	1,857	1,880
Total expenses	<u>6,571</u>	<u>6,171</u>
Net income (loss)	<u>\$ (799)</u>	<u>\$ 188</u>

Atlanta Entities

On May 11, 2012, the Company entered into a joint venture (the "Atlanta JV") with an affiliate of CBL to develop The Outlet Shoppes at Atlanta in Woodstock, Georgia. 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. In December of 2013, Horizon Atlanta met return of investment and internal rate of return criteria stipulated in the joint venture agreement with CBL; therefore, Horizon Atlanta's share of future distributions from the Atlanta JV increased from 25% to 35%. 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 which, 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

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connection with its loan to RPI, WGI acquired an equity interest in RPI that is entitled to 30% of the economic interest in Holding. 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 107 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.

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 \$73.2 million and \$74.7 million at December 31, 2018 and 2017, 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 \$4.6 million and \$4.7 million at December 31, 2018 and 2017, respectively.

The Company received development, management, leasing, and similar fees from Atlanta JV that totaled \$623,000 and \$401,000 for the years ended December 31, 2018 and 2017, respectively.

Summary financial information (stated at 100%) of the Atlanta entities as of December 31, 2018 and 2017, for the years ended December 31, 2018, and 2017, are as follows (in thousands):

	As of December 31, 2018	As of December 31, 2017
Assets		
Real estate - net	\$ 51,734	\$ 54,940
Cash and cash equivalents	1,855	1,155
Restricted cash	388	669
Other assets	3,919	5,181
Total assets	<u>\$ 57,896</u>	<u>\$ 61,945</u>
Liabilities and members' deficit		
Mortgages and other debt	\$ 77,808	\$ 79,407
Other liabilities	1,039	948
Members' deficit	(20,951)	(18,410)
Total liabilities and members' equity	<u>\$ 57,896</u>	<u>\$ 61,945</u>

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	Year Ended December 31, 2018	Year Ended December 31, 2017
Statements of Operations		
Revenue	\$ 14,040	\$ 14,213
Operating expenses	3,686	3,680
General and administrative expenses	533	534
Depreciation and amortization expense	4,516	4,740
Interest expense	3,976	4,022
Total expenses	12,711	12,976
Loss on sale of land	(1)	-
Net income	\$ 1,328	\$ 1,237

Bluegrass Entities

During 2013, the Company entered into a joint venture (the “Louisville JV”) with an affiliate of CBL to develop The Outlet Shoppes of the Bluegrass in Louisville, Kentucky. The Company formed a subsidiary entity (Horizon Louisville) to be CBL’s partner in the Louisville JV. In May of 2013, and again 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%.

On November 24, 2014, the Louisville JV obtained a \$77.5 million loan from JP Morgan (the “Louisville 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 phase I of The Outlet Shoppes of the Bluegrass. The loan balance was \$71.7 million and \$73.2 million at December 31, 2018 and 2017, respectively.

During 2015, the Louisville JV established the 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, 2018 and 2017, the loan balance was \$9.5 million and \$9.7 million, respectively.

The Company received development, management, leasing, and similar fees from the Louisville JV that totaled \$532,000 and \$479,000 for the years ended December 31, 2018 and 2017, respectively.

Summary financial information (stated at 100%) of the Bluegrass entities as of December 31, 2018 and 2017, and for the years ended December 31, 2018 and 2017, is as follows (in thousands):

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	As of December 31, 2018	As of December 31, 2017
Assets		
Real estate - net	\$ 62,459	\$ 66,232
Cash and cash equivalents	1,356	1,814
Restricted cash	1,658	867
Other assets	4,302	4,884
Total assets	\$ 69,775	\$ 73,797
Liabilities and members' deficit		
Mortgages and other debt	\$ 81,221	\$ 82,990
Other liabilities	920	1,082
Members' deficit	(12,366)	(10,275)
Total liabilities and members' equity	\$ 69,775	\$ 73,797

	Year Ended December 31, 2018	Year Ended December 31, 2017
Statements of Operations		
Revenue	\$ 14,143	\$ 13,689
Operating expenses	3,179	3,080
General and administrative expenses	582	545
Depreciation and amortization expense	5,199	5,549
Interest expense	3,563	3,577
Total expenses	12,523	12,751
Gain on sale of land	0	15
Net income	\$ 1,620	\$ 953

Laredo Outlet Shoppes

On May 10, 2016, the Company, CBL, and Lawrence Friedman formed a joint venture, Laredo Outlet JV, LLC (Laredo JV) to develop an outlet shopping center in Laredo, Texas. The venture is owned 65% by CBL and 35% by Horizon El Portal, a subsidiary which is 60.8% owned 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, subject to certain conditions. Interest accrues on the loan at LIBOR and 2.5% until the development reaches 90% occupancy, at which time the interest rate will drop to LIBOR plus 2.25%. Monthly principal payments of \$150,000 began on October 1, 2018. At December 31, 2018, and 2017, the loan balance was \$54.5 million and \$80.1 million, respectively.

The loan contains certain provisions requiring principal pay-downs subject to certain conditions. As a result, on May 31, 2018, Horizon El Portal and its partner, CBL, made a \$22.4 million principal payment, through capital contribution, on the construction loan. The Horizon El Portal share of the capital contribution was \$7.9 million. In

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December of 2018, an additional \$5 million principal payment was made, which was funded through capital contribution. Horizon El Portal's share of the capital contribution was \$1.7 million. Horizon El Portal and CBL expect to refinance or negotiate a modification to the extension option on the construction loan prior to maturity.

The Company received management, leasing development and similar fees from the Laredo JV that totaled \$341,000 and \$1.8 million for the years ended December 31, 2018 and 2017, respectively.

Summary financial information (stated at 100%) of the Laredo JV as of December 31, 2018 and 2017 and for the years ended December 31, 2018 and 2017 is as follows (in thousands):

	As of December 31, 2018	As of December 31, 2017
Assets		
Real estate - net	\$ 102,942	\$ 105,425
Cash and cash equivalents	378	1,131
Restricted cash	465	294
Other assets	3,103	3,764
Total assets	<u>\$ 106,888</u>	<u>\$ 110,614</u>
Liabilities and members' equity		
Mortgages and other debt	\$ 54,550	\$ 80,145
Other liabilities	3,138	1,911
Members' equity	49,200	28,558
Total liabilities and members' equity	<u>\$ 106,888</u>	<u>\$ 110,614</u>
	Year Ended December 31, 2018	Year Ended December 31, 2017
Statements of Operations		
Revenue	<u>\$ 8,779</u>	<u>\$ 7,513</u>
Operating expenses	4,895	3,286
Depreciation and amortization expense	5,204	3,481
General and administrative expenses	447	300
Interest expense	5,044	2,420
Total expenses	<u>15,590</u>	<u>9,487</u>
Net loss	<u>\$ (6,811)</u>	<u>\$ (1,974)</u>

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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, 2018 and 2017, consisted of the following (in thousands):

	<u>2018</u>	<u>2017</u>
Current Expense (Benefit)		
Federal	\$ -	\$ 277
State	<u>(47)</u>	<u>825</u>
Net provision (Benefit)	<u>\$(47)</u>	<u>\$1,102</u>

For federal income tax purposes, HGPI had net operating loss carryforwards (“NOLs”) of approximately \$71.6 million and \$63.6 million at December 31, 2018 and 2017, respectively. Of the \$71.6 million available at December 31, 2018, approximately \$63 million are set to expire from 2022 to 2033 and the remainder are available indefinitely.

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, 2018 and 2017 (in thousands):

	<u>2018</u>	<u>2017</u>
Deferred Tax Assets:		
NOL carryforwards – federal and state	\$16,713	\$14,606
Tax basis of assets in excess of book basis:		
Fixed/intangible assets	397	64
Other	12	983
Book basis of liabilities in excess of tax basis:		
Prepaid rental revenue	41	34
Profits interest	<u>-</u>	<u>8</u>
Gross deferred tax assets	17,163	15,695
Less: valuation allowance	<u>(9,774)</u>	<u>(8,214)</u>
Gross deferred tax assets	<u>7,389</u>	<u>7,481</u>
Deferred Tax Liabilities:		
Book basis of assets in excess of tax basis:		
Investments in and advances to joint ventures	<u>(7,389)</u>	<u>(7,481)</u>
Gross deferred tax liabilities	<u>(7,389)</u>	<u>(7,481)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The valuation allowance related to the net deferred tax assets increased by approximately \$1.6 million and decreased by approximately \$5.1 million in 2018 and 2017, respectively.

The Tax Cuts and Jobs Act of 2017 was signed into law on December 22, 2017, which reduced the maximum federal corporate income tax rate from 35% to a flat rate of 21%. This reduced rate resulted in a reduction of the deferred tax assets and liabilities. There was no impact of this re-measurement on the income tax expense recognized in the consolidated statement of operations, because of the corresponding change in the valuation allowance. The Company’s effective tax rate in 2018 and 2017 is lower than if the federal statutory rate were applied to net loss before income tax primarily due to the change in valuation allowance and change in tax rate related to tax reform.

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):

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2019	\$ 5,865
2020	4,642
2021	3,109
2022	1,782
2023	1,330
<i>Thereafter</i>	<u>3,138</u>
	<u>\$19,866</u>

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 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 2017 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, 2018, in the amount of \$830,000 which are not reflected on the consolidated balance sheet as of December 31, 2018. These capital expenditures are expected to be paid during 2019, 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, 2018 December 31, 2017

<p>Mortgage loan to Village Green Associates, LLC, from First Personal Bank (lender) 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, including interest, and one balloon payment of \$1,789,000. Management is working with the lender to refinance this loan. The lender has granted a 60 day extension of the maturity date, and management expects the loan to be refinanced within the extension period.</p>	\$ 1,806	\$ 1,967
<p>Mortgage loan to BFO Factory Shoppes LLC, from Starwood Mortgage Capital, LLC secured by The Outlet Shoppes at Burlington and Oshkosh, and Phases II and III of the Outlet Shoppes at Fremont, 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.</p>	53,179	54,053
<p>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. The Company guarantees this loan.</p>	4,823	5,523
<p>Term loan to Johnny Rockets Oshkosh, LLC, from Bank First National as of May 23, 2014, for \$470,000 bearing interest at 4.25% per annum, guaranteed by the Company and secured by substantially all of the assets of Johnny Rockets</p>		

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Oshkosh, LLC. Subsequent to year-end, this term loan was refinanced through February 2022 under substantially similar terms.	121	293
Unsecured, non-interest bearing, seller financed note due to CBL for their 75% interest in WGI. The note is payable when the south parcel of the Holdings land is sold. (see note 4)	1,000	1,000
Note payable to Brand Bank bearing interest at the monthly LIBOR rate plus 4.5%, and the principal amortized over 10 years. A balloon payment is due on June 23, 2019. The note is secured by 80 acres of land in Woodstock, GA. (see note 4)	<u>2,167</u>	<u>2,355</u>
Debt issuance cost	63,096 <u>(584)</u>	65,191 <u>(713)</u>
	<u>\$62,512</u>	<u>\$64,478</u>

Cash interest payments for the years ended December 31, 2018 and 2017, totaled \$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 355 acres of land in in Huntley, Illinois (the “Huntley Project”). The Company assumed this obligation 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. There was no liability at December 31, 2018 and 2017.

Debt Maturities

Debt maturities and principal payments due subsequent to December 31, 2018, are as follows (in thousands):

Due in:	
2019	\$10,793
2020	916
2021	952
2022	1,003
2023	1,050
Thereafter	<u>48,382</u>
Total	<u>\$63,096</u>

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 refinance or extend the obligations due in 2019 in the normal course of business.

Note 10 – 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

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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.

Marketable Securities

Common Stock: Valued at the closing price reported on the active market on which the individual securities are traded.

1 month U.S. treasury bills: Valued by a pricing service using observable market prices for similar securities, relevant broker quotes, and information about credit spreads.

Investment In Joint Ventures:

The Company prepares detailed valuations based on their evaluations of financial and operating data, specific operating developments for the investment, market valuations of comparable properties and transactions, changes in key observable inputs, as well as changes in economic and other factors.

In estimating the fair value of the investments in joint ventures, the Company uses an income approach and considers significant unobservable inputs such as capitalization 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 December 31, 2018:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments in Joint Ventures	\$ _____	\$ _____	\$ <u>50,449</u>

Assets measured at fair value by level, in thousands, within the fair value hierarchy, are comprised of the following at December 31, 2017:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
1 Month U.S. Treasury bills	\$ -	\$ 6,962	\$ -
Common Stock	1,674	-	-
Other	676	-	-
Investments in joint ventures	-	-	49,237
Total	<u>\$ 2,350</u>	<u>\$ 6,962</u>	<u>\$ 49,237</u>

Following is a reconciliation of activity, in thousands, for the years ended December 31, 2018 and 2017, for the fair value of the Company's Level 3 assets:

	<u>2018</u>	<u>2017</u>
Balance, beginning of period	\$49,237	\$48,837
Unrealized gains	4,093	2,845
Distributions	<u>(2,881)</u>	<u>(2,445)</u>
Balance, end of period	<u>\$50,449</u>	<u>\$49,237</u>

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Quantitative information about the Company's Level 3 inputs for the years ended December 31, 2018 and 2017, are as follows:

<u>Valuation Technique</u> Income approach	<u>Significant Unobservable Input</u> Capitalization rate – 6.75% - 7%
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Note 11 - Related Party Transactions

At December 31, 2018 and 2017, another affiliate of Howard Amster owned 49% of the interests in the entities that own the outlet centers and related assets in Burlington, WA; Fremont, IN; and Oshkosh, WI.

At December 31, 2018 and 2017 PL Skoien, 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, (3) 47.54% of Horizon Louisville and (4) 14.7% of Horizon El Portal.

At December 31, 2018 and 2017, David Tinkham, an officer of the Company, owned 1.27% of Horizon Atlanta, and 3.24% of Horizon Louisville.

At December 31, 2018 and 2017, Andrew Pelmoter owned 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 and 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 Rumpitz and Andrew Pelmoter, respectively; (3) Horizon Atlanta, - 1.25%, 1.25%, 1.25% and .0375% to Messers Skoien, Rumpitz, Pelmoter and James Harris, respectively, (4) Horizon Louisville, - 1.25%, 1.25%, 1.25% and .0375% to Messers Skoien, Rumpitz, Pelmoter and Harris, respectively, and (5) Horizon El Portal, - 1.52%, 1.52%, 1.22% and .61% to Messers Skoien, Pelmoter, Rumpitz and Harris, respectively.

During 2016, the Company granted 20,000 common shares of Horizon Group Properties, Inc. to Gary Skoien. The shares will vest annually over a three-year period with 6,667 shares vesting in March 2018 and 2017. Related compensation expense is immaterial.

During May of 2017, the Board issued a compensatory stock grant to Gary Skoien for 20,000 shares of the Company's stock.

During July of 2017, Gary Skoien obtained 100,000 shares of the Company's stock pursuant to the exercise of a stock option.

BOARD OF DIRECTORS**Howard Amster**

President
Pleasant Lake Apts. Corp.

Gov. Jim Edgar

Former Governor
of the State of Illinois

Margaret A. Gilliam

President
Gilliam & Co.

Gary J. Skoien

Chairman, President and
Chief Executive Officer
Horizon Group Properties, Inc.

E. Thomas Thilman

Consultant to and former Chairman
Willis of Illinois, Inc.

CORPORATE OFFICERS**Gary J. Skoien**

Chairman, President and
Chief Executive Officer

David R. Tinkham

Chief Financial Officer
and Secretary

Andrew F. Pelmoter

Executive Vice President
Leasing

Thomas A. Rumptz

Executive Vice President
Asset Management

Phillip E. Waters

Senior Vice President

James S. Harris

Managing Director of
Business Development

David C. Nelson

Senior Vice President

EXECUTIVE OFFICE

Horizon Group Properties, Inc.
10275 W. Higgins Road
Suite 560
Rosemont, IL 60018
(847) 292-1870, Phone
(847) 292-1879, Fax

TRANSFER AGENT AND REGISTRAR

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
(718) 921-8300 x6467, Phone
(718) 765-8782, Fax

INDEPENDENT AUDITORS

Cohen & Company, Ltd.
1350 Euclid Avenue, Suite 800
Cleveland, OH 44115

SHAREHOLDER INQUIRIES

Information is available upon request:
Horizon Group Properties, Inc.
10275 W. Higgins Road
Suite 560
Rosemont, IL 60018
(224) 257-8908

Information is also available on the
Company's web site:
www.horizongroup.com

STOCK TRADING

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



